



Fonterra Co-operative Group Limited

Results for Announcement to the Market

Results for announcement to the market		
Name of issuer	Fonterra Co-operative Group Limited	
Reporting Period	12 months to 31 July 2023	
Previous Reporting Period	12 months to 31 July 2022	
Currency	NZD	
	Amount (000s)	Percentage change
Revenue from continuing operations	\$24,580,000	12%
Total Revenue	\$26,046,000	11%
Net profit from continuing operations	\$1,241,000	100%
Total net profit	\$1,577,000	170%
Final Dividend		
Amount per Quoted Equity Security	\$0.40	
Imputed amount per Quoted Equity Security	Not Applicable	
Record Date	28 September 2023	
Dividend Payment Date	13 October 2023	
	Current period	Prior comparable period
Net tangible assets per Quoted Equity Security	\$3.82	\$2.95
A brief explanation of any of the figures above necessary to enable the figures to be understood	The prior comparable period net tangible assets per Quoted Equity Security has been re-presented following an accounting policy change. Please refer to the audited financial statements for further explanation.	
Authority for this announcement		
Name of person authorised to make this announcement	Anya Wicks	
Contact person for this announcement	Anya Wicks	
Contact phone number	(09) 374 9341	
Contact email address	Anya.wicks@fonterra.com	
Date of release through MAP	21/09/2023	

Audited financial statements accompany this announcement.

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Market Announcement

21 September 2023

Fonterra announces FY23 Annual Results

- Full year reported earnings of 95 cents per share, up from 36 cents per share
- Reported profit after tax of \$1.6 billion, up 170%
- Return on Capital of 12.4%, up from 6.8%
- Final 2022/23 season Farmgate Milk Price of \$8.22 per kgMS
- Full year dividend of 50 cents per share, including interim dividend of 10 cents per share
- Additional tax free 50 cents per share capital return following divestment of Soprole
- Full year milk collections of 1,480 million kgMS
- Forecast 2023/34 season Farmgate Milk Price range of \$6.00 - \$7.50 per kgMS, with a midpoint of \$6.75
- Forecast 2023/24 earnings guidance range of 45-60 cents per share

Fonterra today announced its results for the financial year ending 31 July 2023, with full year reported earnings of 95 cents per share, reported profit after tax of \$1.6 billion and a final 2022/23 season Farmgate Milk Price of \$8.22 per kgMS.

Fonterra CEO Miles Hurrell says the Co-op has delivered strong earnings and made progress against key strategic initiatives in FY23, however this has been against the backdrop of a Farmgate Milk Price that has dropped across the season.

“Our 2022/23 season Farmgate Milk Price was impacted by reduced demand for whole milk powder from key importing regions. As the financial year progressed, we saw Global Dairy Trade prices drop, with the average whole milk powder price down 16% compared to last season.

“We recognise the impact the reduced Farmgate Milk Price has on farmers’ businesses and have utilised our strong balance sheet to introduce a new Advance Rate Schedule guideline to assist on-farm cash flow.

“However, we’re pleased to be announcing a strong full year dividend of 50 cents per share - comprising an interim dividend of 10 cents per share and a final dividend of 40 cents per share.

“In addition, the Co-op returned tax free 50 cents per share to shareholders and unit holders in August, following the divestment of Soprole, giving a final cash pay-out to farmers of \$9.22 per share backed kgMS.

“Our FY23 performance demonstrates that we are focusing on the right strategic priorities. This said, we are aware that there are challenging conditions on the ground for many of our farmers,” says Mr Hurrell.

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Performance

Fonterra's reported profit after tax of \$1,577 million was up \$994 million. Excluding the net gain from divestments of \$248 million, normalised profit after tax was \$1,329 million, up \$738 million compared to the same time last year. This includes the impact of impairments and is equivalent to 80 cents per share.

The Co-op also reported a Return on Capital for the last 12 months of 12.4%, up from 6.8% in the comparable period.

"There were a number of key drivers that helped us deliver this result, including favourable margins in our Ingredients channel, in particular the cheese and protein portfolios.

"We also saw improved performance in our Foodservice channel due to increased product pricing and higher demand as Greater China's lockdown restrictions started to ease from the start of calendar year 2023.

"Further, across the second half, the operating performance of our Consumer channel strengthened due to improved pricing. However, we adjusted the long-term outlook for our Asia Brands and Fonterra Brands New Zealand business, resulting in full year impairments of \$101 million and \$121 million respectively.

"We also recognised a gain on sale from our Chilean Soprole business of \$260 million during the year.

"Looking at our reportable segments, Core Operations reported profit after tax increased \$532 million to \$572 million, due to higher Ingredient margins.

"Global Markets' reported profit after tax was up \$77 million to \$385 million, mainly due to higher sales volumes and improved pricing. This was partially offset by the impairments in its Consumer channel.

"Greater China's reported profit increased \$11 million to \$284 million, with the Foodservice channel showing improved margins and resilience to market disruption from COVID-19. However, this was offset by the Consumer channel, which included a proportion of the Asia brand impairment.

"On the supply side, full year milk collections ended the season at 1,480 million kgMS. This is in spite of significant challenges that many farmers faced across New Zealand including rising input costs and adverse weather events in the North Island early in calendar year 2023.

"In addition, Fonterra's balance sheet metrics are better than target levels, even after adjusting for the impact of providing for the payment of the Capital Return, with a gearing ratio of 28.8% and debt to EBITDA of 1.3x.

"Our Total Group reported operating expenses were \$2,799 million up from \$2,455 million due in large part to the impact of impairments, as well as increased costs from inflation and a one-off favourable item of \$44 million in the previous year," says Mr Hurrell.

Strategy

Fonterra released its long-term strategy in September 2021 and since then has made good progress towards its 2030 goals.

"Across FY23, we completed the divestment of China Farms and Soprole as part of our strategic choice to focus on New Zealand milk.

“As we work towards our ambition to be a leader in sustainability, we have stepped up our emissions reduction goal for the operational side of our business, introducing a target of a 50% absolute reduction in Scope 1&2 emissions by 2030, from a 2018 baseline, an increase on our previous target of a 30% reduction by 2030. We have held discussions with our farmers on why we need to introduce a Scope 3, or on-farm emissions target, and plan to announce our target before the end of calendar year 2023.

“We’re also progressing work in our innovation portfolio, including establishing our joint venture with Royal DSM, Vivici, which is exploring commercial opportunities in fermentation derived ingredients, and launching our corporate ventures arm Nutrition Science Solution (NSS), which made its first strategic investment in the form of a minority stake in Pendulum Inc, a biotech company specialising in metabolic health.

“To assist us to hit our short and long-term goals, we are implementing a range of projects that will streamline how we operate. To track our progress, we have introduced two new metrics. These are:

- **Cash operating expenses per kgMS** – targeting a 4% cash operating cost improvement per year to support long-term discipline in our global overheads.
- **Gross profit from Core Operations per kgMS** – targeting a 2% New Zealand operational cash cost improvement every year to support efficient New Zealand operations while remaining laser focused on delivering value.

“We are also updating our long-term strategy and plan to share this early next year,” says Mr Hurrell.

FY24 Outlook

Looking ahead, our forecast 2023/24 Farmgate Milk Price range of \$6.00 - \$7.50 per kgMS, with a midpoint of \$6.75, reflects reduced demand for whole milk powder from key importing regions.

“We are watching market dynamics closely and there are indications demand for New Zealand milk powders will start to return from early 2024. Demand for other products, including Foodservice and our value-added Ingredients, continues to be robust.

“Our FY24 forecast earnings range for continuing operations is 45-60 cents per share. While the favourable price relativities we’ve experienced across FY23 have reduced from their peaks, we are forecasting improved margins across our Consumer and Foodservice channels for FY24.

“We acknowledge that across the year, farmers will continue to feel the pressure from high input costs and a reduced Farmgate Milk Price. We’ll continue to do all that we can to support farmers through this challenging period,” says Mr Hurrell.

ENDS

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Annual Results 2023

September 2023





Key outcomes

Return on capital

12.4%

↑ from 6.8%

Profit after tax

\$1.6_b

↑ from \$583m

Earnings per share²

95_c

↑ from 36c

Cash operating expenses per kgMS

\$1.39

↑ 3.7%

Gross profit from Core Operations per kgMS

\$ 9.21

↑ 4.3%



\$9.22

\$0.50

\$0.50

\$8.22

Total Cash Return¹

Capital Return

Dividend

↑ from \$0.20

Farmgate Milk Price

↓ from \$9.30

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2023 Annual Results

- 2022/23 season Farmgate Milk Price of \$8.22 per kgMS, impacted by reduced demand for powders in China
 - Profit after tax of \$1,577 million up \$994 million
 - excluding the net gain from divestments of \$248 million, normalised profit after tax is \$1,329 million, equivalent to 80 cents per share²
 - Full year dividend of 50 cents per share
 - Capital Return of 50 cents per share following divestment of Soprole
 - Introduction of new Advance Rate Schedule guideline to assist on-farm cash flow
-
- Forecast 2023/24 season Farmgate Milk Price range of \$6.00 - \$7.50 per kgMS, with a midpoint of \$6.75, reflects ongoing volatility and reduced demand for powders
 - FY24 earnings guidance range for continuing operations of 45 - 60 cents per share, reflects lower Ingredients margins



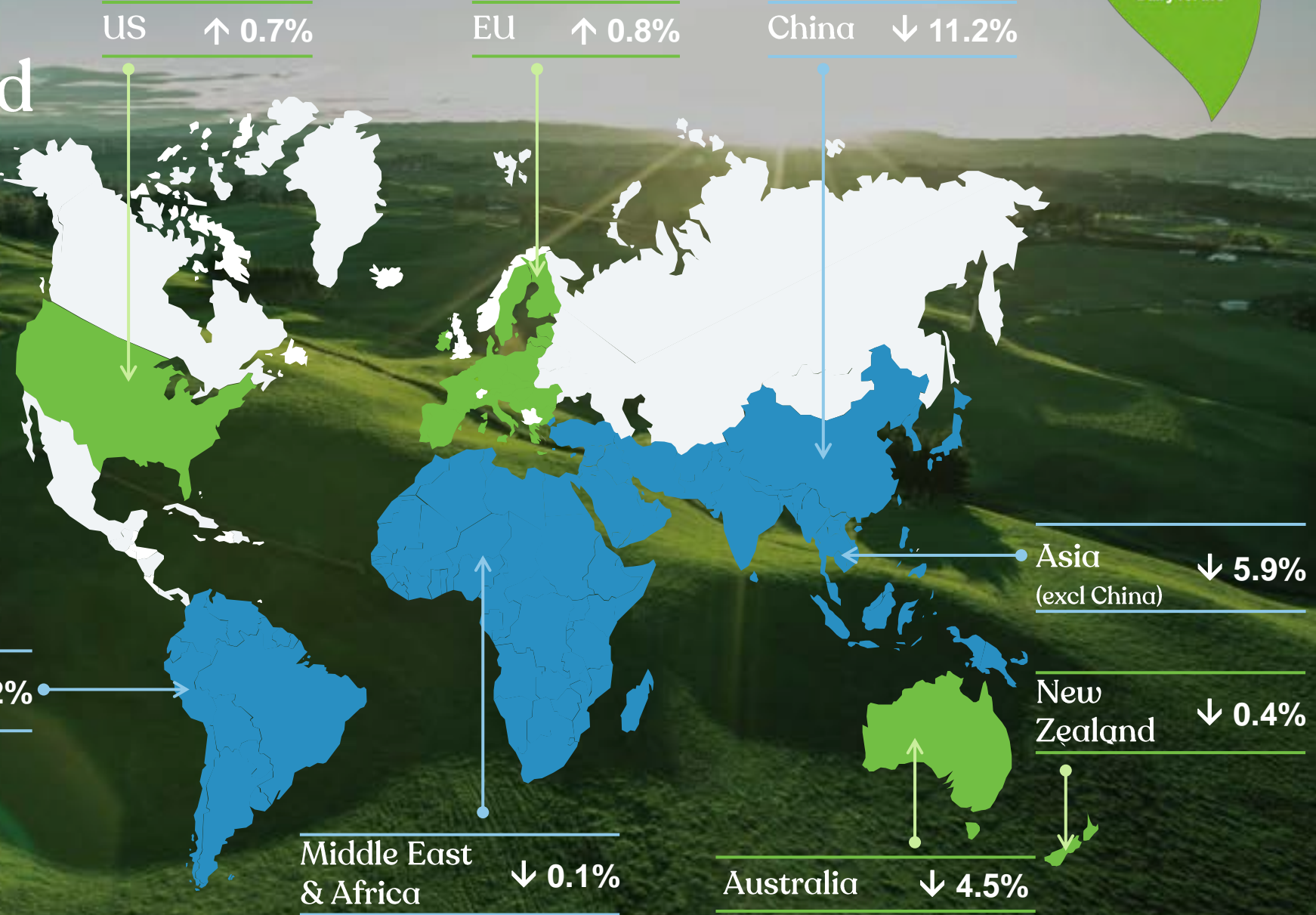


Reduced demand for reference products from key markets

12-month change in key production and import regions³

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Production Imports

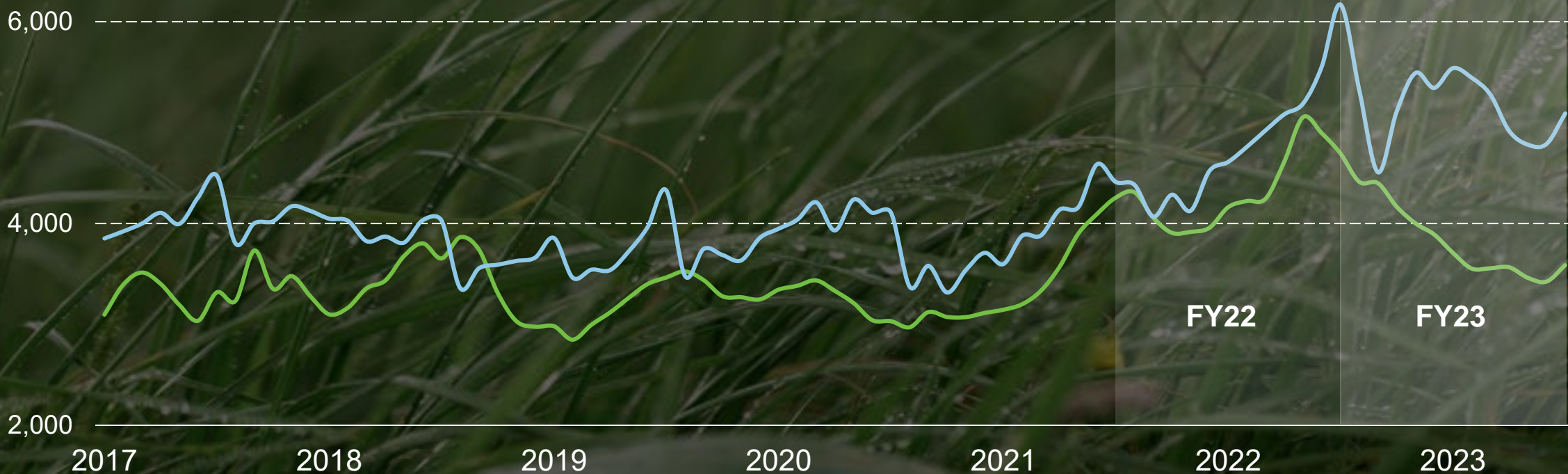




Higher price relativities continue

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(US\$/MT)



— Reference product shipment price⁴

— Non-reference product shipment price⁴



Lower prices key driver of change in 2023

Farmgate Milk Price

(\$/kgMS)



21/22 season
Farmgate
Milk Price

Volume

Prices

Foreign
exchange

Net costs

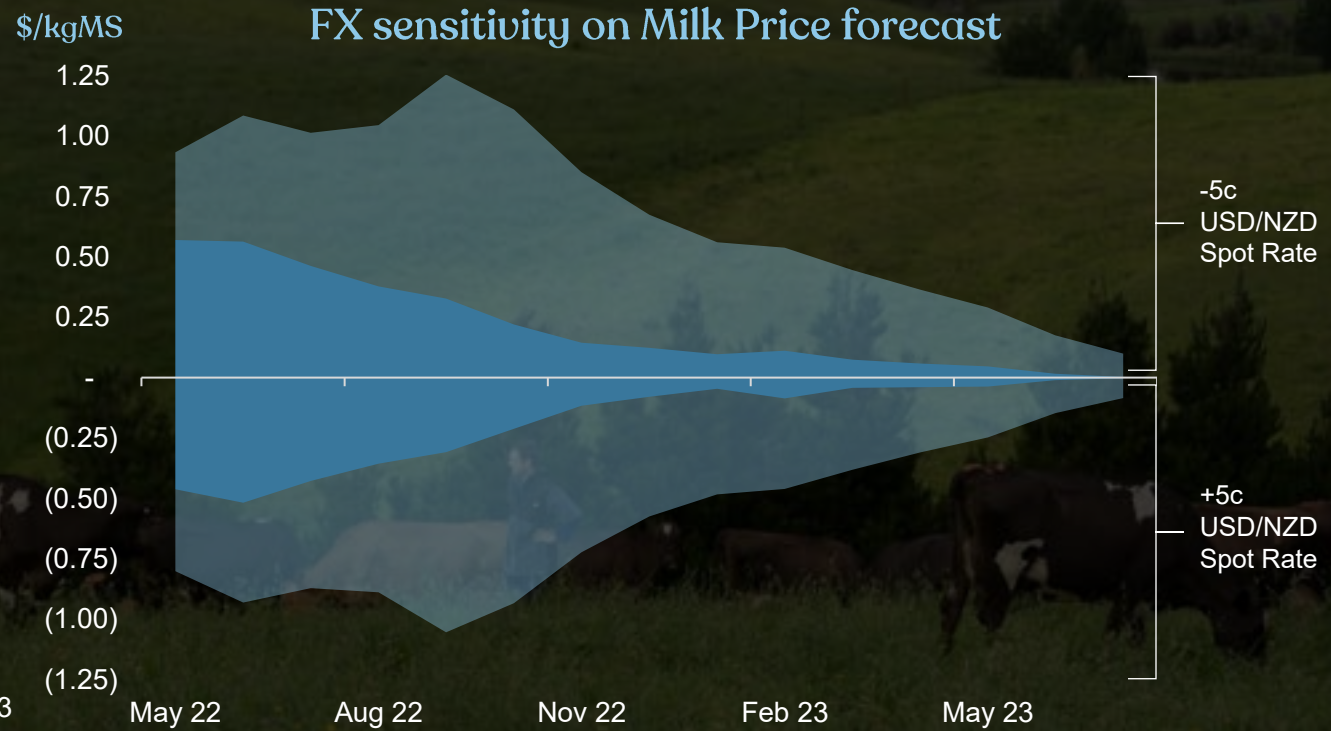
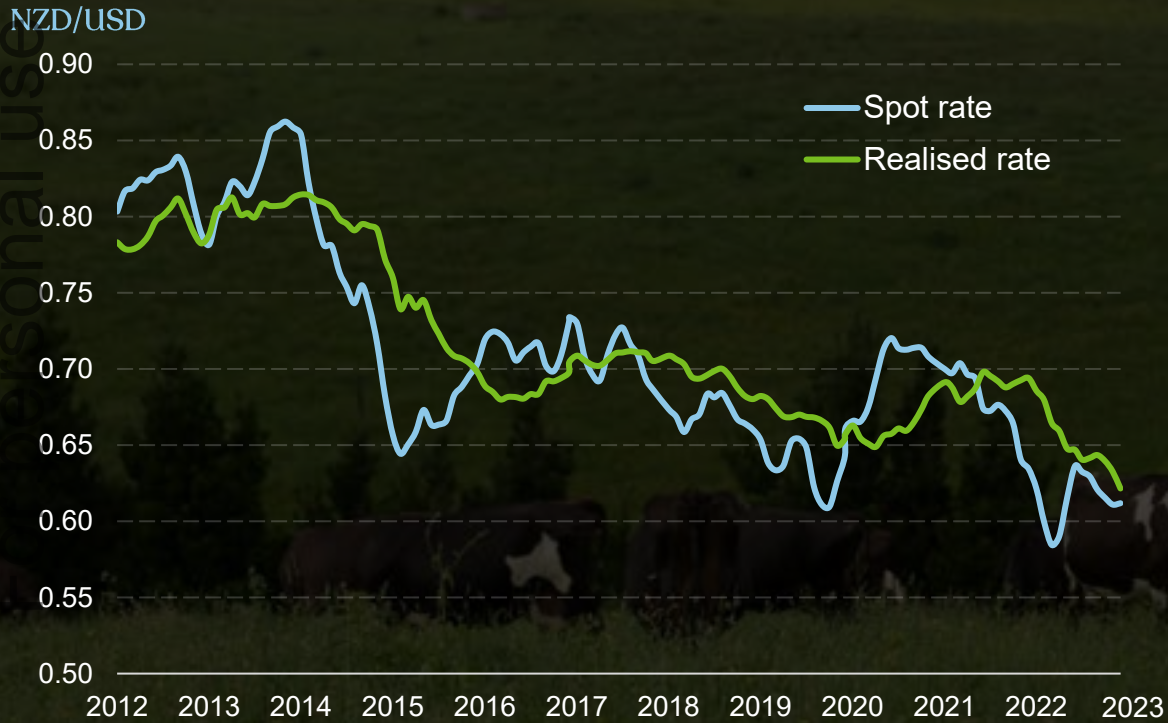
22/23 season
Farmgate
Milk Price

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Foreign Exchange hedging increases certainty in forecast Milk Price throughout the season

Seasonal use only



■ Hedged ■ Unhedged



Resource Allocation Framework introduced driving disciplined allocation of resources for our stakeholders

Sustain safe, productive operations

A primary allocation of capital is used to deliver a **safe, sustainable, productive capacity** of our processing assets while maintaining a surplus margin for our plant capacity.



Preliminary Cash Flow from Core Operations



Preliminary Cash Flow



Reported Cash Flow



Competition for milk

We allocate milk to the products and channels where we believe it will earn the highest **risk-adjusted returns**.

Competition for cash

We allocate cash to our balance sheet, shareholders and businesses where we believe it will earn the highest **risk-adjusted returns**.

Outcomes for the Shareholder

Management is aligned to the delivery of value to our stakeholders through targets and incentives.

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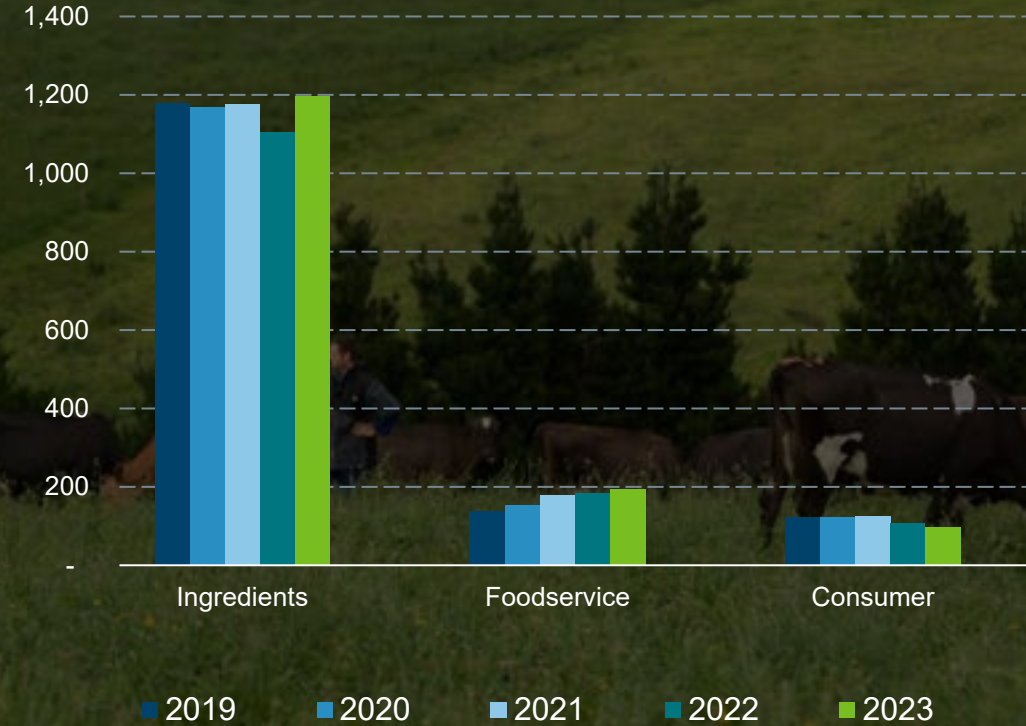


Continue to reduce allocation to whole milk powder with modest increase in Foodservice channel sales

Fonterra New Zealand production (million kgMS)



Sales by product channel (million kgMS)



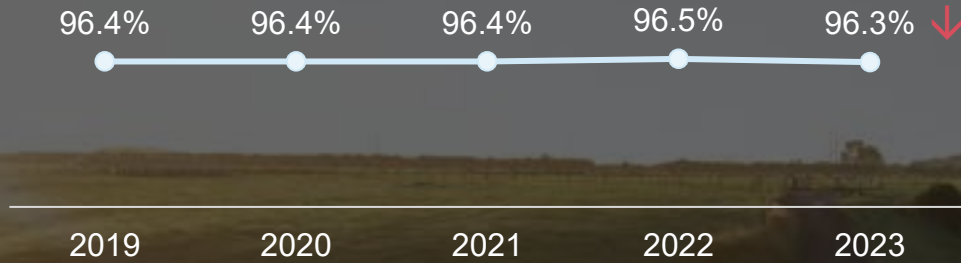
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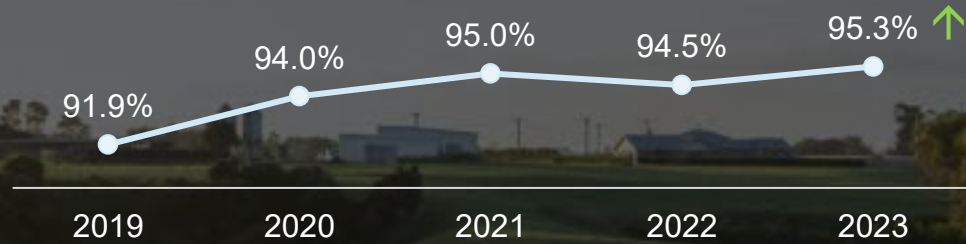
Asset reliability remains a focus

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Milk Utilisation



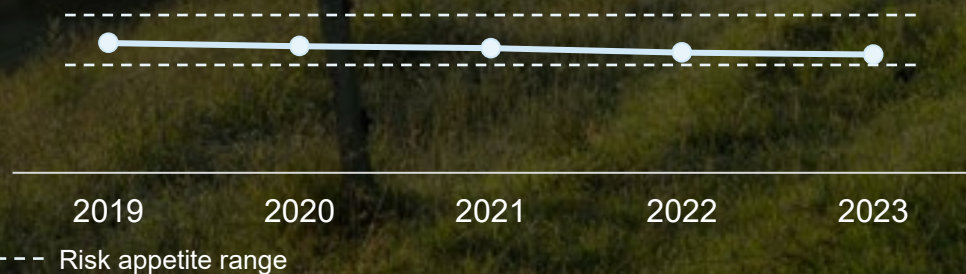
Product Made Right First Time



Cost of Quality



Asset Health⁵





Diversified across markets and products

	Core Operations	Global Markets	Greater China	Total
Profit after tax contribution from continuing operations⁶				
Ingredients	\$602m \$459m ↑	\$429m \$114m ↑	\$133m \$13m ↑	\$1,164m \$586m ↑
Foodservice	\$(12)m \$72m ↑	\$50m \$53m ↑	\$203m \$46m ↑	\$241m \$171m ↑
Consumer	\$(18)m \$1m ↑	\$(94)m \$90m ↓	\$(52)m \$48m ↓	\$(164)m \$137m ↓
Total	\$572m \$532m ↑	\$385m \$77m ↑	\$284m \$11m ↑	\$1,241m \$620m ↑

only

Fonterra



Ingredients return on capital reflects protein and cheese performance

Return on capital

Ingredients

16.4%

↑ from 9.0%

Foodservice

15.7%

↑ from 5.5%

Consumer

(4.6)%

↓ from (0.4)%

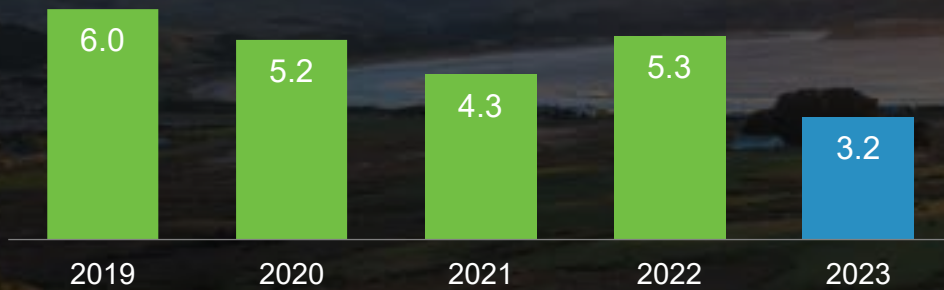
Total 12.4%

↑ From 6.8%

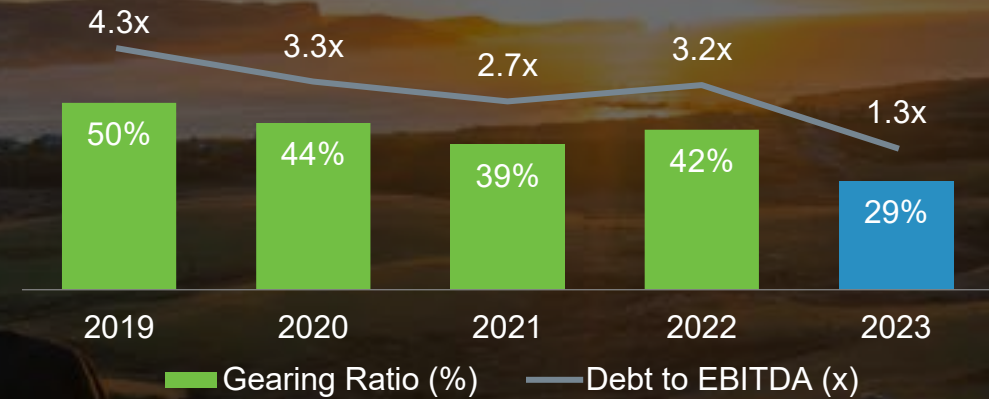


Balance sheet strengthened

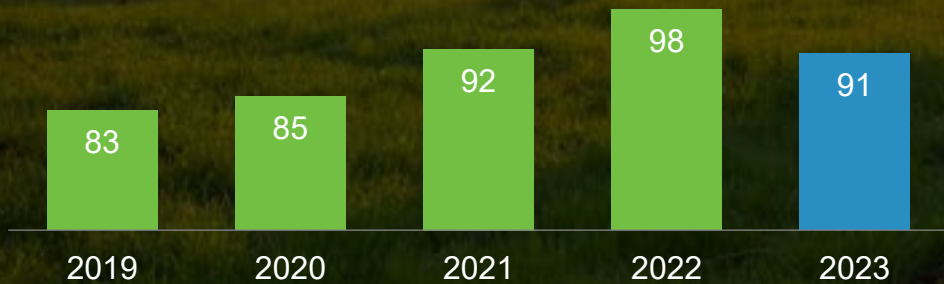
Net debt (\$ billion)⁷



Leverage⁷



Working capital days⁸



Credit rating

S&P Global Ratings	A-	Stable outlook
Fitch Ratings	A	Stable outlook

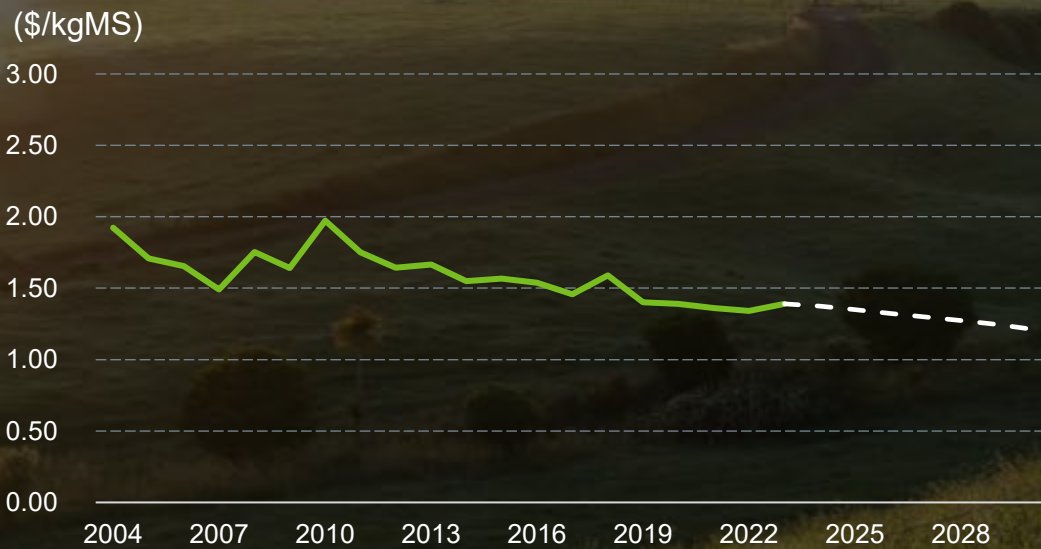
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Two new efficiency metrics to assist long-term aspirations

Fonterra aspires to safely and sustainably remove ~\$1 billion from its cost base by 2030

Cash operating expenses per kgMS – targeting a 4% cash operating cost improvement every year



Gross profit from Core Operations per kgMS – targeting a 2% New Zealand operational cash cost improvement every year



— Inflation Adjusted - - - Long-term Aspiration

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Why these efficiency metrics?

Cash operating expenses per kgMS

- To assist long-term discipline on our global overheads of ~\$2 billion
- Directly monitors the actual cash cost base having regard to changing milk volumes
- Calculated as Continuing Operations operating expenses less depreciation, amortisation and impairments divided by New Zealand milk solids collected
- Adjusted for inflation (using CPI) so underlying efficiency gains/losses are transparent

Gross profit from Core Operations per kgMS

- To assist long-term discipline on efficient New Zealand operations
- Directly monitors the cost base having regard to changing milk volumes
- Calculated at the gross profit level to maximise the value which can arise from higher costs as we move up the value chain
- Will be volatile year-on-year so the focus will be on long-term trend with reporting to show underlying changes in costs, volume and revenue
- Calculated as gross profit from Core Operations (excluding Farm Source and cost of milk) divided by kgMS of Core Operations' sales
- Adjusted for inflation (using subset of PPI) so underlying efficiency gains/losses are transparent

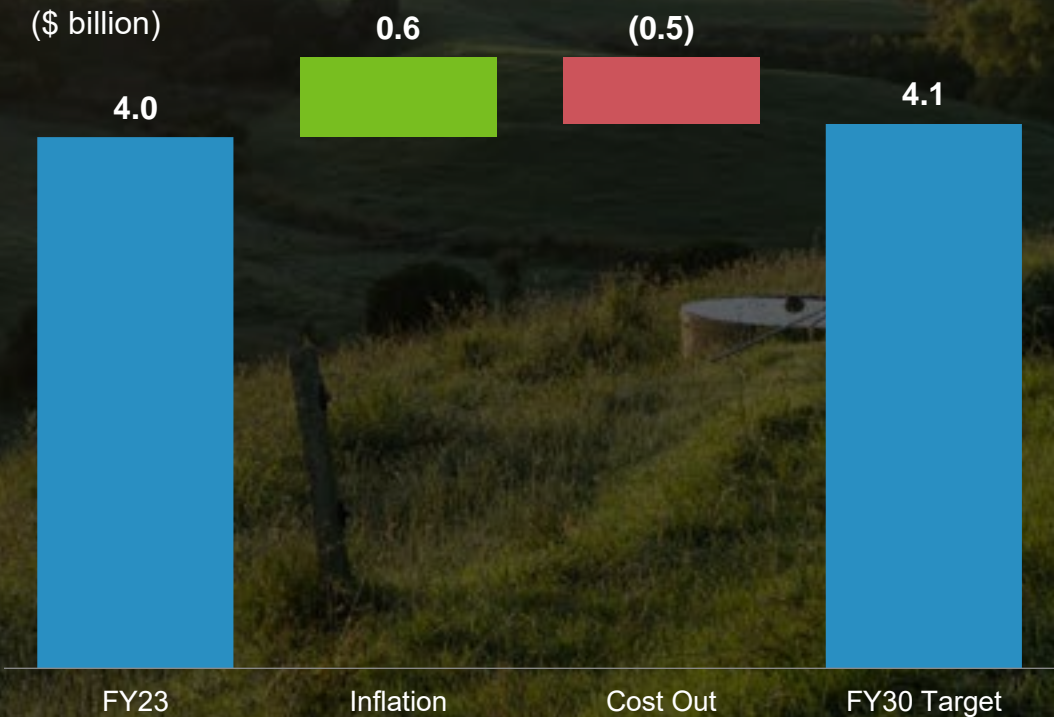


The ~\$1 billion aspiration incorporates inflation expectations

Cash operating expenses per kgMS – a 4% improvement every year requires savings of ~\$500 million



Gross profit from Core Operations per kgMS – a 2% improvement in NZ operational cash costs every year requires savings of ~\$500 million

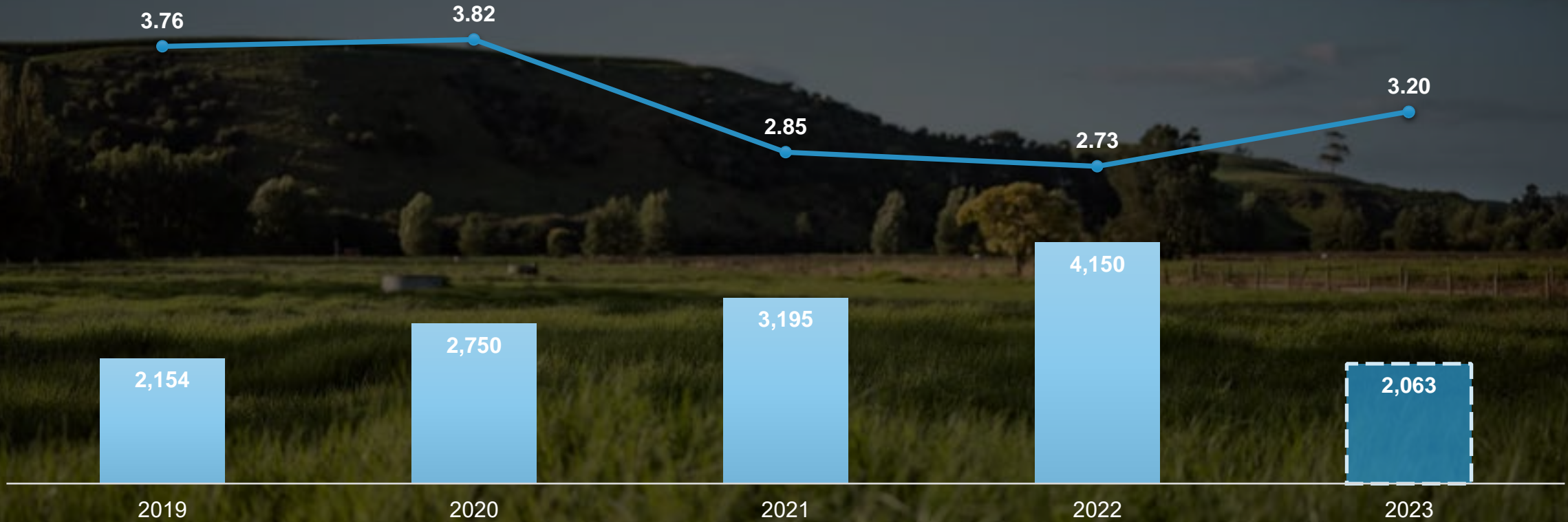


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Farm profitability and share price

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Cash return per share⁹

2019	\$0.00	2020	\$0.05	2021	\$0.20	2022	\$0.20	2023	\$1.00
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■ Profit per hectare (\$/Ha)
 —●— Closing share price (\$) ¹⁰
 Estimate ¹¹



Forecast 2023/24 season Farmgate Milk Price

Forecast Farmgate Milk Price

\$6.00–\$7.50
per kgMS

The range reflects:

- Demand for imported powders into China are soft, but early in the season
- Indications demand for New Zealand powders will start to return early 2024

Reference Product Prices



Forecast for use only



2024 earnings outlook

Continuing operations
forecast earnings

45-60c
per share

The range reflects:

- Favourable Ingredients margins continue but lower than FY23
- Lower milk costs assisting improved margins in Foodservice and Consumer channels

Reference and Non-Reference Product Prices



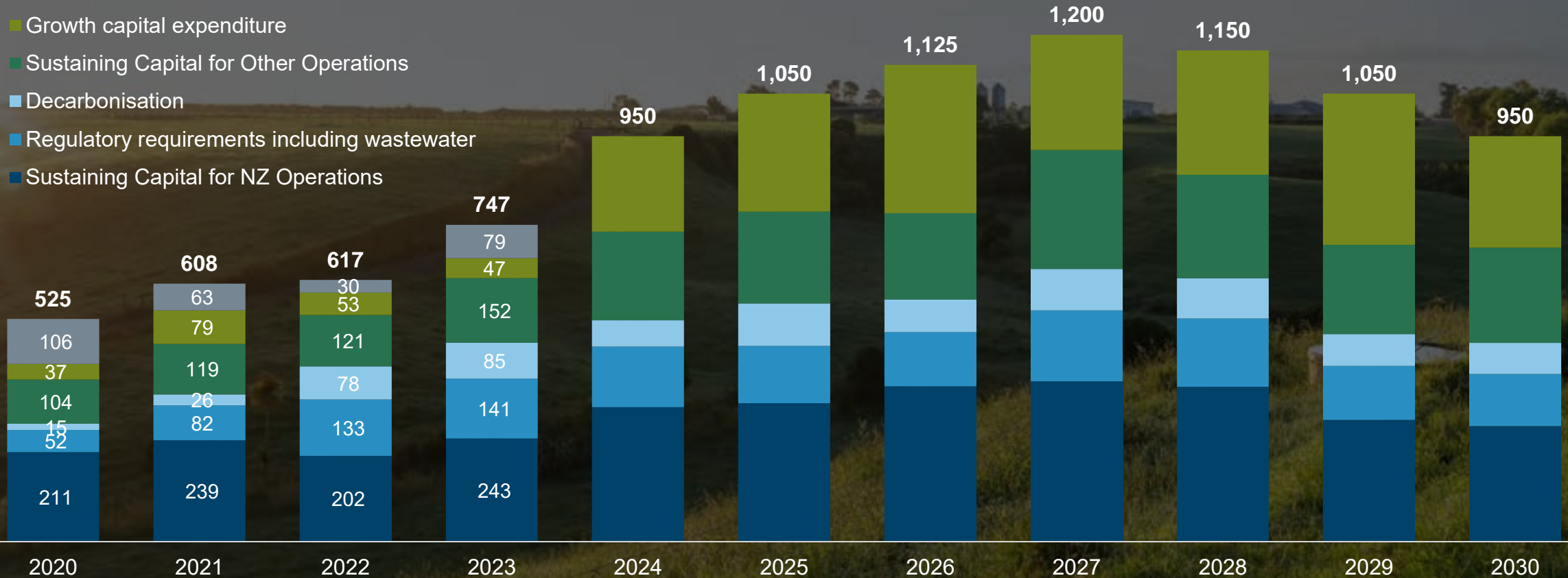
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Capital expenditure outlook

Capital invested (\$ million)

- Other capital invested
- Growth capital expenditure
- Sustaining Capital for Other Operations
- Decarbonisation
- Regulatory requirements including wastewater
- Sustaining Capital for NZ Operations



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Review of our Co-op's Board size and composition

Board size proposed to be reduced from 11 to 9 Directors

6

Farmer Elected
Directors

3

Appointed
Directors

Chairman still selected from
Farmer Elected Directors

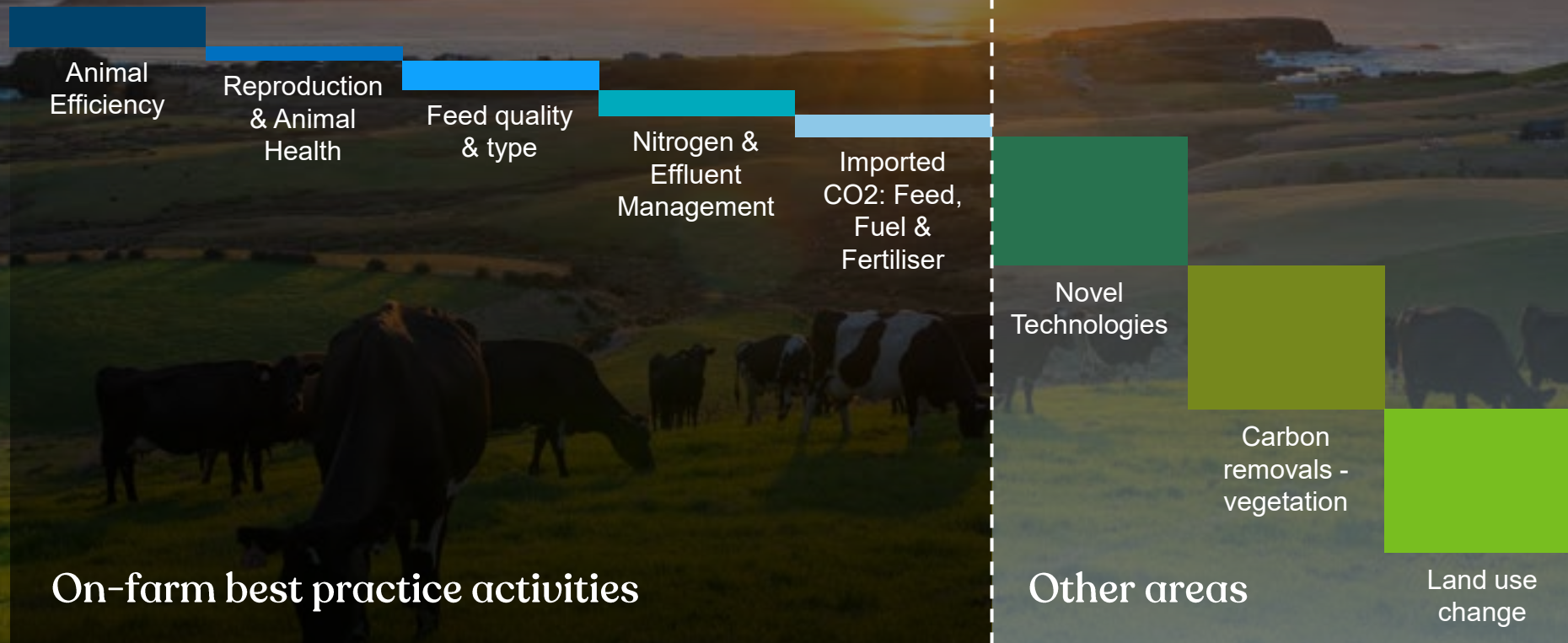
- Current Board operating well, but size can be rationalised. Changes are future focused
- Smaller groups usually encourage:
 - Dissenting views
 - More meaningful sharing of perspectives
 - Faster, robust decision making
- 6:3 composition strikes a balance between a strong and diverse level of perspectives, skills and experiences, and manageable workloads
- Strong farmer majority is maintained
- Changes to be voted on at the 2023 Annual Meeting and would take effect after 2024 Annual Meeting



Protecting our on-farm emissions advantage

Areas that will contribute to on-farm emissions intensity reduction

2018
baseline



On-farm best practice activities

Other areas

Land use change

2030
target

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Footnotes

1. Per share backed kgMS
2. Excludes amounts attributable to non-controlling interests
3. Sources
12 month production:
US (Jul 2022 to Jul 2023) USDA , NZ (Jul 2022 to Jul 2023) DCANZ, EU (Jul 2022 to Jul 2023) Eurostat, Australia (Jul 2022 to Jul 2023) Dairy Australia
12 month imports:
LATAM, Asia, Middle East & Africa, China (Jul 2022 to Jul 2023) S&P Global
4. Source: Fonterra Free Alongside Ship (FAS) prices of the New Zealand Ingredients portfolio
5. Asset Health measures the reliability of Fonterra's manufacturing assets on a scale of 1 – 5. Five indicates the asset is in the best condition possible. Fonterra's risk appetite range is 3 – 3.5
6. Refer to the appendix for assumptions regarding allocations of Corporate Costs, Interest and Tax
7. 2023 includes the amount for the capital return payable of \$804 million in the calculation of Net Debt
8. Inventory has been restated to reflect the inclusion of emissions trading units which were previously held as intangible assets
9. Based on dividend payments and capital return attributed to the financial year
10. Closing price as at 31 July. Figures on the chart are prior to the 50 cent per share capital return
11. 2023 Farm Profitability assumptions: Farm size flat from 2022, farm expense forecasted using CPI farm expenses index, kgMS per hectare output forecasted using 1% increase from previous year and \$8.22 Milk Price

Appendix

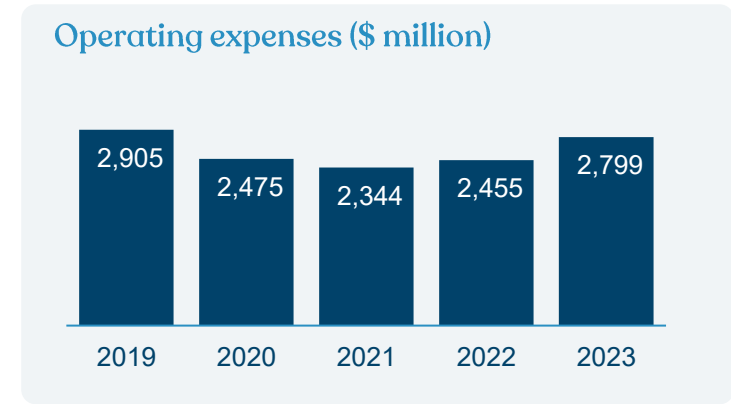
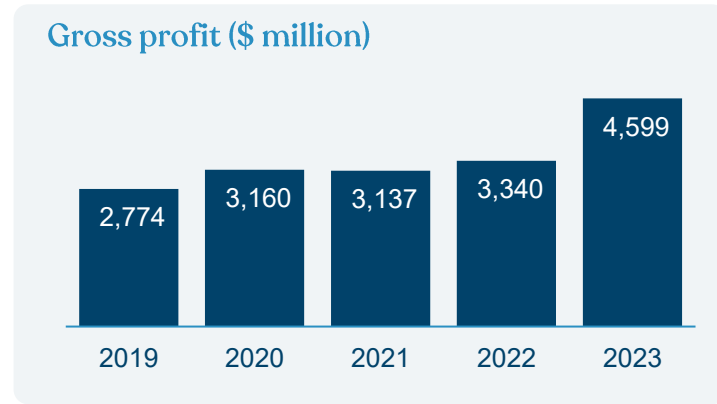
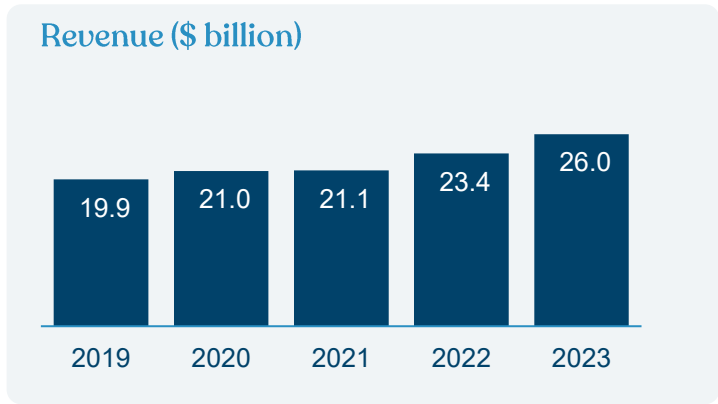
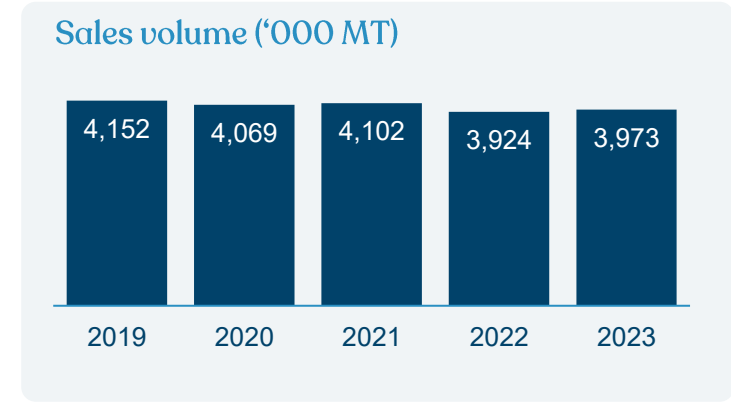
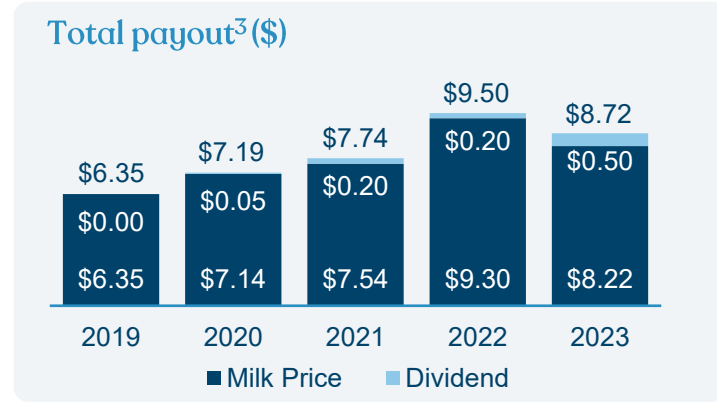
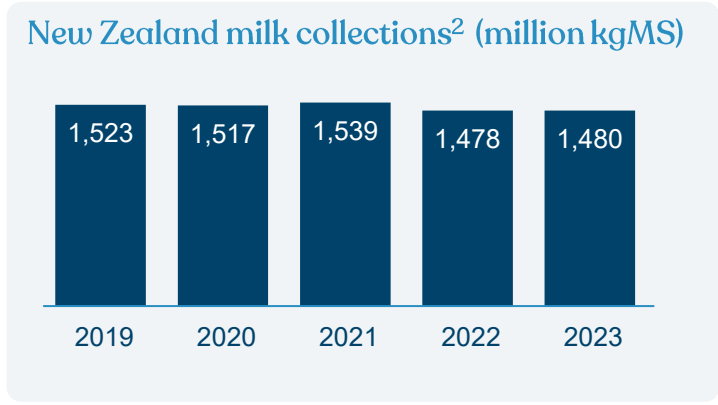
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Key financial metrics for Total Group FY23¹

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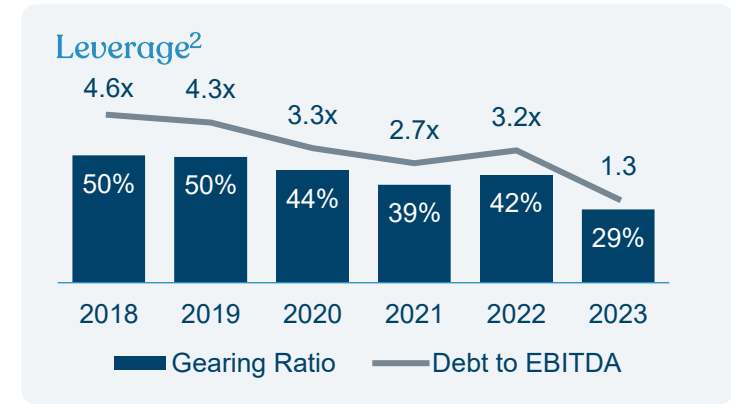
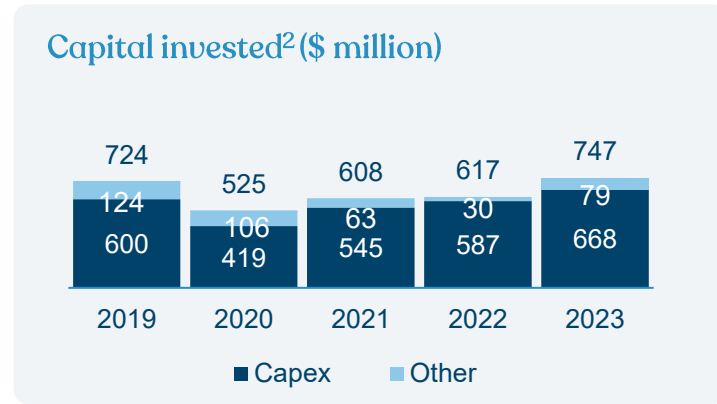
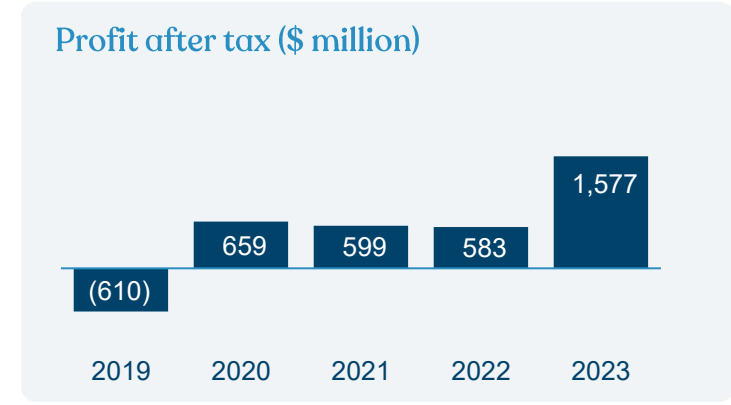
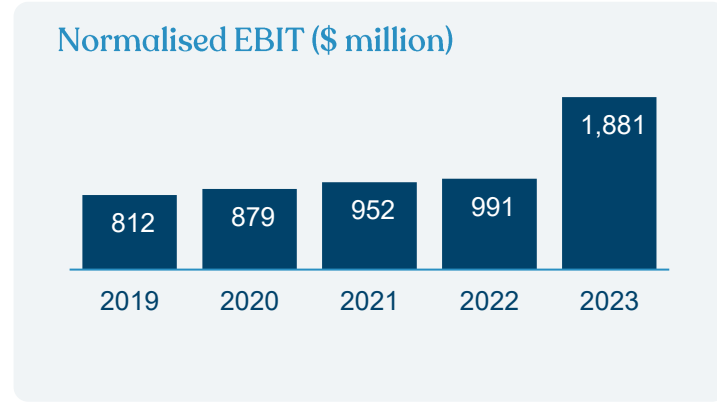
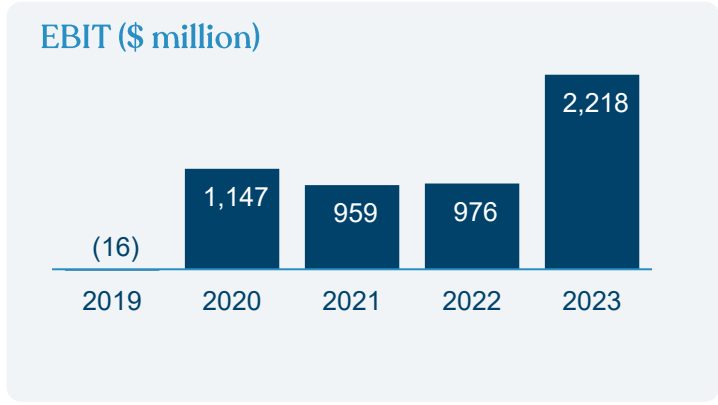
1. Total Group figures for the year ended 31 July. Includes continuing and discontinued operations
 2. Collections are for the season ended 31 May

3. Total cash return for 2023 is \$9.22 per share backed kgMS. Includes 50 cents for the capital return from the sale of Soprole



Key financial metrics for Total Group FY23¹

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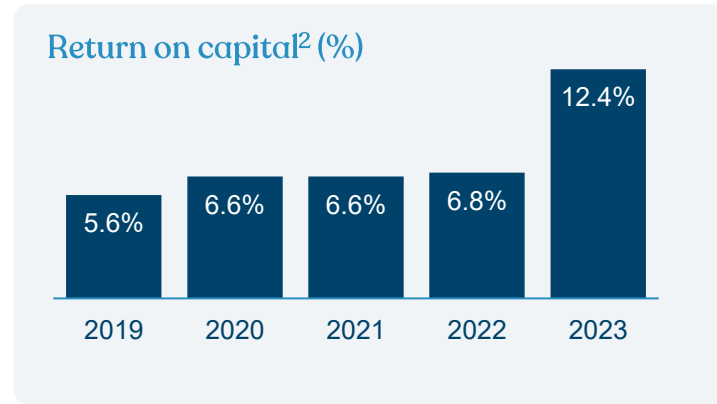
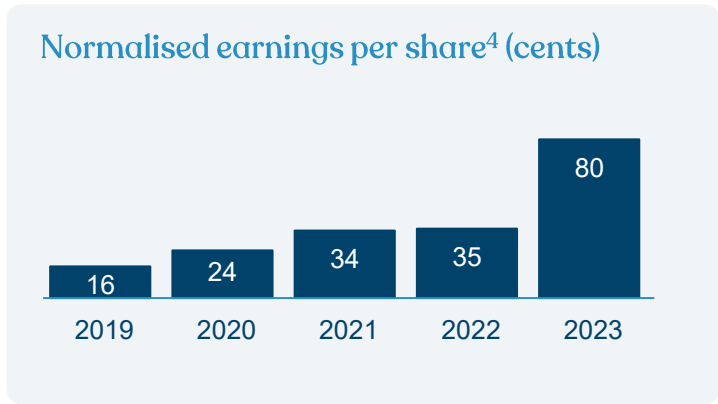
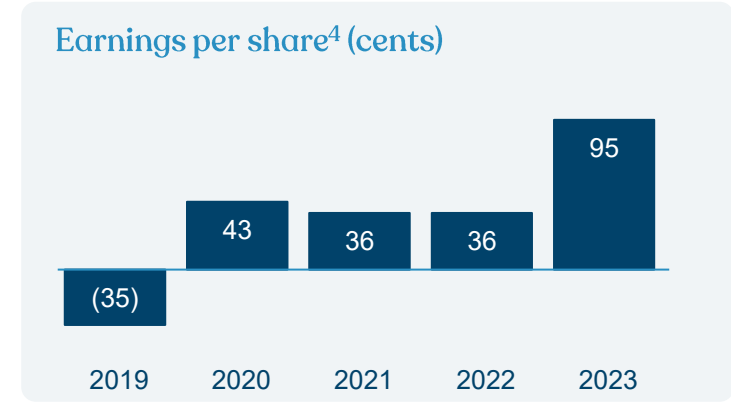
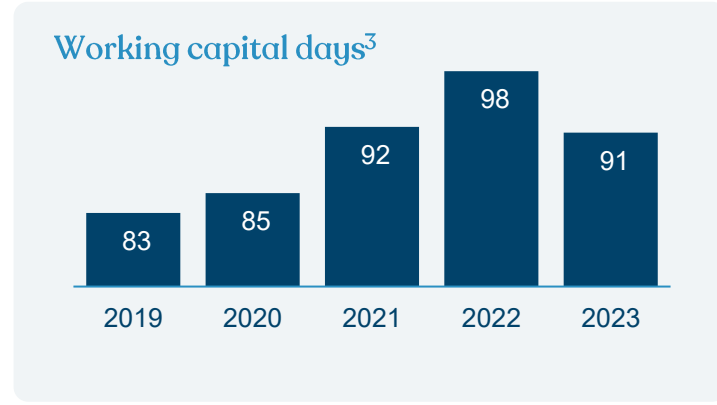
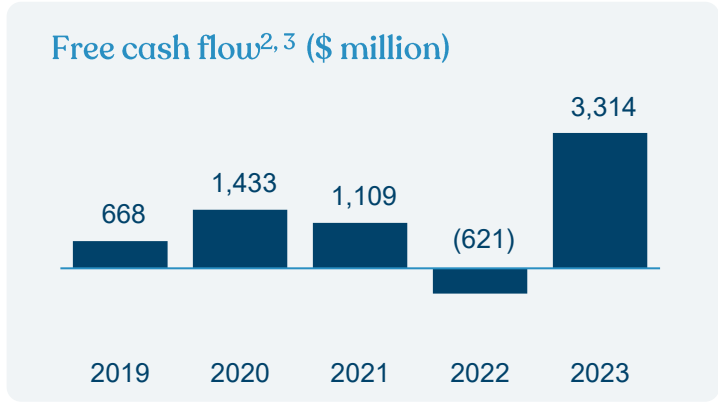


1. Total Group figures for the year ended 31 July. Includes continuing and discontinued operations
 2. Refer to the Glossary for definition



Key financial metrics for Total Group FY23¹

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1. Total Group figures for the year ended 31 July. Includes continuing and discontinued operations
 2. Refer to the Glossary for definition

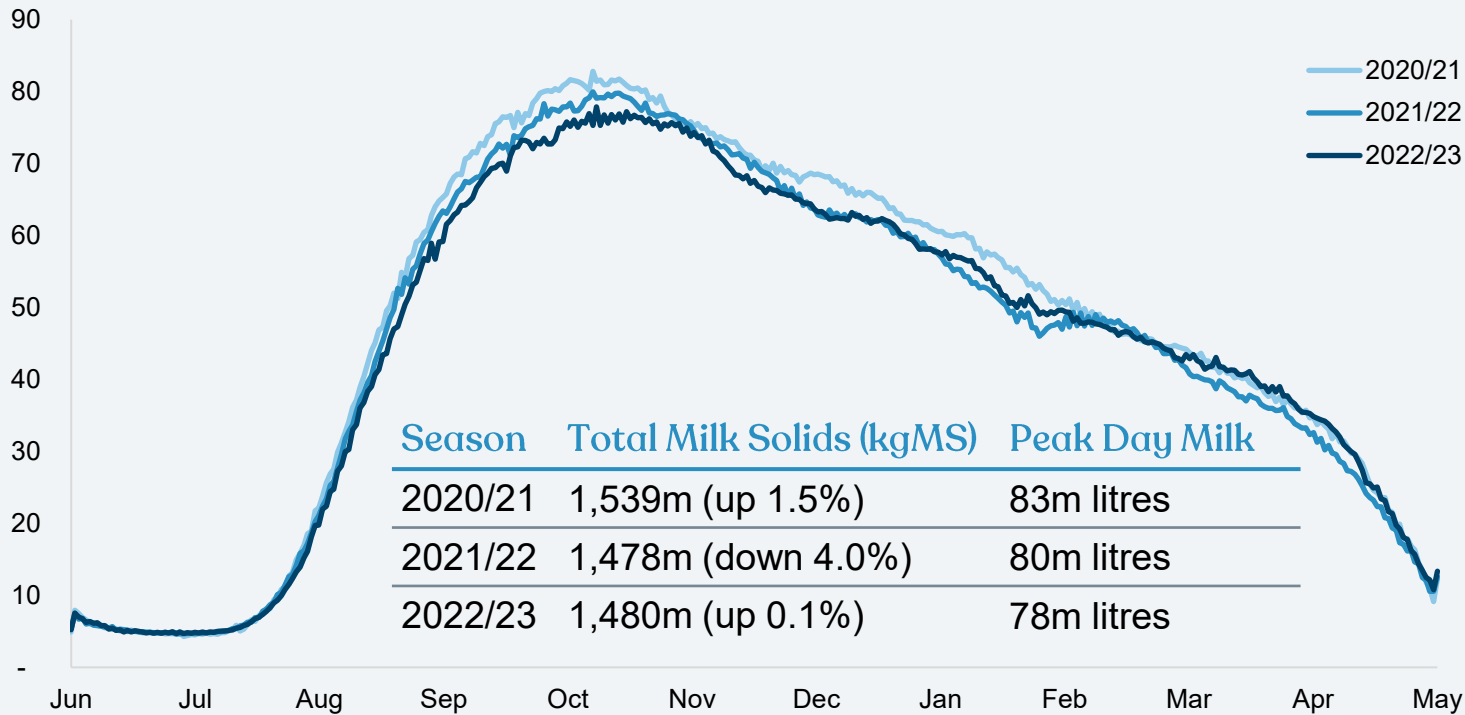
3. Comparative information has been re-presented for consistency with the current period
 4. Attributable to equity holders of the Co-operative. Excludes non-controlling interests



Fonterra's New Zealand milk collections

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Volume (million litres/day)



- Fonterra's New Zealand milk collections for the 2022/23 season were 1,480 million kgMS, up 0.1% on last season
- Milk collections were impacted by a challenging start to the season in the North Island and an overall reduction in the number of cows
- Favourable weather conditions supported strong milk supply at the end of the season
- Fonterra's New Zealand market share of milk solids collected is 79.0%

Total Group income statement

NZD Million	2022	2023	% Δ ¹
Sales volume ('000 MT)	3,924	3,973	1.3%
Revenue	23,425	26,046	11.2%
Cost of goods sold	(20,085)	(21,447)	(6.8)%
Gross profit	3,340	4,599	37.7%
Gross margin (%)	14.3%	17.7%	
Operating expenses	(2,455)	(2,799)	(14.0)%
Other ²	91	418	359.3%
EBIT	976	2,218	127.3%
Net finance costs	(231)	(261)	(13.0)%
Tax expense	(162)	(380)	(134.6)%
Profit after tax³	583	1,577	170.5%
Normalisations ⁴	8	(248)	-
Normalised profit after tax³	591	1,329	124.9%

- Gross profit improved \$1,259 million mainly due to favourable margins in our Ingredients channel, particularly cheese and proteins
- Operating expenses are up \$344 million mainly due to inflation and the impact of impairments
- Other has increased \$327 million and includes the gain on sale of Soprole
- Tax expense increased \$218 million due to higher EBIT and capital gains tax on sale of Soprole
- Normalisations include \$260 million gain on sale of Soprole, and \$(12) million in relation to exiting our Hangu China farm

Note: Figures are for the year ended 31 July. Includes continuing and discontinued operations

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

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

3. Includes amounts attributable to non-controlling interests

4. Prior year normalisations were \$42 million gain on sale from GDT and \$(50) million impairment on DPA Brazil

Earnings per share reconciliation

NZD Million	2022	2023
Reported profit after tax	583	1,577
Profit attributable to non-controlling interests	1	(40)
Reported profit after tax attributable to equity holders of the Co-operative	584	1,537
Reported earnings per share (cents)	36	95
Normalised profit after tax	591	1,329
Profit attributable to non-controlling interests	(23)	(40)
Normalised profit after tax attributable to equity holders of the Co-operative	568	1,289
Normalised earnings per share (cents)	35	80
Weighted average number of Co-operative shares ('000)	1,613,353	1,610,507

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Continuing and discontinued operations earnings

NZD Million	31 July 2022			31 July 2023		
	Continuing Operations ¹	Discontinued Operations ¹	Total Group	Continuing Operations ¹	Discontinued Operations ¹	Total Group
Sales volume ('000 MT)	3,318	606	3,924	3,497	476	3,973
Revenue	21,901	1,524	23,425	24,580	1,466	26,046
Cost of goods sold	(18,992)	(1,093)	(20,085)	(20,399)	(1,048)	(21,447)
Gross profit	2,909	431	3,340	4,181	418	4,599
Gross margin (%)	13.3%	28.3%	14.3%	17.0%	28.5%	17.7%
Operating expenses	(2,065)	(390)	(2,455)	(2,496)	(303)	(2,799)
Other ²	102	(11)	91	70	348	418
EBIT	946	30	976	1,755	463	2,218
Net finance costs	(194)	(37)	(231)	(211)	(50)	(261)
Tax expense	(131)	(31)	(162)	(303)	(77)	(380)
Profit after tax³	621	(38)	583	1,241	336	1,577
Normalisations ⁴	(42)	50	8	-	(248)	(248)
Normalised profit after tax³	579	12	591	1,241	88	1,329

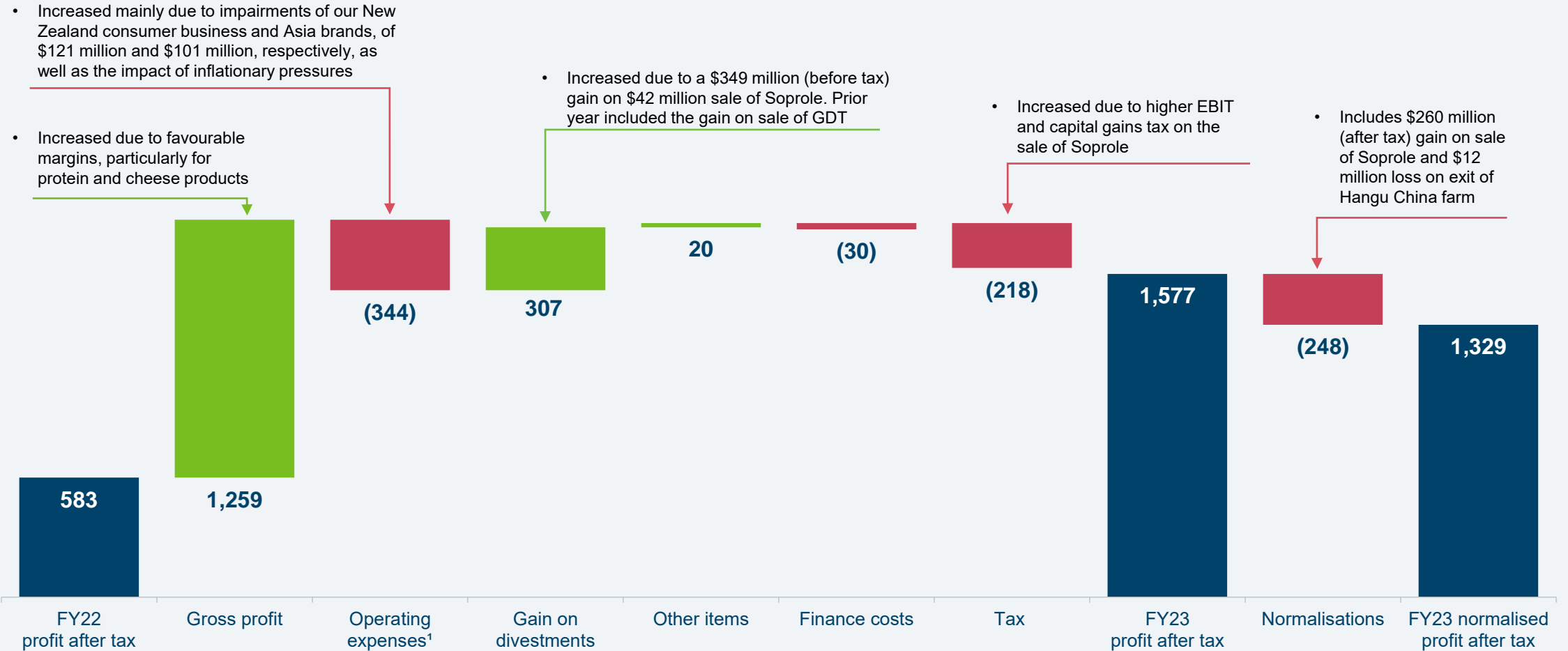
1. Refer to Note 1a and 2c of the FY23 Financial Statements. Comparative information has been restated and re-presented for consistency with the current period
2. Comprises of other operating income, net foreign exchange gains/(losses) and share of profit or loss of equity accounted investees

3. Includes amounts attributable to non-controlling interests
4. Normalisations comprise of \$260 million gain on sale of Soprole and \$(12) million in relation to exiting our Hangu China farm (\$42 million gain on sale from GDT and \$(50) million impairment on DPA Brazil from the prior period)



Profit after tax reconciliation

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1. Includes \$11 million net loss on sale related to Hangu China farm and sale of GDT

Normalised Items

NZD Million	31 July 2022			31 July 2023		
	Global Dairy Trade	DPA Brazil	Total	Hangu China farm	Soprole	Total
Other operating income	43	-	43	-	349	349
Other operating expenses	(1)	(57)	(58)	(12)	-	(12)
Profit before net finance costs and tax	42	(57)	(15)	(12)	349	337
Net finance costs and tax	-	7	7	-	(89)	(89)
Profit after tax	42	(50)	(8)	(12)	260	248
Profit attributable to non-controlling interests	-	24	24	-	-	-
Profit after tax attributable to equity holders of the Co-operative	42	(26)	16	(12)	260	248

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Operating expenses by nature

NZD Million	2022	2023
Employee benefits expense	860	963
Storage & distribution	241	263
Advertising & promotion	227	219
Information technology	191	205
Professional & management fees	149	167
Depreciation & amortisation	173	180
Impairments	44	248
Other	180	251
Operating expenses from continuing operations	2,065	2,496
Operating expenses from discontinued operations	390	303
Total Group operating expenses	2,455	2,799

- Total Group operating expenses are \$2,799 million, up \$344 million on the prior period
- Discontinued operations reduced \$87 million due to the completion of the Soprole sale on 31 March 2023
- Continuing operations increased \$431 million, mainly due to:
 - An increase in employee benefits expenses by \$103 million mainly due to inflationary pressures,
 - An increase in professional and management fees by \$18 million, mainly due to the implementation of the new Flexible Shareholding capital structure and the capital return,
 - impairments increasing \$204 million, mainly due to impairments of our New Zealand Consumer business and our Asia brands for \$121 million and \$101 million, respectively, and,
 - ‘Other’ increasing \$71 million, mainly due to higher travel and in person engagement costs reflecting COVID-19 related restrictions easing, and an increase in doubtful debts

Note: Comparative information has been re-presented for consistency with the current period



Operating expenses by function

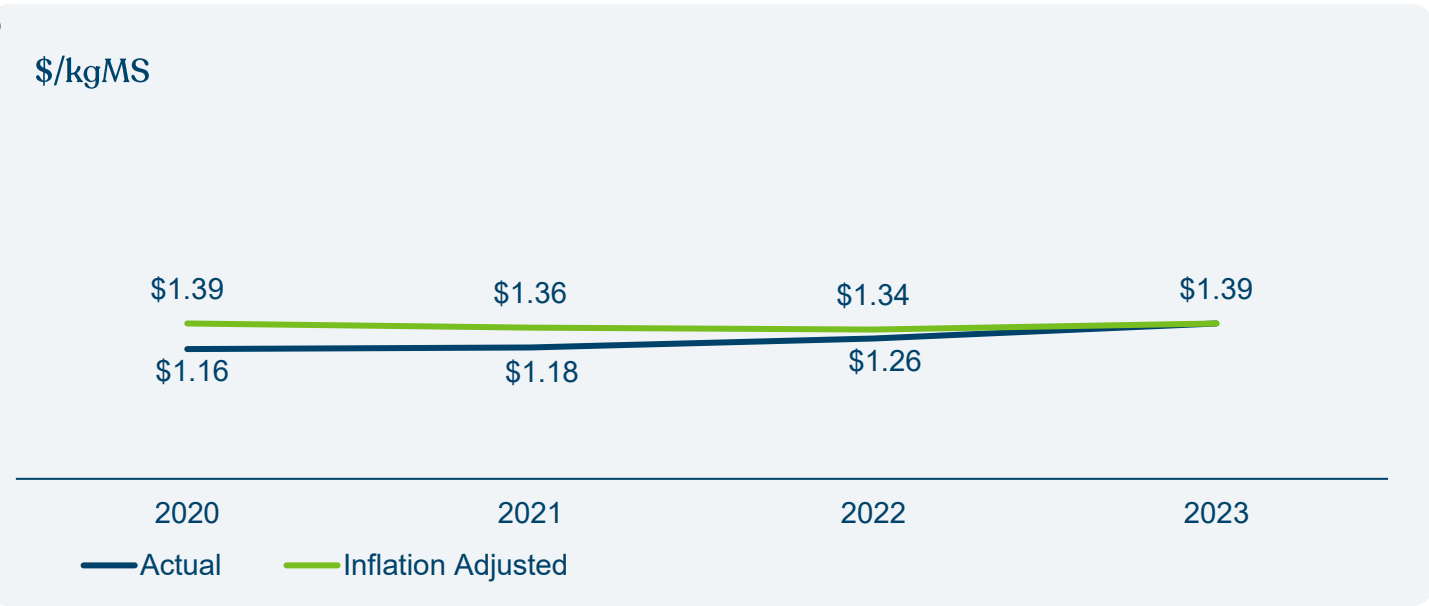
NZD Million	2022	2023
Administrative expenses	790	871
Selling and marketing	614	653
Storage and distribution ¹	476	526
Other operating expenses	185	446
Operating expenses from continuing operations	2,065	2,496
Operating expenses from discontinued operations	390	303
Total Group operating expenses	2,455	2,799

1. Storage and distribution by function does not balance to storage and distribution by nature on the previous page due to employee benefits expense and professional management fees being allocated through the selling and marketing and storage and distribution functions



Cash operating expenses per kgMS

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- New efficiency metric to assist long-term discipline on our overheads of ~\$2 billion
- Directly monitors the actual cash cost base having regard to changing milk volumes
- Calculated as continuing operations operating expenses excluding depreciation, amortisation and impairments divided by New Zealand milk solids collected
- Adjusted for inflation (using CPI) so underlying efficiency gains/losses are transparent
- Increase from \$1.34 to \$1.39 per kgMS mainly reflects increased staff costs and storage and distribution costs

Cash operating expenses	2020	2021	2022	2023
Actual (\$ million)	1,763	1,810	1,858	2,064
Accumulative CPI ¹	16.6%	13.3%	6.0%	
Inflation adjusted (\$ million)	2,114	2,088	1,976	2,064
New Zealand kgMS collected	1,517	1,539	1,478	1,480

1. Consumer Price Index (CPI) source: Stats NZ



Dividend calculation

NZD cents per share	2022	2023
Reported earnings ¹	36	95
Less: abnormal gains	(2)	(16)
Net earnings for dividend payment ²	34	79
Dividend payment percentage (%)	59%	63%
Total dividend	20	50
Interim dividend	5	10
Final dividend	15	40

- Total dividend of 50 cents per share:
 - Interim dividend of 10 cents,
 - Final dividend of 40 cents
- Abnormal gains included the \$260 million from selling Soprole
- The decision to pay slightly above dividend policy payout range of 40-60% reflects the strengthened balance sheet and our leverage metrics being well within target levels

1. Attributable to equity holders of the Co-operative, excludes non-controlling interest

2. Represents net earnings as specified in the Dividend Policy and is calculated as reported profit after tax less abnormal gains

Return on capital

NZD Million	2022	2023
Total Group normalised EBIT	991	1,881
Finance income on long-term advances	7	11
Notional tax charge ¹	(161)	(305)
Total Group normalised EBIT plus finance income on long-term advances less notional tax charge	837	1,587
Capital employed at year end	12,179	11,121
Impact of seasonal capital employed	177	1,653
Average capital employed	12,356	12,774
Return on capital (%)	6.8%	12.4%

- Return on capital increased from 6.8% to 12.4% due to an \$890 million increase in normalised EBIT
 - On a pre-tax basis, normalisations consist of \$349 million related to the gain on sale of Soprole and a \$12 million loss related to the disposal of Hangu Farm in China
- Average capital employed is higher than the prior year due to additional inventory carried forward from the prior year

1. Notional tax charge of 16.1%

Cash flow and change in net debt

NZD Million	2022	2023
Cash generated from operations ¹	1,494	2,311
Net change in working capital	(1,598)	871
A. Net cash flows from operating activities	(104)	3,182
Cash flows from investing activities		
Divestments and asset sales	26	846
Capital expenditure and other	(543)	(714)
B. Net cash flows from investing activities	(517)	132
Free cash flow (A+B)	(621)	3,314
Dividends paid to equity holders of the Co-operative	(323)	(403)
Other financing cashflows	(18)	63
Capital return payable	-	(804)
Other non-cash changes in net debt	(52)	(38)
Decrease/(increase) in net debt ²	(1,014)	2,132

- Decrease in net debt of \$2.1 billion reflecting strong earnings, reduction in working capital and divestment proceeds
- Free cash flow of \$3.3 billion was \$3.9 billion higher than last year, which reflects:
 - underlying cash flow from earnings increasing by \$0.8 billion,
 - an improvement in working capital cash flows of \$2.5 billion,
 - a \$0.8 billion increase in net cash received from divestments due to the sale of Soprole, partially offset by,
 - an increase in capital expenditure and other investing cash flows of \$0.2 billion

Note: Comparative information has been re-presented for consistency with the current period

1. Includes profit after tax and non-cash and non-operating adjustments made to profit after tax to determine cash generated from operations

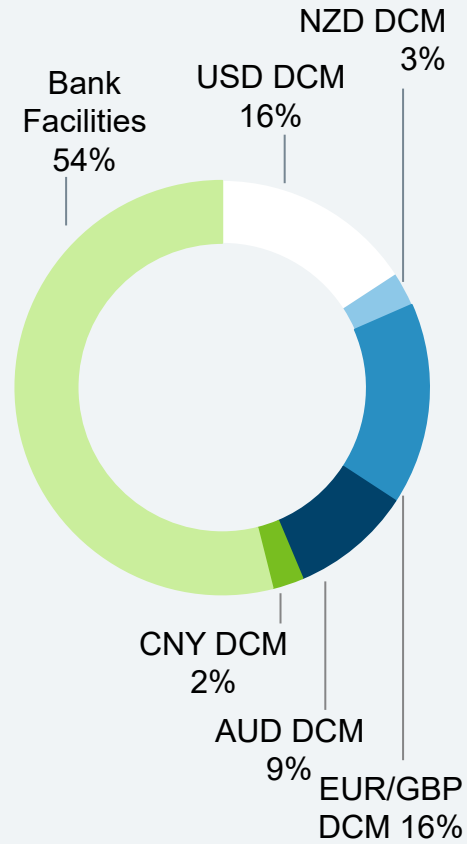
2. Net debt includes amounts attributable to disposal groups held for sale



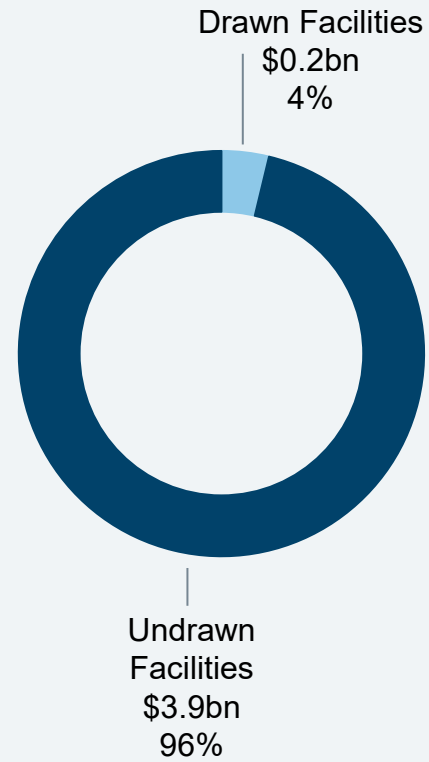
Diversified and prudent funding position¹

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Diversified Profile²

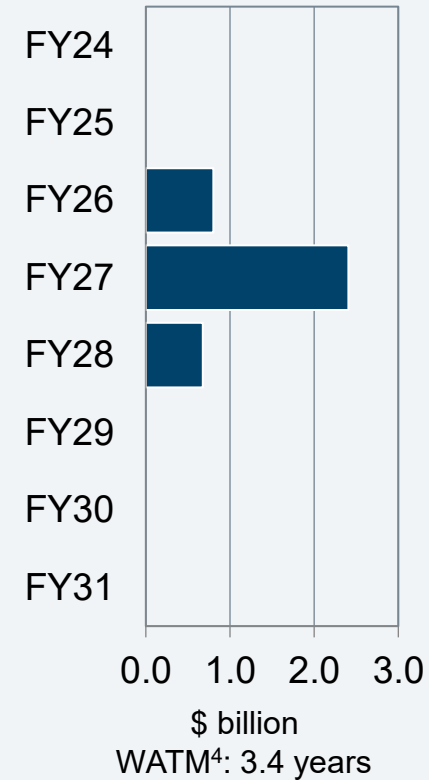


Prudent Liquidity



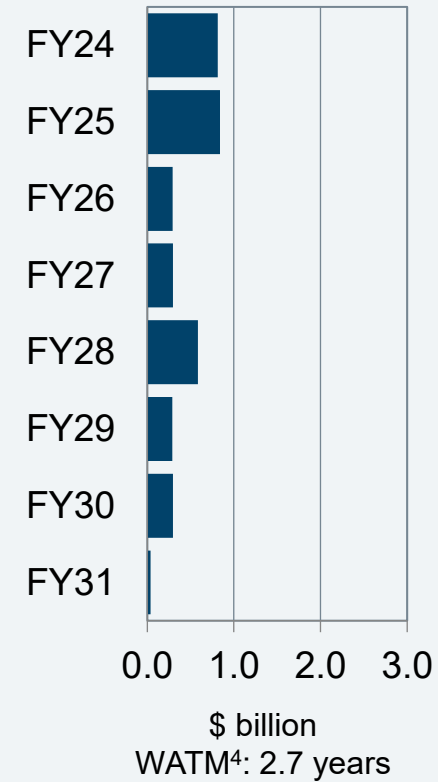
Bank Facilities

Maturity Profile



Debt Capital Markets³

Maturity Profile



1. As at 31 July 2023 and excludes amounts attributable to disposal groups held for sale
 2. Includes undrawn facilities and commercial paper. DCM is debt capital markets

3. Excludes commercial paper
 4. Weighted average term to maturity (WATM)



Allocation assumptions

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The reportable segments and product channels show profit after tax and this requires assumptions for allocating Corporate Costs, Interest expense and Tax

The assumptions are:

Corporate Costs

- Corporate costs, including Co-operative Affairs and other Group Functions, are allocated to the Global Markets, Greater China and Core Operations segments and within these segments by Ingredients, Foodservice and Consumer channels
- The allocation of corporate costs reflects an apportionment at an individual cost centre level. In consultation with each cost centre owner, costs are allocated based on business activity and staffing resource required to support each channel and segment.

Interest expense

- Net finance costs allocated to the segments and channels consists of net finance costs directly attributable to each segment and channel and net finance costs incurred on behalf of the Group
- The net finance costs incurred on behalf of the Group are allocated to each segment and channel using the average capital employed by each segment and channel. Australia is excluded from this allocation as this is based on actual recharges to Australia from Group
- The capital employed allocated to each segment reflects the underlying legal entities that operate in each segment and the working capital requirements directly attributable
- Within each segment, capital employed is then allocated to either the Ingredients, Consumer or Foodservice channels based on the nature of the capital employed (i.e., brands allocated to a channel based on the type of brand, or which legal entity a plant sits within) and working capital requirements

Tax

- Allocated to each channel and segment by applying an average onshore tax rate on New Zealand legal entities' earnings and an average offshore tax rate on offshore legal entities' earnings with an aggregate average of approximately 20% across the Group



Product channel performance

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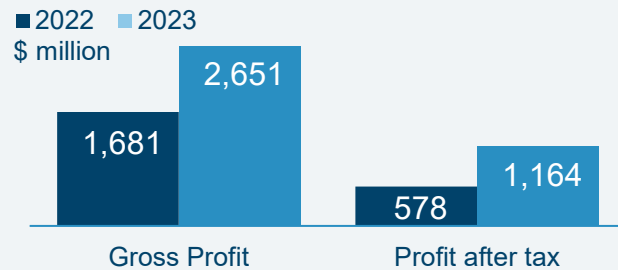
Ingredients

Volume ('000 MT)
2,319 from 2,150 ↑

Revenue (\$ million)
17,416 from 15,535 ↑

Gross margin
15.2% from 10.8% ↑

EBIT (\$ million)
1,577 from 813 ↑



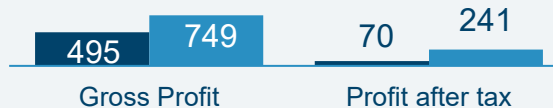
Foodservice

Volume ('000 MT)
546 from 528 ↑

Revenue (\$ million)
3,865 from 3,302 ↑

Gross margin
19.4% from 15.0% ↑

EBIT (\$ million)
334 from 117 ↑



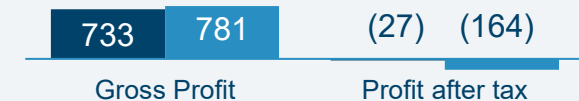
Consumer

Volume ('000 MT)
632 from 640 ↓

Revenue (\$ million)
3,299 from 3,064 ↑

Gross margin
23.7% from 23.9% ↓

EBIT (\$ million)
(156) from 16 ↓



Note: Figures are for the year ended 31 July and are on a continuing operations basis. Comparative information has been restated for consistency with the current period

Ingredients

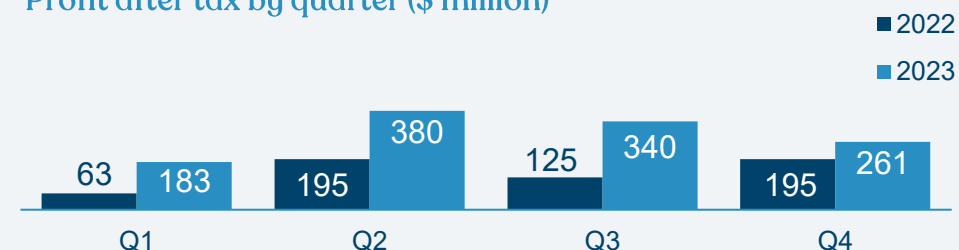
NZD Million	2022	2023	%Δ ¹
Sales volume ('000 MT)	2,150	2,319	8%
Revenue	15,535	17,416	12%
Cost of goods sold	(13,854)	(14,765)	(7)%
Gross profit	1,681	2,651	58%
Gross margin (%)	10.8%	15.2%	
Operating expenses	(1,002)	(1,121)	(12)%
Other ²	134	47	(65)%
EBIT ³	813	1,577	94%
Net finance costs and tax expense	(235)	(413)	(76)%
Profit after tax	578	1,164	101%

Note: Figures are for the year ended 31 July and are on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period

- Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of figures
- Comprises of other operating income, net foreign exchange gains/(losses) and share of profit or loss of equity accounted investees
- Includes Corporate Costs of \$138 million for 2023 (\$94 million for the comparative period)

- Higher sales volumes reflect Global Markets securing new contracts and tenders in both the Asia Pacific and Africa regions supporting the sell down of additional inventory held at 2022 financial year end
- Gross profit improved \$970 million mainly due to increased margins in Core Operations, particularly in our casein and cheese portfolios
- Operating expenses are up \$119 million, reflecting increased supply chain costs due to additional inventory and inflationary pressures
- 'Other' decreased \$87 million mainly due to foreign exchange movements in our net receivables as a result of timing differences between the processing and hedging of invoices

Profit after tax by quarter (\$ million)



New Zealand sourced Ingredients' product mix

	2022		2023	
Sales volume ('000 MT)				
Reference Products		1,629		1,782
Non-Reference Products		822		883
Revenue	\$ billion	\$ per MT	\$ billion	\$ per MT
Reference Products	10.4	6,361	11.1	6,257
Non-Reference Products	5.7	6,950	7.1	8,089
Cost of milk				
Reference Products	8.3	5,077	8.4	4,696
Non-Reference Products	3.7	4,493	3.5	3,974

- The average product price per metric tonne:
 - decreased 2% for Reference Products mainly due to lower WMP and AMF prices
 - increased 16% for Non-Reference Products mainly due to significant price increases across most products with casein, MPC and cheese all increasing over 21% compared to the prior year
- Cost of milk decreased for Reference and Non-Reference Products by 8% and 12%, respectively
 - the difference between the cost of milk for the Reference and Non-Reference Product portfolios is due to their different fat and protein compositions
- The price increases in protein products coupled with lower milk costs, has meant higher margins for our Non-Reference portfolio

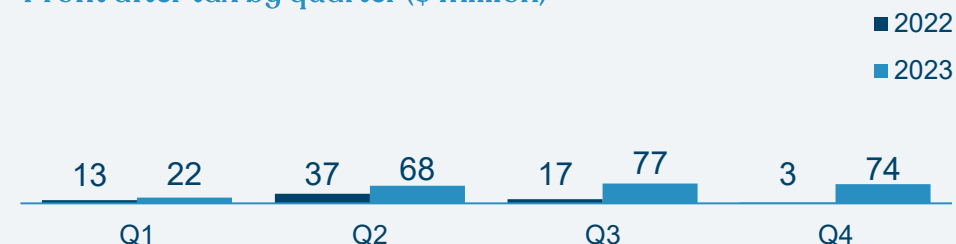
Note: Table includes Ingredient's products that are on-sold to the Foodservice and Consumer channels and excludes bulk liquid milk. Bulk liquid milk for 2023 was 73,000 MT of kgMS equivalent (for the comparative period it was 68,000 MT of kgMS equivalent). Milk solids used in the Reference Products sold were 1,004 million kgMS and 442 million kgMS in the Non-Reference Products (for the comparative period 919 million kgMS in Reference Products and 424 million kgMS in Non-Reference Products)

Foodservice

NZD Million	2022	2023	%Δ ¹
Sales volume ('000 MT)	528	546	3%
Revenue	3,302	3,865	17%
Cost of goods sold	(2,807)	(3,116)	(11)%
Gross profit	495	749	51%
Gross margin (%)	15.0%	19.4%	
Operating expenses	(393)	(418)	(6)%
Other ²	15	3	(80)%
EBIT ³	117	334	185%
Net finance costs and tax expense	(47)	(93)	(98)%
Profit after tax	70	241	244%

- Higher sales volumes as a result of demand increasing in the second half of the year due to COVID-19 related restrictions lifting
- Gross profit increased \$254 million, or 51% mainly due to:
 - favourable price relativities between Reference and Non-Reference Product prices,
 - product prices in Greater China and Global Markets adjusting for higher milk costs in the first quarter, benefitting the remaining three quarters as the cost of milk declined, and,
 - innovation in foodservice application products such as our Anchor™ Food Professionals Easy Topping Cream and Aerosol Cream in Greater China, expanding total market share

Profit after tax by quarter (\$ million)



Note: Figures are for the year ended 31 July and are on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period

1. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of figures
2. Comprises of other operating income, net foreign exchange gains/(losses) and share of profit or loss of equity accounted investees
3. Includes Corporate Costs of \$58 million for 2023 (\$33 million for the comparative period)

Consumer

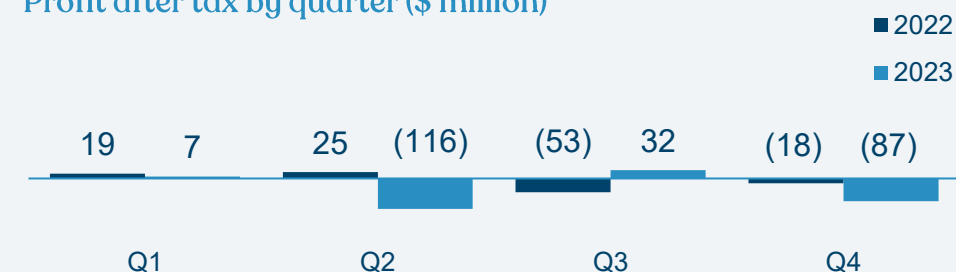
NZD Million	2022	2023	%Δ ¹
Sales volume ('000 MT)	640	632	(1)%
Revenue	3,064	3,299	8%
Cost of goods sold	(2,331)	(2,518)	(8)%
Gross profit	733	781	7%
Gross margin (%)	23.9%	23.7%	
Operating expenses	(670)	(957)	(43)%
Other ²	(47)	20	-
EBIT ³	16	(156)	-
Net finance costs and tax expense	(43)	(8)	81%
Profit after tax	(27)	(164)	(507)%

Note: Figures are for the year ended 31 July and are on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period

1. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of figures
2. Comprises of other operating income, net foreign exchange gains/(losses) and share of profit or loss of equity accounted investees
3. Includes Corporate Costs of \$64 million for 2023 (\$30 million for the comparative period)

- Lower sales volumes mainly due to Sri Lanka's economic challenges impacting the ability to access US dollars in the first half of the financial year
- Gross profit improved \$48 million due to cost of milk easing over the second half of the financial year, improving gross margins in Core Operations and Global Markets
- Operating expenses increased \$287 million mainly due to inflation and recognising impairments of our New Zealand consumer business and Asia brands of \$121 million and \$101 million, respectively
- 'Other' is favourable mainly due to the prior year including \$80 million adverse revaluation of the Sri Lankan business payables reflecting the devaluation of the rupee

Profit after tax by quarter (\$ million)





Performance by segment

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Core Operations

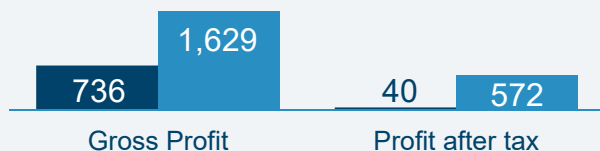
Volume ('000 MT) ↑
2,784 from 2,554

Revenue (\$ million) ↑
19,142 from 16,987

Gross margin ↑
8.5% from 4.3%

EBIT (\$ million) ↑
806 from 155

■ 2022 ■ 2023
 \$ million



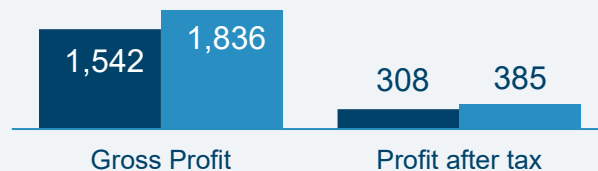
Global Markets

Volume ('000 MT) ↑
2,575 from 2,344

Revenue (\$ million) ↑
18,401 from 15,374

Gross margin ↑
10.0% from 10.0%

EBIT (\$ million) ↑
579 from 446



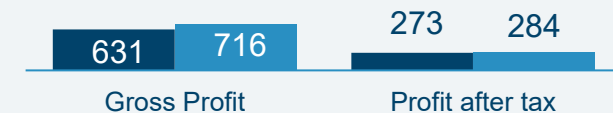
Greater China

Volume ('000 MT) ↓
978 from 1,028

Revenue (\$ million) ↑
7,072 from 6,869

Gross margin ↑
10.1% from 9.2%

EBIT (\$ million) ↑
370 from 345



Note: Figures are for the year ended 31 July and are on a continuing operations basis. Comparative information has been restated for consistency with the current period

Core Operations

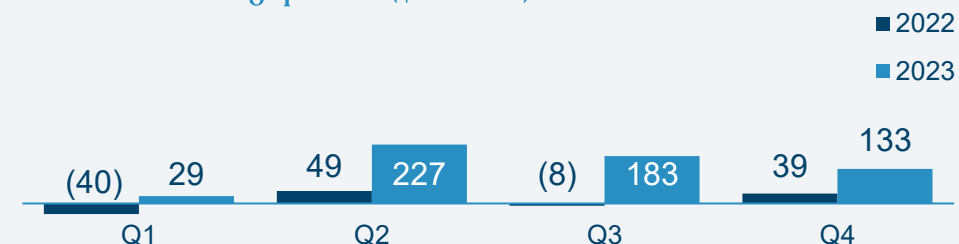
NZD Million	2022	2023	%Δ ¹
Sales volume ('000 MT)	2,554	2,784	9%
Revenue	16,987	19,142	13%
Cost of goods sold	(16,251)	(17,513)	(8)%
Gross profit	736	1,629	121%
Gross margin (%)	4.3%	8.5%	
Operating expenses	(691)	(840)	(22)%
Other ²	110	17	(85)%
EBIT ³	155	806	420%
Net finance costs and tax expense	(115)	(234)	(103)%
Profit after tax	40	572	1,330%

Note: Figures are for the year ended 31 July and are on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period.

- Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of figures
- Comprises of other operating income, net foreign exchange gains/(losses) and share of profit or loss of equity accounted investees
- Includes Corporate Costs of \$148 million for 2023 (\$72 million for the comparative period)

- Sales volumes up 9%, reflecting the sell down of additional inventory held at 2022 financial year end
- Gross profit up \$893 million reflecting favourable price relativities between Reference and Non-Reference Products, particularly in:
 - the cheese portfolio, from growth in Foodservice mozzarella
 - the proteins portfolio, from growth in rennet casein
- Operating expenses up \$149 million reflecting inflationary pressures, supply chain disruption, and additional storage costs due to holding higher inventory at the start of the financial year
- 'Other' is down \$93 million, to \$17 million, mainly reflecting unfavourable foreign exchange movements in net receivables

Profit after tax by quarter (\$ million)





Core Operations channel performance

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Ingredients

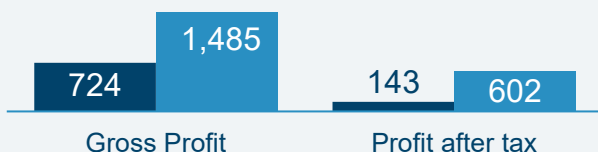
Volume ('000 MT)
2,191 from 2,011 ↑

Revenue (\$ million)
15,692 from 14,055 ↑

Gross margin
9.5% from 5.2% ↑

EBIT (\$ million)
823 from 248 ↑

\$ million
 ■ 2022 ■ 2023



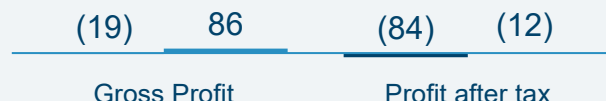
Foodservice

Volume ('000 MT)
334 from 286 ↑

Revenue (\$ million)
1,994 from 1,569 ↑

Gross margin
4.3% from (1.2)% ↑

EBIT (\$ million)
(3) from (82) ↑



Consumer

Volume ('000 MT)
259 from 257 ↑

Revenue (\$ million)
1,456 from 1,363 ↑

Gross margin
4.0% from 2.3% ↑

EBIT (\$ million)
(14) from (11) ↓



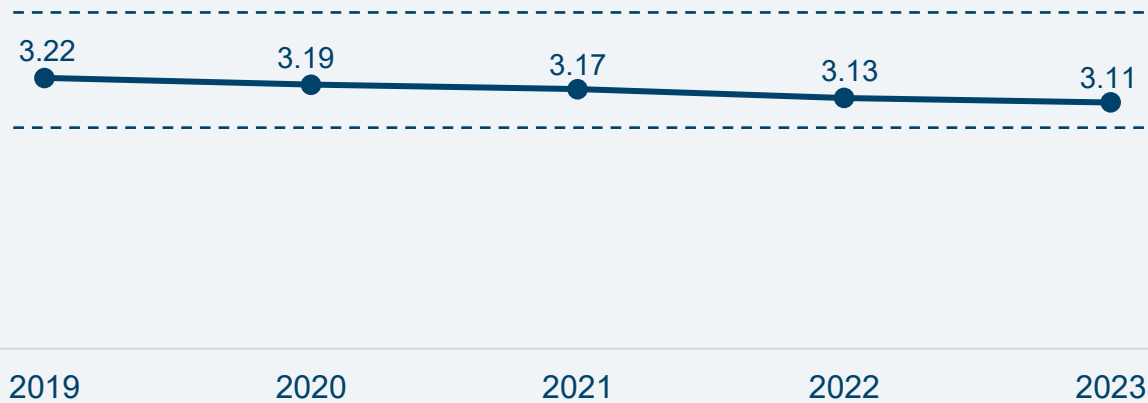
Note: Figures are for the year ended 31 July. Comparative information has been restated for consistency with the current period



Asset Health

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Fonterra Asset Health



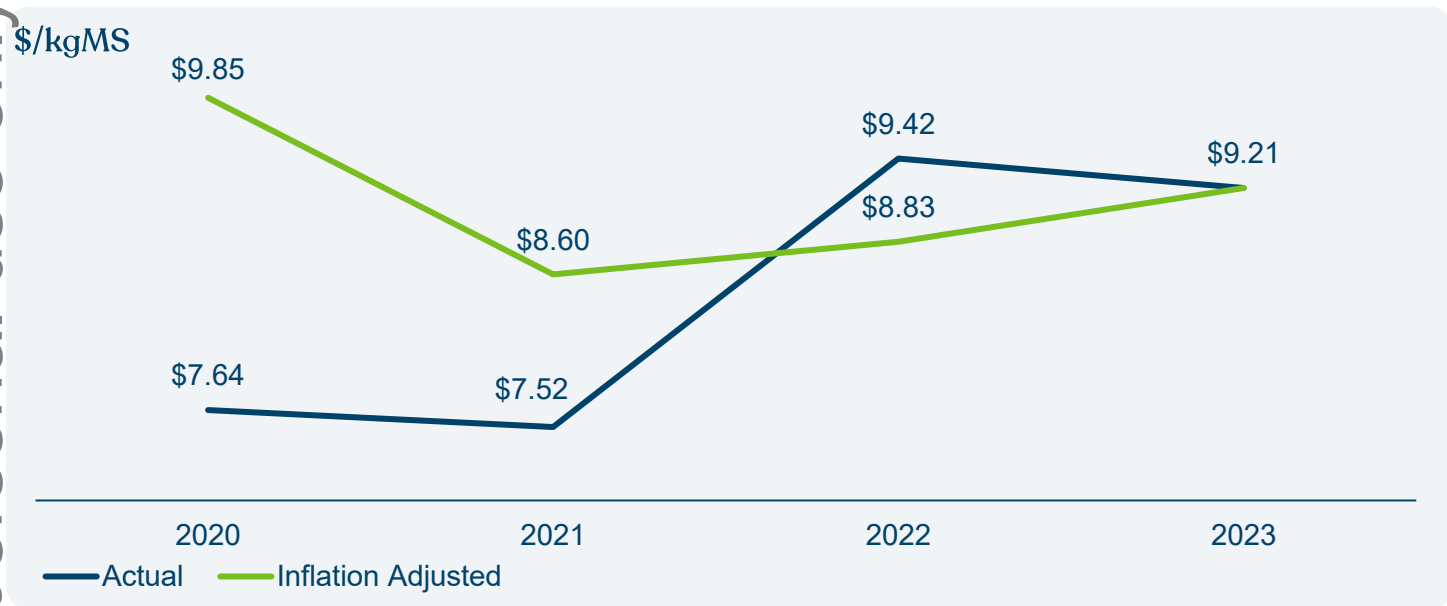
--- Risk appetite range

- Asset Health measures the condition and reliability of our manufacturing assets on a scale of one to five. Five indicates the asset is in the best condition possible
- Fonterra’s risk appetite range is 3 – 3.5
- From 2016 – 2020 we under-invested in sustaining capital, leading to the downwards trend of Asset Health
- Since 2021, capital has been allocated to regaining asset condition and risk mitigation, particularly in food safety and health & safety
- The 2023 Asset Health score does not yet reflect the increase in spend as we catch up from prior underspend



Gross profit from Core Operations per kgMS

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- New efficiency metric to assist our long-term discipline on efficient New Zealand operations
- Directly monitors the cost base having regard to changing milk volumes
- Calculated at the gross profit level to maximise the value which can arise from higher costs as we move up the value chain
- Will be volatile year-on-year so the focus will be on long-term trend with reporting to show underlying changes in costs, volume and revenue
- Calculated as gross profit from Core Operations (excluding Farm Source and cost of milk) divided by kgMS of Core Operations' sales
- Adjusted for inflation (using subset of PPI) so underlying efficiency gains/losses are transparent

Gross profit from Core Operations	2020	2021	2022	2023
Actual (\$ million)	11,168	11,548	13,266	14,019
Accumulative PPI ¹	22.4%	12.6%	(6.7)%	
Inflation adjusted (\$ million)	14,391	13,213	12,433	14,019
Core Operations' sales (kgMS)	1,461	1,536	1,408	1,523

1. Source: Stats NZ Producer Price Index (PPI), Industry Output Category – Dairy product manufacturing

Global Markets

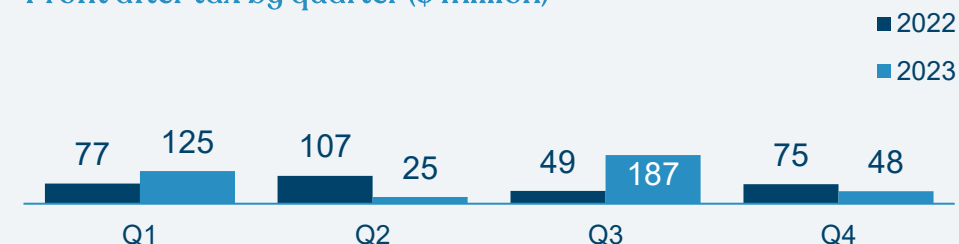
NZD Million	2022	2023	%Δ ¹
Sales volume ('000 MT)	2,344	2,575	10%
Revenue	15,374	18,401	20%
Cost of goods sold	(13,832)	(16,565)	(20)%
Gross profit	1,542	1,836	19%
Gross margin (%)	10.0%	10.0%	
Operating expenses	(1,081)	(1,310)	(21)%
Other ²	(15)	53	-
EBIT ³	446	579	30%
Net finance costs and tax expense	(138)	(194)	(41)%
Profit after tax	308	385	25%

Note: Figures are for the year ended 31 July and are on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period.

- Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of figures
- Comprises of other operating income, net foreign exchange gains/(losses) and share of profit or loss of equity accounted investees
- Includes Corporate Costs attributed of \$72 million for 2023 (\$67 million for the comparative period)

- Sales volume increased due to new contracts and participating in tenders in the Asia Pacific and Africa regions
- Gross profit up \$294 million mainly due to higher sales volumes and Foodservice in-market sales prices adjusting for higher cost of goods
- Operating expenses increased \$229 million mainly due to recognising a \$121 million and \$55 million impairment of our New Zealand consumer business and Asia brands, respectively
- 'Other' is favourable mainly due to the prior year including \$80 million adverse revaluation of the Sri Lankan business payables reflecting the devaluation of the rupee

Profit after tax by quarter (\$ million)





Global Markets channel performance

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Ingredients

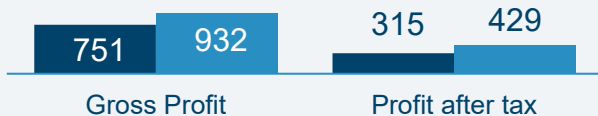
Volume ('000 MT)
1,732 from 1,498 ↑

Revenue (\$ million)
13,516 from 11,127 ↑

Gross margin
6.9% from 6.7% ↑

EBIT (\$ million)
582 from 410 ↑

\$ million
 ■ 2022 ■ 2023



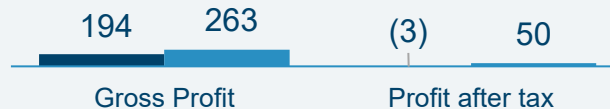
Foodservice

Volume ('000 MT)
280 from 274 ↑

Revenue (\$ million)
1,845 from 1,543 ↑

Gross margin
14.3% from 12.6% ↑

EBIT (\$ million)
74 from 5 ↑



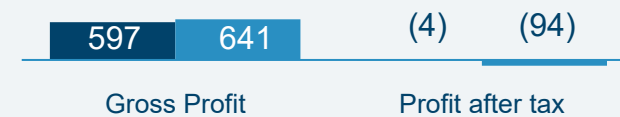
Consumer

Volume ('000 MT)
563 from 572 ↓

Revenue (\$ million)
3,040 from 2,704 ↑

Gross margin
21.1% from 22.1% ↓

EBIT (\$ million)
(77) from 31 ↓



Note: Figures are for the year ended 31 July. Comparative information has been restated and re-presented for consistency with the current period

Australia

NZD Million	2022	2023	%Δ ¹
Milk collections (kgMS)	106	106	-
Sales volume ('000 MT)	365	379	4%
Revenue	2,094	2,531	21%
Cost of goods sold	(1,811)	(2,237)	(24)%
Gross profit	283	294	4%
Gross margin (%)	13.5%	11.6%	
Operating expenses	(178)	(219)	(23)%
Other ²	1	-	-
EBIT	106	75	(29)%
Net finance costs and tax expense	(41)	(52)	(27)%
Profit after tax	65	23	(65)%

- Flat milk collections despite a decline in the overall Australian milk pool
- Gross profit increased \$11 million mainly due improved pricing in the Foodservice business
- Operating expenses increased \$41 million due to:
 - inflationary pressures, and
 - impact of the class action settlement agreement with Fonterra Australia milk suppliers relating to milk price in the 2015/16 season
- EBIT decreased \$31 million due to the improved gross profit being offset by the increase in operating expenses
- Profit after tax decreased \$42 million due to:
 - lower EBIT, and
 - interest rate increases on borrowings

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

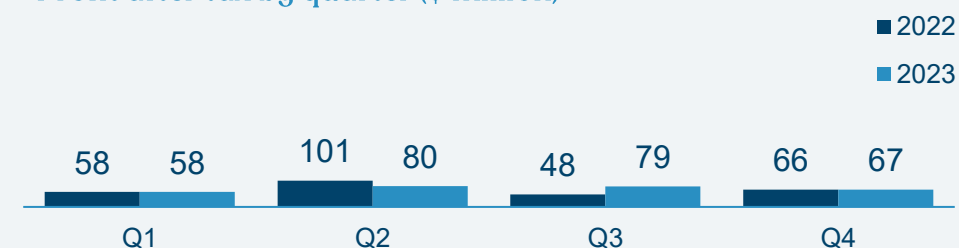
1. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of figures
2. Consists of other operating income, net foreign exchange gains/(losses)

Greater China

NZD Million	2022	2023	%Δ ¹
Sales volume ('000 MT)	1,028	978	(5)%
Revenue	6,869	7,072	3%
Cost of goods sold	(6,238)	(6,356)	(2)%
Gross profit	631	716	13%
Gross margin (%)	9.2%	10.1%	
Operating expenses	(293)	(346)	(18)%
Other ²	7	-	-
EBIT ³	345	370	7%
Net finance costs and tax expense	(72)	(86)	(19)%
Profit after tax	273	284	4%

- Lower sales volumes, particularly WMP, due to softer demand
- Gross profit increased \$85 million mainly due to improved Foodservice gross margins reflecting higher in-market product prices adjusting for increased input costs
- Operating expenses increased \$53 million mainly due to an impairment in the Consumer channel of our Asia brands
- EBIT increased \$25 million due to increased gross profit, partially offset by higher operating expenses

Profit after tax by quarter (\$ million)



Note: Figures are for the year ended 31 July and are on a continuing operations basis. Comparative information has been restated for consistency with the current period

1. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of figures
2. Comprises of other operating income, net foreign exchange gains/(losses) and share of profit or loss of equity accounted investees
3. Includes Corporate Costs attributed of \$40 million for 2023 (\$18 million for the comparative period)



Greater China channel performance

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Ingredients

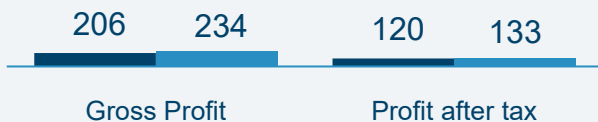
Volume ('000 MT)
632 from 697 ↓

Revenue (\$ million)
4,460 from 4,646 ↓

Gross margin
5.2% from 4.4% ↑

EBIT (\$ million)
172 from 155 ↑

■ 2022 ■ 2023
 \$ million



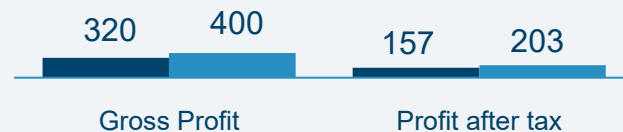
Foodservice

Volume ('000 MT)
274 from 259 ↑

Revenue (\$ million)
2,236 from 1,855 ↑

Gross margin
17.9% from 17.3% ↑

EBIT (\$ million)
263 from 194 ↑



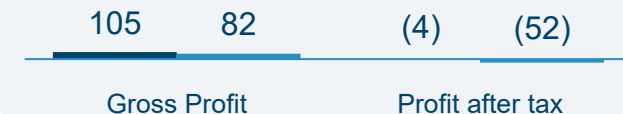
Consumer

Volume ('000 MT)
72 from 72

Revenue (\$ million)
376 from 368 ↑

Gross margin
21.8% from 28.5% ↓

EBIT (\$ million)
(65) from (4) ↓



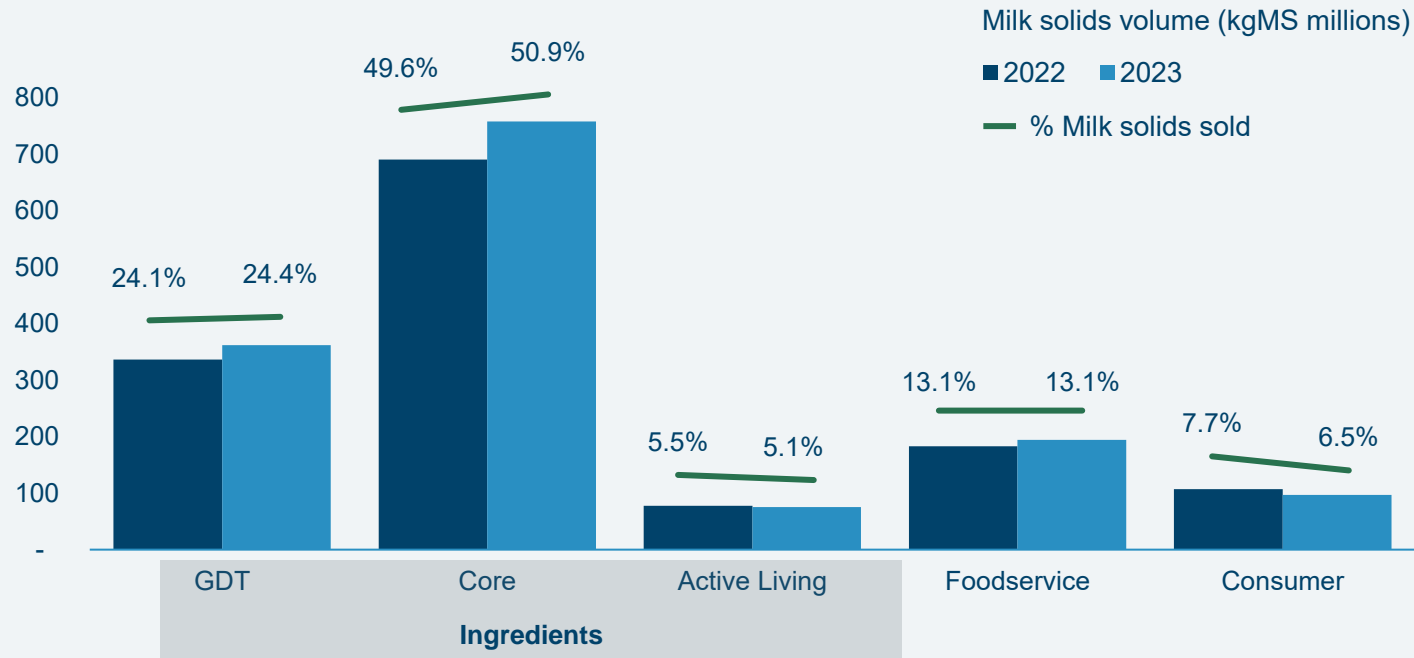
Note: Figures are for the year ended 31 July. Comparative information has been restated and re-presented for consistency with the current period



Allocation of New Zealand milk solids

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Allocation of New Zealand milk solids sold by Product Channel



- The higher allocation to GDT and Core Ingredients mainly reflects the sell down of additional inventory held at 2022 year-end
- Active Living portfolio was impacted by lower demand from the USA due to customer manufacturing constraints and high in-market inventory
- Foodservice channel in line with last year with demand increasing across major product categories in the second half of the year due to COVID-19 restrictions lifting relative to the prior year
- Consumer channel down mainly due to lower sales volume into Sri Lanka as the economic crisis limited repatriation of USD currency

New Zealand and non-New Zealand milk

NZD Million ¹	31 July 2022			31 July 2023		
	New Zealand Milk	Non-New Zealand Milk	Total	New Zealand Milk	Non-New Zealand Milk	Total
Revenue	19,551	2,350	21,901	21,791	2,789	24,580
Cost of goods sold	(16,986)	(2,006)	(18,992)	(17,941)	(2,458)	(20,399)
Gross profit	2,565	344	2,909	3,850	331	4,181
Gross margin (%)	13.1%	14.6%	13.3%	17.7%	11.9%	17.0%
Operating expenses	(1,808)	(257)	(2,065)	(2,252)	(244)	(2,496)
Other ²	95	7	102	69	1	70
EBIT	852	94	946	1,667	88	1,755
Net finance costs	-	-	(194)	-	-	(211)
Tax expense	-	-	(131)	-	-	(303)
Profit after tax	561	60	621	1,203	38	1,241
Discontinued operations profit after tax	-	(38)	(38)	-	336	336

1. Figures are for the year ended 31 July and are prepared on a continuing operations basis. Comparative information has been restated for consistency with the current period

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

Discontinued operations

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NZD Million ¹	31 July 2022			31 July 2023		
	Hangu China farm	DPA Brazil	Soprole	Hangu China farm	DPA Brazil	Soprole
Revenue	27	445	1,052	15	599	852
Cost of goods sold	(31)	(317)	(745)	(27)	(405)	(616)
Gross profit	(4)	128	307	(12)	194	236
Gross margin (%)	(14.8)%	28.8%	29.2%	(80.0)%	32.4%	27.7%
Operating expenses	(9)	(161)	(220)	(12)	(137)	(154)
Other ²	(1)	(1)	(9)	(1)	-	349
EBIT	(14)	(34)	78	(25)	57	431
Profit after tax	(14)	(64)	40	(25)	16	345

1. Comparative information has been re-presented for consistency with the current period
2. Consists of other operating income and net foreign exchange gains/(losses)

Earnings across markets and products

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	Core Operations	Global Markets	Greater China	Total
External sales volume ('000 MT)		2,517 10% ↑	980 5% ↓	3,497 5% ↑
EBIT contribution from continuing operations				
Ingredients	\$823m \$575m ↑	\$582m \$172m ↑	\$172m \$17m ↑	\$1,577m \$764m ↑
Foodservice	\$(3)m \$79m ↑	\$74m \$69m ↑	\$263m \$69m ↑	\$334m \$217m ↑
Consumer	\$(14)m \$3m ↓	\$(77)m \$108m ↓	\$(65)m \$61m ↓	\$(156)m \$172m ↓
Total	\$806m \$651m ↑	\$579m \$133m ↑	\$370m \$25m ↑	\$1,755m \$809m ↑

Note: Prepared on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period

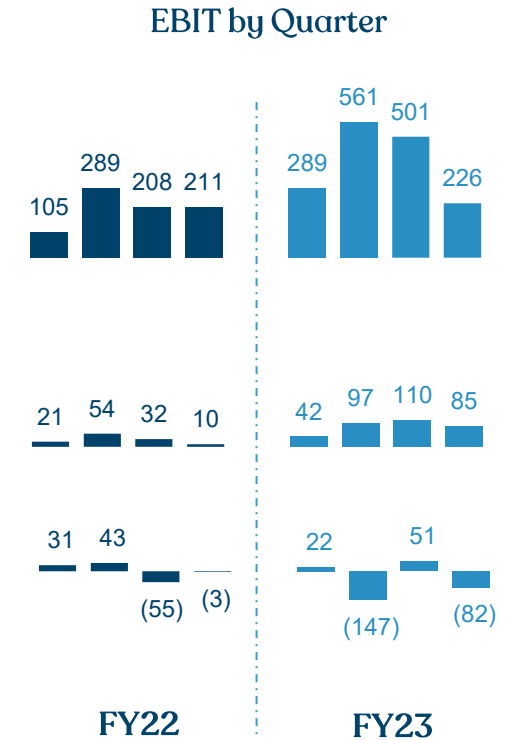


End-to-end earnings across markets and products

To provide a full end-to-end view of performance, Core Operations is attributed to the regions

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	Global Markets	Greater China	Totals
External sales volume ('000 MT)	2,517 10% ↑	980 5% ↓	3,497 5% ↑
EBIT contribution from continuing operations	\$1,200m \$642m ↑	\$377m \$122m ↑	\$1,577m \$764m ↑
Ingredients	\$63m \$85m ↑	\$271m \$132m ↑	\$334m \$217m ↑
Foodservice	\$(67)m \$93m ↓	\$(89)m \$79m ↓	\$(156)m \$172m ↓
Consumer			
Total	\$1,196m \$634m ↑	\$559m \$175m ↑	\$1,755m \$809m ↑



Note: Prepared on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period



Other lease-related expenses recognised in the Income statement

NZD Million	2022	2023
Interest on lease liabilities	13	13
Variable lease payments not included in the measurement of lease liabilities	4	3
Expenses relating to short-term leases	10	12
Expenses relating to low value leases	10	6

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FY23 Integrated Scorecard

For the year ended 31 July 2023

	Key Metrics	FY21	FY22	FY23 Scorecard	FY23
People	Serious harm	9	8	5	5
	Gender diversity (Band 12+)	36.3%	37.6%	38.8%	39.5%
Nature	GHG emissions (Scope 1,2) ¹	(6.6)%	(11.2)%	(10.6)%	(14.1)%
	FEP adoption (New Zealand)	53%	71%	84%	85%
	Water Improvement Plans in place	–	–	37.5%	44.0%
Relationships	Share of New Zealand milk collected for the season to 31 May	79.0%	79.1%	79.0%	79.0%
Intellectual Capital	EBIT from New Zealand value-add businesses (\$ million) ²	616	307	388	466
Assets & Infrastructure	Cost of quality (% of cost of goods sold)	0.45%	0.44%	0.35%	0.34%
Financial	Return on capital	6.6%	6.8%	7.0% to 7.5%	12.4%
	Farmgate Milk Price (\$)	7.54	9.30	9.50	8.22

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

2. Reflects EBIT from Consumer and Foodservice, contribution from Active Living. Excludes Brazil, Australia and Chile.



FY24 Integrated Scorecard

For the year ended 31 July 2024

	Key Metrics	FY22	FY23	FY24 Scorecard
People	Serious harm	8	5	4
	Gender diversity (Band 12+)	37.6%	39.5%	40.0%
	Culture Measure	–	79	– ¹
Nature	GHG emissions (Scope 1,2) ²	(11.2)%	(14.1)%	(15.6)%
	FEP adoption (New Zealand)	71%	85%	92%
	Water Improvement Plans in place	–	44.0%	100.0%
Relationships	Share of New Zealand milk collected for the season to 31 May	79.1%	79.0%	79.0%
	Delivered in full, on time (DIFOT, ex-New Zealand)	51.6%	53.2%	80.0%
Financial / Assets & Infrastructure	Cash operating expenses per kgMS (real)	1.34	1.39	1.37
	Gross profit from Core operations per kgMS (real) ³	8.83	9.21	8.52
	Return on capital	6.8%	12.4%	8.0% – 9.0%
	Farmgate Milk Price (\$)	9.30	8.22	6.00 – 7.50 ⁴
Alignment Rights	Total shareholder return (share price plus dividend)	\$2.73 \$0.20	\$3.20 \$1.00 ⁵	Not Available
	On-farm profitability (\$ per hectare) ⁶	4,150	2,063	Not Available

1. No target set for FY24. Next survey in September 2023

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

3. Excludes the cost of milk

4. Latest announced FY24 Forecast Farmgate Milk Price range is \$6.00-\$7.50 per kgMS, with a mid-point of \$6.75 per kgMS (18 Aug 2023)

5. FY23 dividend includes 50 cent per share capital return following the sale of Soprole

6. DairyNZ Economic Survey 2021-2022 (Owner-Operator). FY23 is a modelled forecast

Glossary

Active living

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

Adjusted net debt

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

Attributable to equity holders of the Co-operative

is used to indicate that a measure or sub-total excludes amounts attributable to non-controlling interests.

Average capital employed

is a 13-month rolling average of capital employed.

Bulk liquids

means bulk raw milk that has not been processed and bulk separated cream.

Capital employed

is adjusted net debt less the cash adjustment (used in calculating adjusted net debt), plus cash and cash equivalents held by subsidiaries for working capital purposes, plus equity excluding hedge reserves and net deferred tax assets.

Capital expenditure

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

Capital invested

is capital expenditure plus right of use asset (i.e. leases) additions and business acquisitions, including equity contributions, long-term advances, and investments.

Cash operating expenses per kgMS

is continuing operations operating expenses, less non-cash costs (depreciation, amortisation, right of use asset costs, impairments). Shown by kilogram of New Zealand milk solids collected.

Glossary

Consumer

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

Continuing operations

means operations of the Group that are not discontinued operations.

Core Operations

represents core operating functions including New Zealand milk collection and processing operations and assets, supply chain, Group IT and Sustainability; Fonterra Farm Source™ retail stores; and the Strategy and Optimisation function.

Debt to EBITDA

is adjusted net debt divided by Total Group normalised earnings before interest, tax, depreciation and amortisation (Total Group normalised EBITDA) excluding share of profit/loss of equity accounted investees, net foreign exchange gains/losses and any normalised EBITDA relating to entities divested during the year.

Discontinued operations

means a component of the Group that is classified as held for sale (or has been sold) and represents, or is part of a single co-ordinated plan to dispose of, a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Earnings before interest and tax (EBIT)

is profit before net finance costs and tax.

Earnings per share (EPS)

is profit after tax attributable to equity holders of the Co-operative divided by the weighted average number of shares on issue for the period.

EBIT margin

is EBIT divided by revenue from sale of goods.

Eliminations

represents eliminations of inter-business unit sales.

Farmgate Milk Price

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

Glossary

Foodservice

represents the channel selling to businesses that cater for out-of-home consumption; restaurants, hotels, cafés, airports, catering companies etc. The focus is on customers such as; bakeries, cafés, Italian restaurants, and global quick-service restaurant chains. High performance dairy ingredients including whipping creams, mozzarella, cream cheese and butter sheets, are sold in alongside our business solutions under the Anchor Food Professionals brand.

Free cash flow

is the total of net cash flows from operating activities and net cash flows from investing activities.

Gearing ratio (%) (adjusted net debt)

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

Global markets

represents the Ingredients, Foodservice and Consumer channels outside of Greater China.

Greater China

represents the Ingredients, Foodservice and Consumer channels in Greater China.

Gross margin

is gross profit divided by revenue from sale of goods.

Gross profit from Core Operations per kgMS

is Core Operations business unit gross profit excluding Farm Source and the cost of New Zealand milk sold. Shown per kilogram of New Zealand milk solids sold by Core Operations.

Growth capital expenditure

is investments to drive business expansion or improvement toward our strategy and generate incremental revenue. This includes organic growth (existing business projects) and inorganic growth (mergers and acquisitions).

Ingredients

represents the channel comprising bulk and specialty dairy products such as milk powders, dairy fats, cheese and proteins manufactured in New Zealand, Australia and Europe, or sourced through our global network, and sold to food producers and distributors.

kgMS

means kilograms of milk solids, the measure of the amount of fat and protein in the milk supplied to Fonterra.

Net debt

means adjusted net debt.

Glossary

Net working capital

is total trade and other receivables plus inventories, less trade and other payables. It excludes amounts owing to suppliers and employee entitlements.

Non-Reference Products

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

Normalisation adjustments

means adjustments made for certain transactions that meet the requirements of the Group's Normalisation Policy. These transactions are typically unusual in size and nature. Normalisation adjustments are made to assist users in forming a view of the underlying performance of the business. Normalisation adjustments are set out in the Non-GAAP Measures section. Normalised is used to indicate that a measure or subtotal has been adjusted for the impacts of normalisation adjustments. E.g. 'Normalised EBIT'.

Price relativities

refers to the difference in the weighted average price (in USD) between the Co-op's Reference Product portfolio and Non-reference Product portfolio. The difference between these two weighted average prices is a key driver of the Co-op's gross margin.

Product channel

Fonterra has three product channels, Ingredients, Foodservice and Consumer.

Profit after tax margin

is profit after tax attributable to equity holders of the Co-operative, divided by revenue from sale of goods.

Reference Commodity Products (or Reference products)

is commodity specifications of the five Reference Commodity Products (RCPs) which are Whole Milk Powder (WMP) and Skim Milk Powder (SMP), and their by-products Butter, Anhydrous Milk Fat (AMF) and Buttermilk Powder (BMP). These commodity groups are included in the calculation of the Farmgate Milk Price.

Return on Capital (ROC)

means for Fonterra it is Total Group normalised EBIT including finance income on long-term advances less a notional tax charge, divided by average capital employed.

Season

New Zealand: A period of 12 months from 1 June to 31 May.
Australia: A period of 12 months from 1 July to 30 June.



Glossary

Sustaining capital expenditure

represents investments to maintain the capability of our existing assets from risk management, legislation/regulation commitments, business continuity and capital replacement, as well as projects that drive the Co-operative sustainability targets.

Total Group

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

Total payout

means the total cash payment per milk solid that is backed by a share, being the sum of the Farmgate Milk Price per kgMS and the dividend per share.

Total Shareholder Return (TSR)

is the measure of share price movements and all economic distributions (e.g. dividends, capital returns) over a specified period of time, divided by the original investment amount. Expressed as an annualised percentage.

WACC

means weighted average cost of capital.

Working capital days

is calculated as 13-month rolling average working capital divided by revenue from the sale of goods (excluding impact of derivative financial instruments) multiplied by the number of days in the period. The working capital days calculation excludes other receivables, prepayments, other payables and includes working capital classified as held for sale.

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This presentation may contain forward-looking statements, financial targets and ambitions (“Forward Statements”), each of which is based on a range of assumptions, including (in the case of our 2030 strategy) the assumptions noted in the Appendix of the booklet titled Our Path to 2030 which is available on our website. None of the Forward Statements is intended as a forecast, estimate or projection of the outcome that will, or is likely to, eventuate. They should not be taken as forecasts or a guarantee of returns to shareholders.

There can be no certainty of outcome in relation to the matters to which the Forward Statements relate. Our ability to achieve the outcomes described in the Forward Statements is subject to a number of assumptions, each of which could cause the actual outcomes to be materially different from the events or results expressed or implied by such Forward Statements.

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

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



Non-GAAP Measures

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Please refer to the non-GAAP measures section in Fonterra's 2023 Annual Review for reconciliation of NZ IFRS to non-GAAP measures, and the Glossary for definitions of non-GAAP measures referred to by Fonterra.

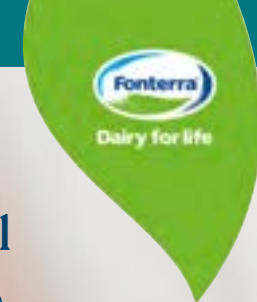


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Annual Results 2023

September 2023





Key outcomes

Return on capital

12.4%

↑ from 6.8%

Profit after tax

\$1.6_b

↑ from \$583m

Earnings per share

95_c

↑ from 36c

Cash operating expenses per kgMS

\$1.39

↑ 3.7%

Gross profit from Core Operations per kgMS

\$9.21

↑ 4.3%



\$9.22

\$0.50

\$0.50

\$8.22

Total Cash Return

Capital Return

Dividend

↑ from \$0.20

Farmgate Milk Price

↓ from \$9.30

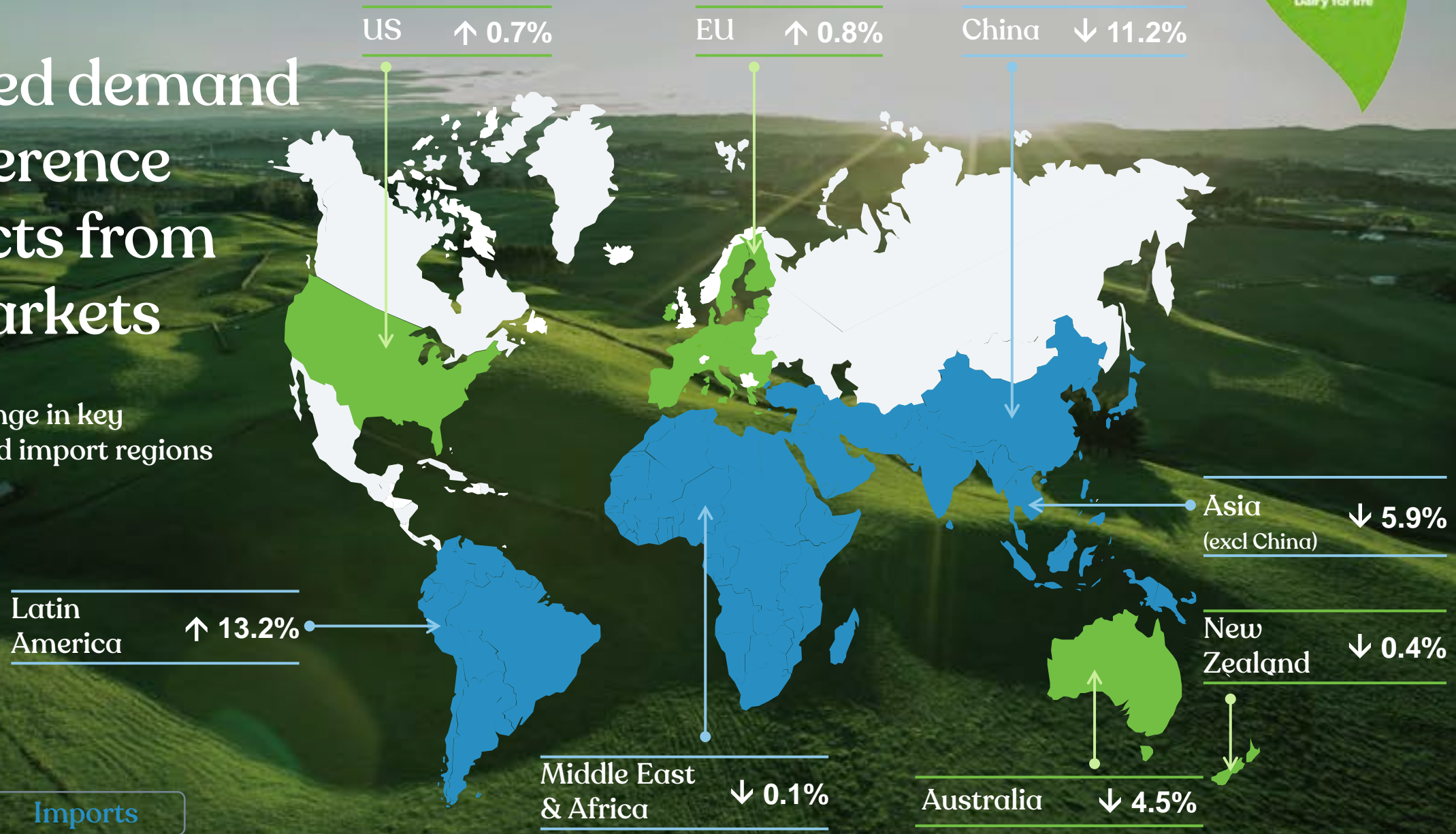
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Reduced demand for reference products from key markets

12-month change in key production and import regions

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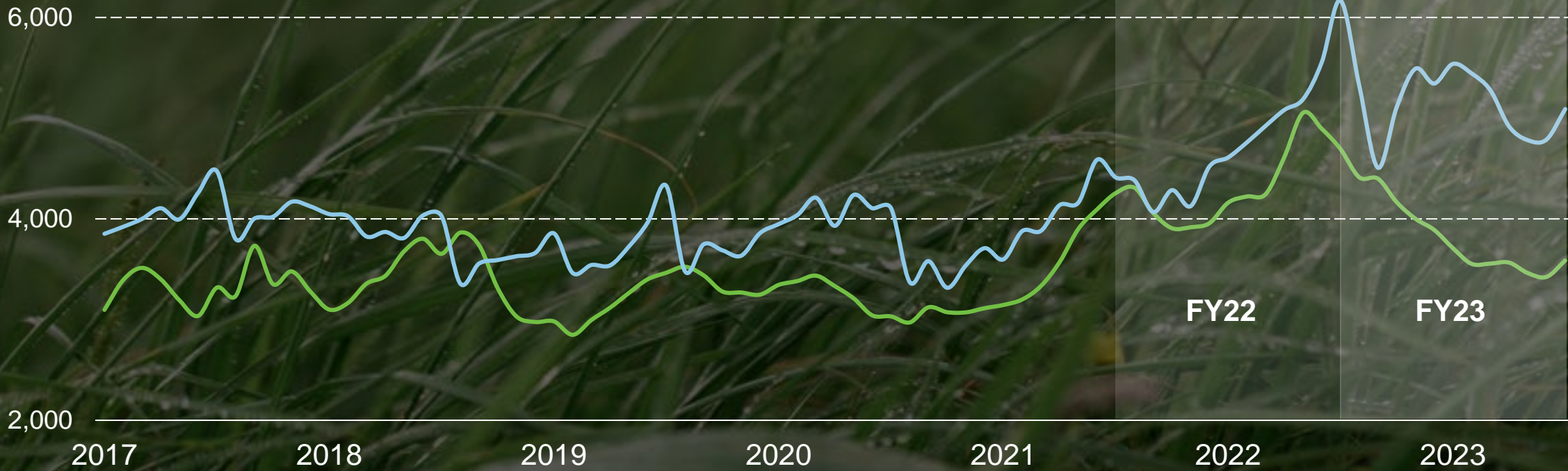
Production Imports



Higher price relativities continue

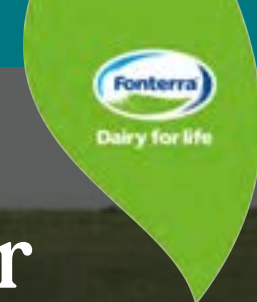
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(US\$/MT)



— Reference product shipment price

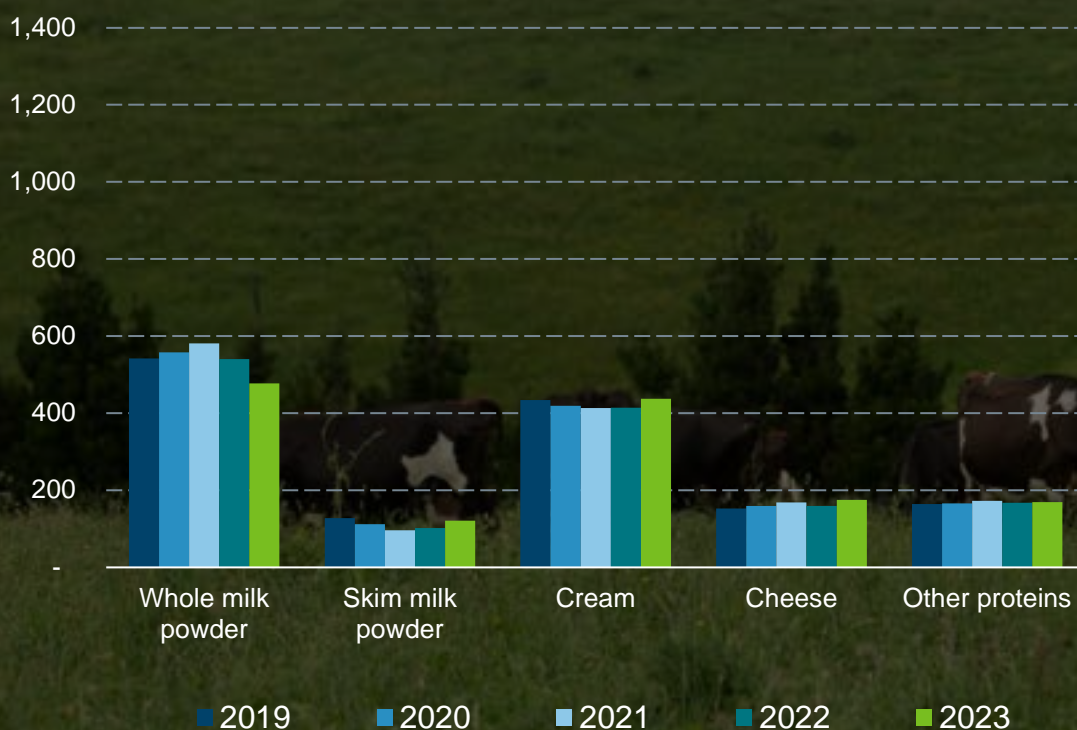
— Non-reference product shipment price



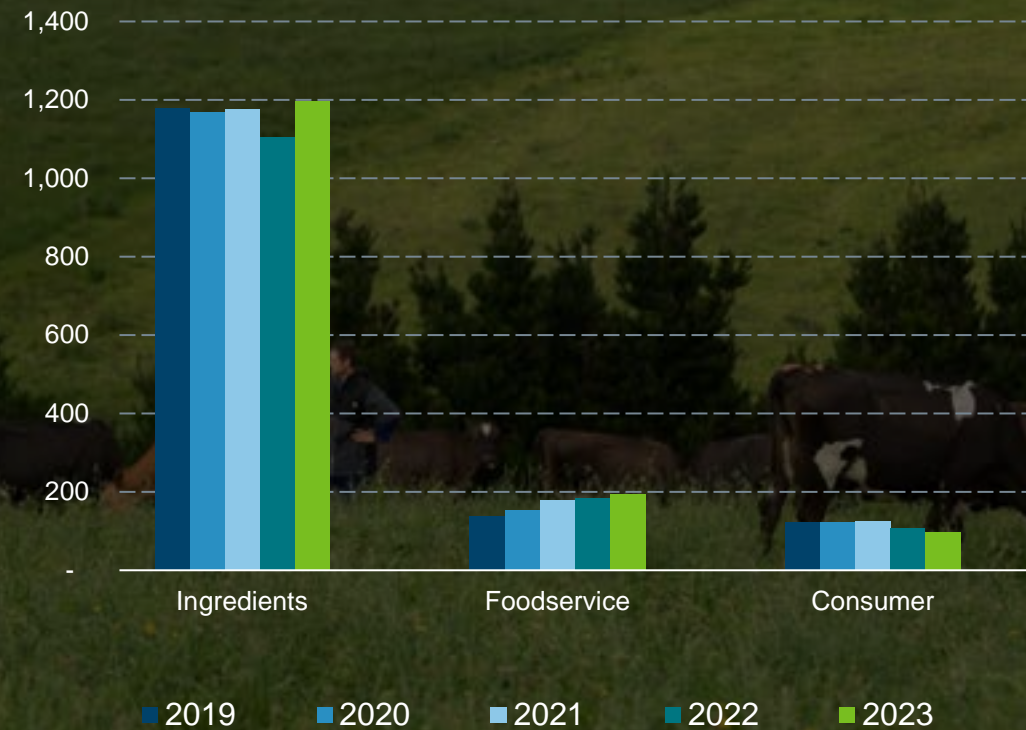
Continue to reduce allocation to whole milk powder with modest increase in Foodservice channel sales

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Fonterra New Zealand production (million kgMS)



Sales by product channel (million kgMS)





Diversified across markets and products

	Core Operations	Global Markets	Greater China	Total
Profit after tax contribution from continuing operations				
Ingredients	\$602m \$459m ↑	\$429m \$114m ↑	\$133m \$13m ↑	\$1,164m \$586m ↑
Foodservice	\$(12)m \$72m ↑	\$50m \$53m ↑	\$203m \$46m ↑	\$241m \$171m ↑
Consumer	\$(18)m \$1m ↑	\$(94)m \$90m ↓	\$(52)m \$48m ↓	\$(164)m \$137m ↓
Total	\$572m \$532m ↑	\$385m \$77m ↑	\$284m \$11m ↑	\$1,241m \$620m ↑

only

Fonterra



Ingredients return on capital reflects protein and cheese performance

Return on capital

Ingredients

16.4%

↑ from 9.0%

Foodservice

15.7%

↑ from 5.5%

Consumer

(4.6)%

↓ from (0.4)%

Total 12.4%

↑ From 6.8%

For peers only



Lower prices key driver of change in 2023

Farmgate Milk Price

(\$/kgMS)



21/22 season
Farmgate
Milk Price

Volume

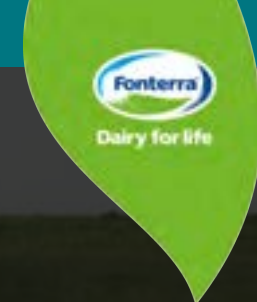
Prices

Foreign
exchange

Net costs

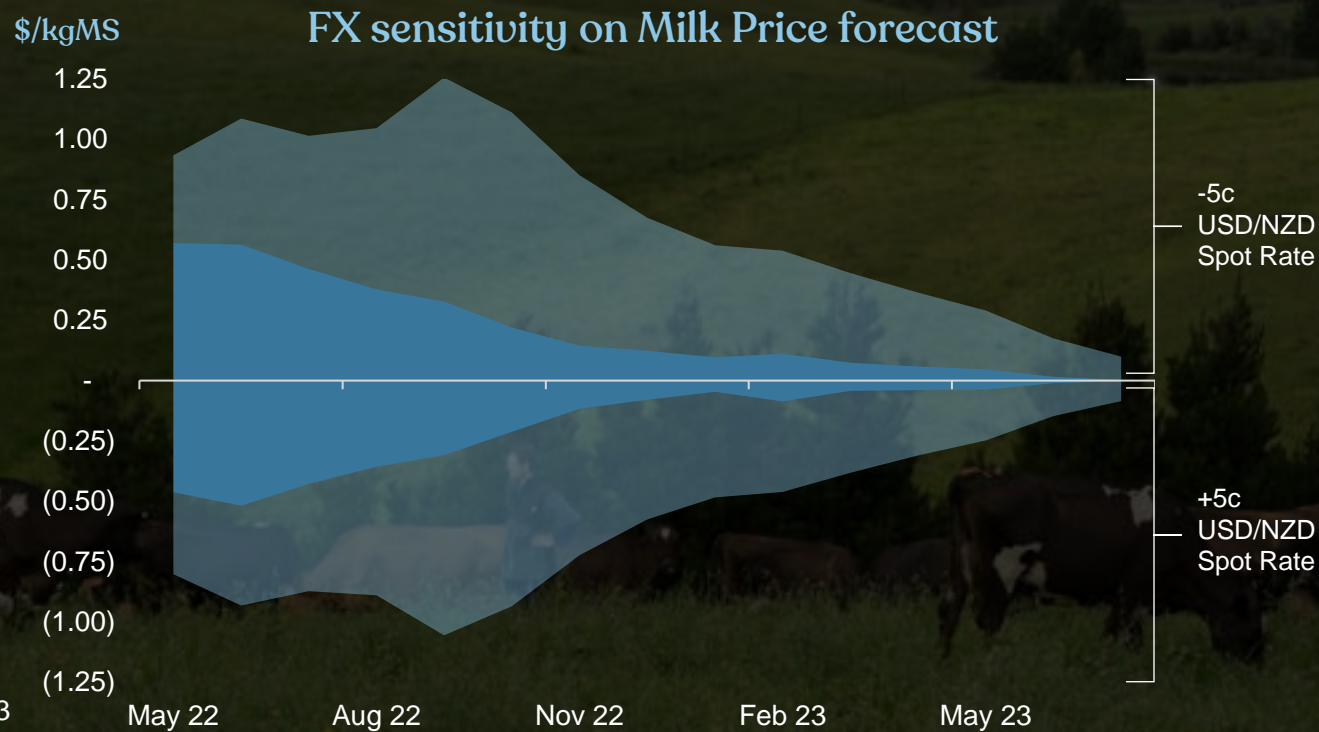
22/23 season
Farmgate
Milk Price

Personal use only

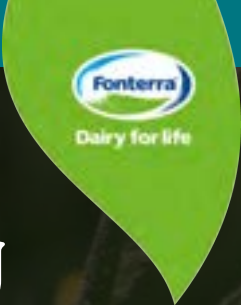


Foreign Exchange hedging increases certainty in forecast Milk Price throughout the season

Seasonal use only



■ Hedged ■ Unhedged



Resource Allocation Framework introduced driving disciplined allocation of resources for our stakeholders

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Sustain safe, productive operations

Collect and Process Milk

Sustaining Capital



Preliminary Cash Flow from Core Operations

Competition for milk

Ingredients

Foodservice

Consumer



Preliminary Cash Flow

Competition for cash

Debt

Dividends

Capital Returns

Growth Capital

Innovation

Share Buybacks



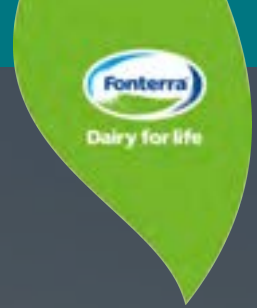
Reported Cash Flow

Outcomes for the Shareholder

Strong Balance Sheet

Total Shareholder Returns

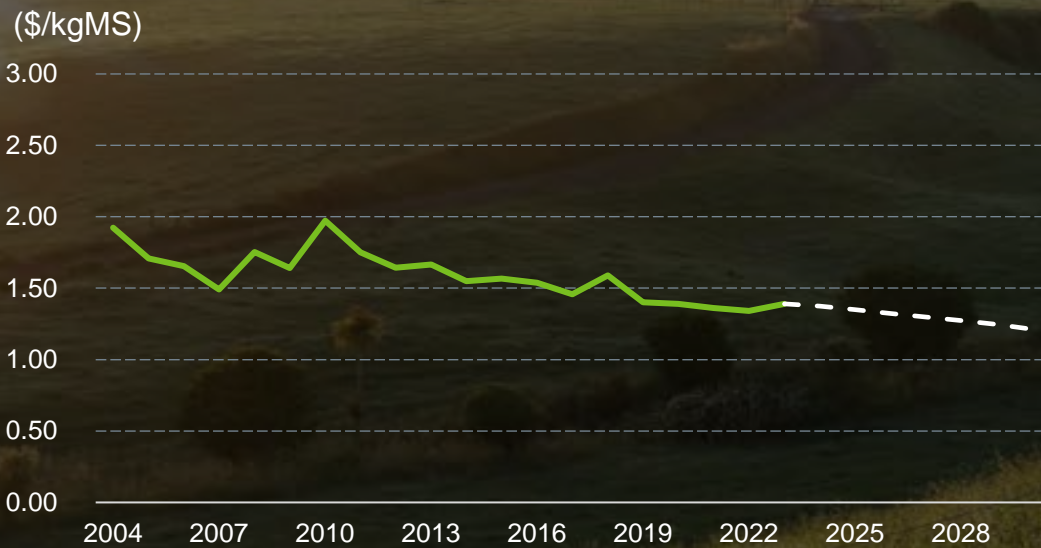
Farm Profitability



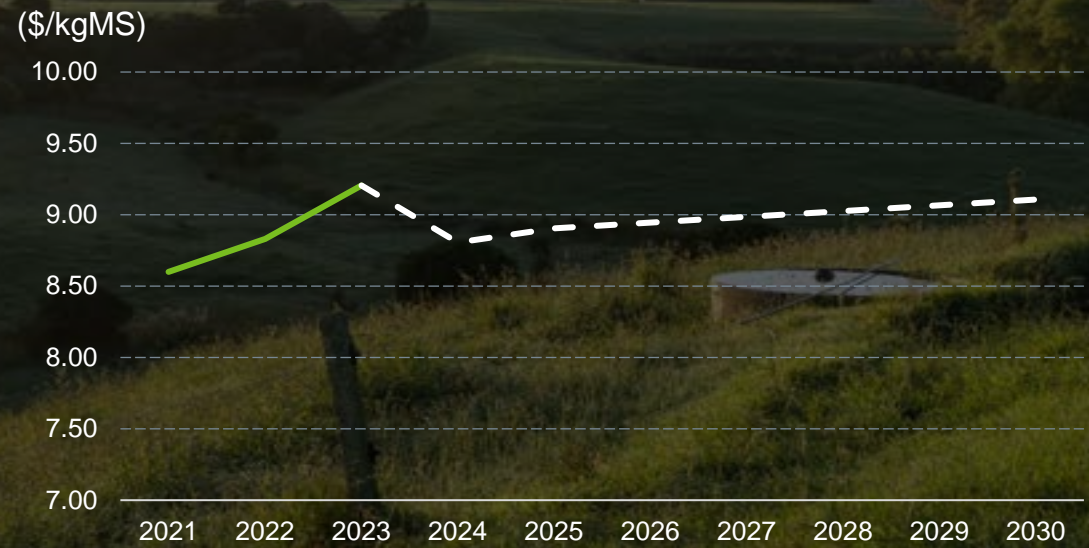
Two new efficiency metrics to assist long-term aspirations

Fonterra aspires to safely and sustainably remove ~\$1 billion from its cost base by 2030

Cash operating expenses per kgMS – targeting a 4% cash operating cost improvement every year

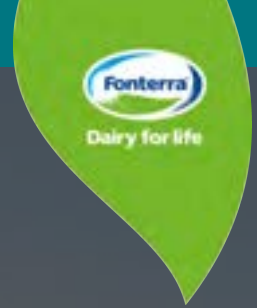


Gross profit from Core Operations per kgMS – targeting a 2% New Zealand operational cash cost improvement every year



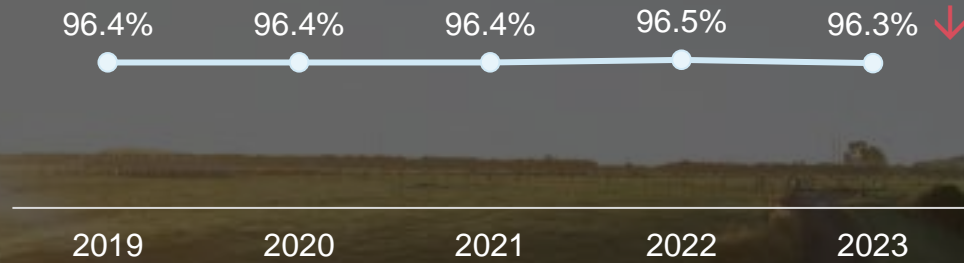
— Inflation Adjusted - - - Long-term Aspiration

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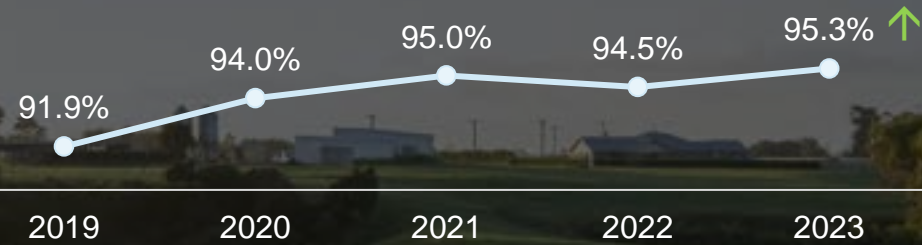


Asset reliability remains a focus

Milk Utilisation



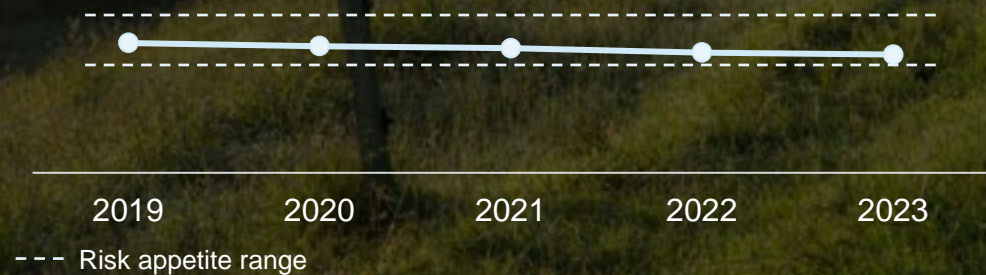
Product Made Right First Time



Cost of Quality



Asset Health

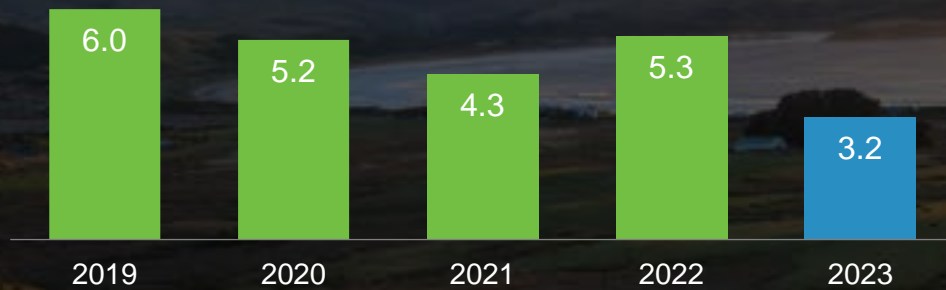


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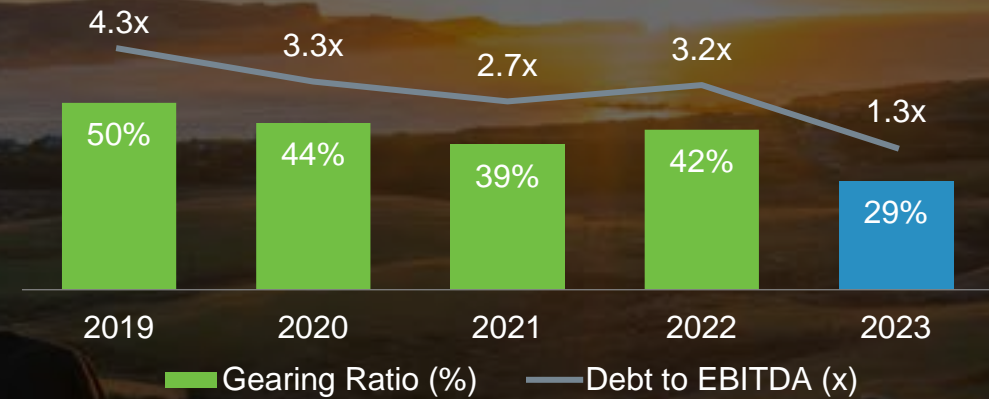


Balance sheet strengthened

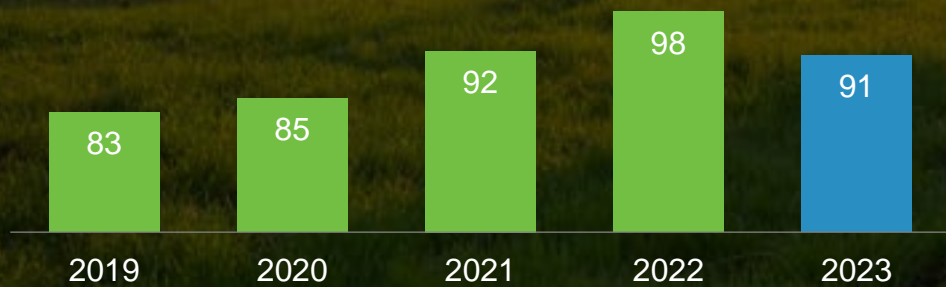
Net debt (\$ billion)



Leverage



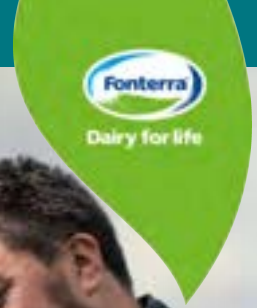
Working capital days⁸



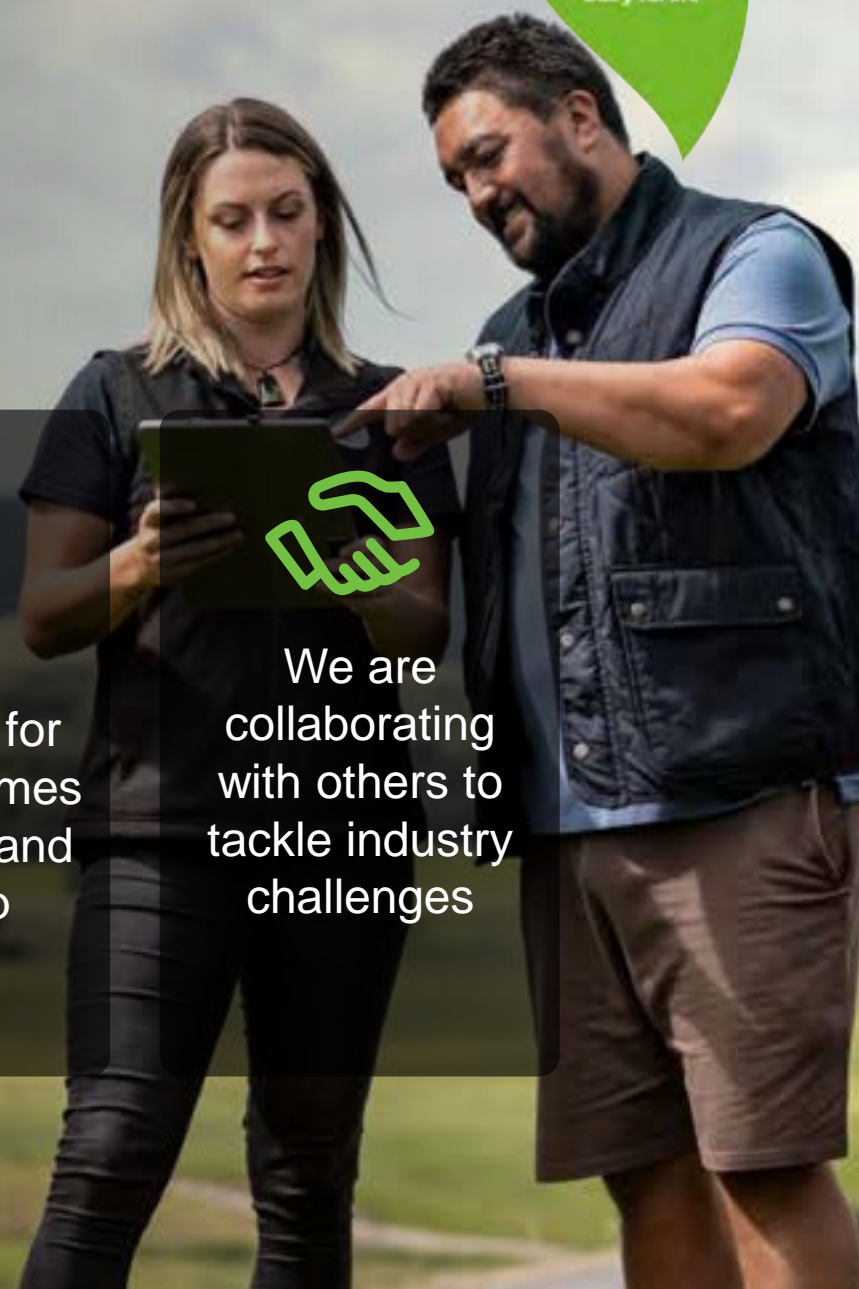
Credit rating

S&P Global Ratings	A-	Stable outlook
Fitch Ratings	A	Stable outlook

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Navigating challenges together



We have introduced new support roles alongside the tools and services we provide



We are leveraging our scale to create cost savings for farmers through Farm Source retail



We are improving our data and verification processes for farmers



We are advocating for better outcomes for farmers and the co-op



We are collaborating with others to tackle industry challenges



Maximising sustainable milk

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Working alongside you to get **more milk from the same or fewer inputs**



It's better for business

Your farm business and your Co-operative



It's better for the environment

We can reduce our emissions footprint, improve water quality and provide our animals with a good quality of life



It's better for our customers

And that helps us attract and retain customers



Farm profitability and share price

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Review of our Co-op's Board size and composition

Board size proposed to be reduced from 11 to 9 Directors

6

Farmer Elected
Directors

3

Appointed
Directors

Chairman still selected from
Farmer Elected Directors

- Current Board operating well, but size can be rationalised. Changes are future focused
- Smaller groups usually encourage:
 - Dissenting views
 - More meaningful sharing of perspectives
 - Faster, robust decision making
- 6:3 composition strikes a balance between a strong and diverse level of perspectives, skills and experiences, and manageable workloads
- Strong farmer majority is maintained
- Changes to be voted on at the 2023 Annual Meeting and would take effect after 2024 Annual Meeting



Forecast 2023/24 season Farmgate Milk Price

Forecastal use only

Forecast Farmgate Milk Price

\$6.00–\$7.50
per kgMS

The range reflects:

- Demand for imported powders into China are soft, but early in the season
- Indications demand for New Zealand powders will start to return early 2024

Reference Product Prices





2024 earnings outlook

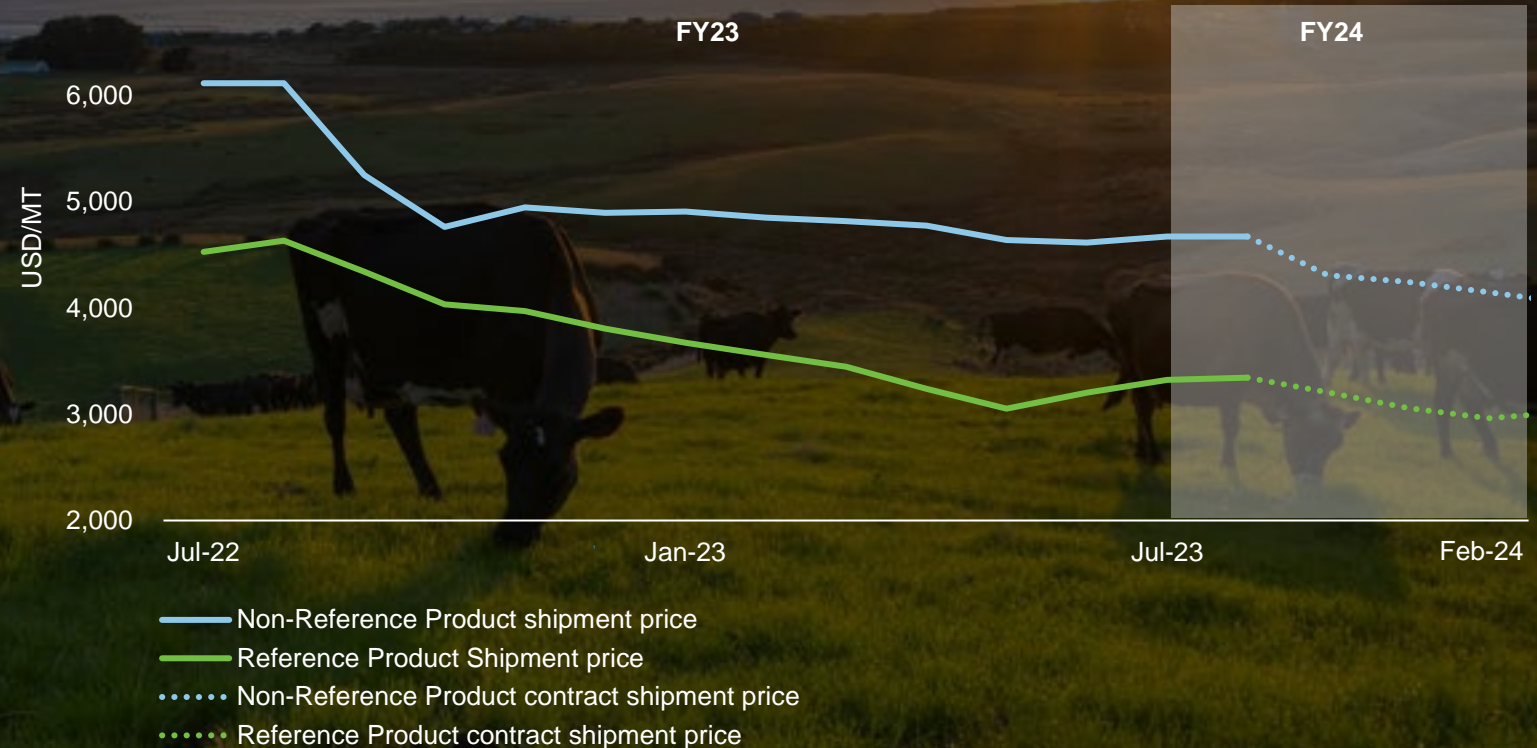
Forecast use only

Continuing operations
forecast earnings
45-60c
per share

The range reflects:

- Favourable Ingredients margins continue but lower than FY23
- Lower milk costs assisting improved margins in Foodservice and Consumer channels

Reference and Non-Reference Product Prices





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Q&A Session



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Fonterra Annual Review 2023

Arotake-ā-tau Te Mātāpuna



Michael (& COVER), William, Chris,
Bethanne, Peter & Margaret,
Southland

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Our three strategic choices are guiding everything we do

Focus on New Zealand milk

We believe New Zealand milk is the most valuable milk in the world. With demand for sustainable dairy nutrition growing at a pace that will outstrip supply, we are creating more value for our farmer owners and unit holders by further differentiating our milk in the global market.

Be a leader in sustainability

Globally, people want to know where their food comes from and the impact it leaves. New Zealand milk is amongst the most carbon-efficient in the world, produced by a proven pasture-based model and underpinned with strong animal wellbeing standards. By leading in sustainability, we can respond to changing demands from customers, capital providers and regulators.

Be a leader in dairy innovation & science

Our Co-op has a long and proud heritage of dairy innovation. We are building on this expertise by continuously developing new dairy nutrition solutions and partnerships which help people live healthier and longer lives.

Contents

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About this report

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

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

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

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OUR 2023 SUITE OF REPORTS

[Annual Review 2023](#)
(Referenced as AR)

[Financial Statements 2023](#)
(Referenced as FS)

[Business Performance Report 2023](#)
(Referenced as BP)

[Sustainability Report 2023](#)
(Referenced as SR)

[Governance & Statutory Disclosures 2023](#)
(Referenced as G&S)

[Modern Slavery Statement 2023](#)
(Referenced as MS)

[Farmgate Milk Price Statement 2023](#)
(Referenced as MP)

OUR REPORTS ARE AVAILABLE FROM FONTERRA.COM/NZ/EN/INVESTORS.HTML



About us

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We're a dairy co-operative, owned and supplied by farming families across Aotearoa, New Zealand. Through the spirit of co-operation and a can-do attitude, Fonterra's farmers, along with almost 18,000 employees around the world, share the goodness of our milk through innovative consumer, foodservice and ingredient brands.

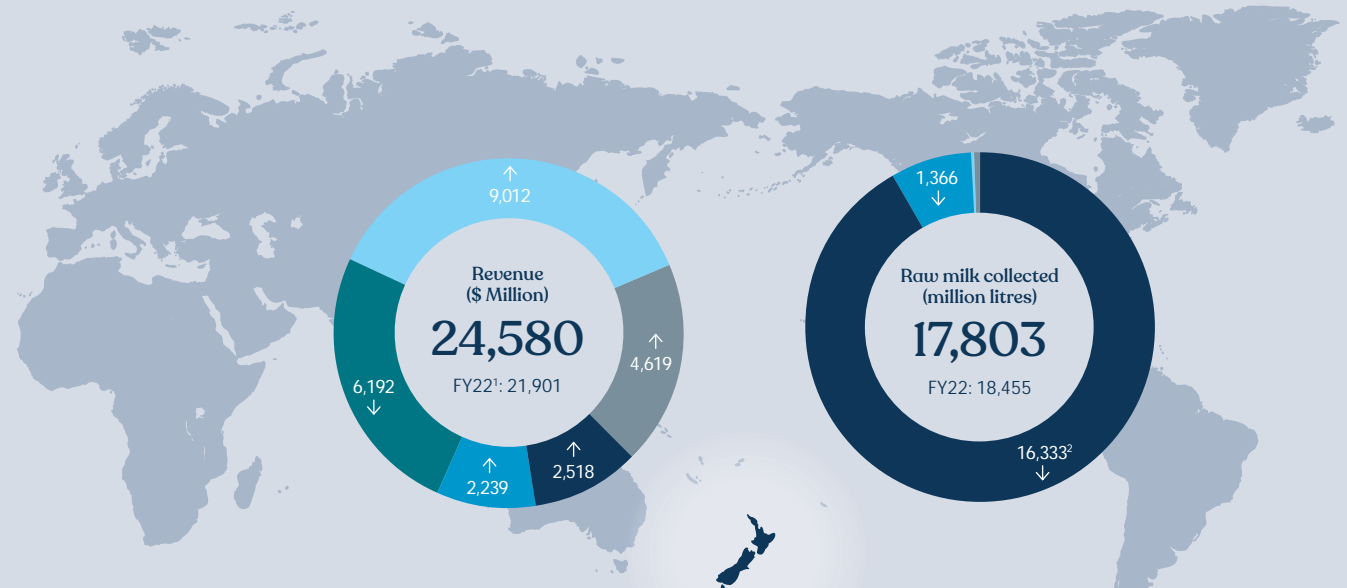
We believe that food and nutrition are essential to sustain us today and for future generations to thrive.

This is why we take great care with every drop of milk, from the beginning, through every step of the way. It's our dedication and care that enables us to produce safe and high-quality food, and our dairy know-how and innovation capability mean we can do amazing things with our milk to enhance people's lives.

Our farmers farm naturally and because of this, we are proud to have one of the lowest on-farm carbon footprints in the world.

We want to be the most emissions efficient and environmentally sustainable dairy co-op. To do this we are reducing our footprint, restoring nature, and adopting a regenerative mindset.

Our portfolio of well-known brands includes Anchor, Annum, Anlene, Nutiani, NZMP and Farm Source.



- New Zealand
- Australia
- China
- Rest of Asia Pacific
- Rest of World



1 FY22 has been re-presented due to the Soprole business being moved to held for sale and classified as discontinued operations (and subsequently sold).
 2 Amount collected during FY23 (which differs to the 16,317 million litres collected during the 2022/23 season ended 31 May 2023).

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Letter from Chair of Board



Peter McBride
– Chair

Kia ora,
Miles and the team have delivered a third consecutive year of strong performance overall, despite facing into difficult market conditions in a number of regions.



The team can be proud of delivering a reported profit after tax of \$1.58 billion, equivalent to 95 cents per share and up 170% on last year.

We faced real challenges on-farm in New Zealand this year, as extreme weather events took a toll on our communities. In February, Cyclone Gabrielle hit the North Island with Northland, Coromandel, the Hawke's Bay and Gisborne among the hardest hit.

In the Hawke's Bay and Gisborne some communities were cut off and isolated. The Co-op accessed these areas via helicopter to assess the damage, understand farmers' needs and provide provisional supplies and veterinary support. Many suffered losses to their property, had to manage animal welfare issues and support the wellbeing of their families and neighbours.

As a Co-op, we look after each other when it comes to natural disasters like this. The Co-op helps farmers to manage these types of risk through what is known as a Force Majeure event. In accordance with the Terms of Supply, where farmers where we had to instruct a farmer to dispose of milk or dry off, appropriate compensation for these farmers was made.

Volatile milk price environment

For share aligned farmers this strong earnings performance is helpful in the context of a declining Farmgate Milk Price.

Our final milk price for the 2022/23 season was \$8.22 per kgMS down from the high forecast midpoint of \$9.50 in June 2022. The reduction is due to lower than anticipated demand for imported products, particularly from China, which contributed to the Global Dairy Trade prices dropping, with the average whole milk powder price down 16% compared to last season.

The impact would have been greater, if not for the team's efforts to utilize the scale of the Co-op and shift milk into the products and places that were delivering the most value at the time.

Strong performance underpinned by non-reference products

While on the one hand our milk price was negatively impacted by market forces, on the other our earnings did benefit from favourable market conditions, including strong margins in our Ingredients channel, in particular the cheese and protein portfolios.

There are two other key performance metrics the Board is particularly pleased with this year:

- Return on Capital for the last 12 months is 12.4%, up from 6.8% in the comparable period.
- We have also exceeded our performance target for the Co-op's balance sheet strength, with the gearing ratio at 28.8% and debt to EBITDA at 1.3x, even after adjusting for the impact of the Capital Return.

Full year dividend at the maximum end of our policy

In acknowledgement of the declining milk price environment and the impact that has on farmers, the Board has made the decision to pay a final dividend slightly above our dividend policy.

We are pleased to deliver a strong full year dividend of 50 cents per share and unit – comprising of an interim dividend of 10 cents per share and a final dividend of 40 cents per share.

This is in addition to the 50 cents per share capital return paid to shareholders and unit holders in August, following the divestment of Soprole.

This brings the total cash return for a fully share-backed farmer to \$9.22 per kgMS for the 2022/23 season.

The Board believes it is the right time to review its size & composition.

Flexible shareholding

Our Flexible Shareholding capital structure has been in place since late March. It's generally working as expected and we are comfortable with the liquidity in the market.

Following the transition to the Flexible Shareholding structure Fonterra implemented market maker arrangements to support liquidity in the Farmer Shareholders' Market. We also have the ability to buy back shares as part of our ongoing capital management programme, where we see it as value accretive to the Co-op.

Our share price has come down. This was anticipated and well-signalled before shareholders voted to support the changes to our capital structure. There has also been a share price impact as a result of the recent capital return. Over time we expect that the price will reflect the Co-op's financial performance, and the value farmers see in that. Ultimately farmers will determine the value of the shares.

Flexible Shareholding is the right capital structure for our Co-op. By making it easier for farmers to join or stay with the Co-op, it will help us to maintain a sustainable milk supply.

Reviewing our Board size and composition:

Since the Co-op's formation it has been envisaged that the Board size would be rationalised over time. With the Capital Structure review, asset divestment programme and long-term strategy development largely behind us, the Board believes it is the right time to review its size and composition.

We have shared our initial thinking from that review, which we are discussing with farmers and shareholders in advance of this year's Annual Meeting – at which we plan to seek endorsement for the changes via a vote.

Having now been part of the Co-op's Board for five years, the last three as Chair, I'm confident that reducing the size of our Board will improve the dynamics within the group, encouraging greater participation from directors, and maintaining access to the necessary skills and experience to govern the Co-op into the future.

Our current thinking is to reduce the number of directors on the Board from 11 down to nine. The balance between Farmer Elected and Appointed Directors would be maintained, with a composition of six Farmer Elected Directors and three Appointed Directors. As is the case today, the Chairman would be one of the Farmer Elected Directors.

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Delivering our strategy

We remain confident in delivering our long-term strategic targets and plan to provide shareholders and unit holders with a strategic update in early 2024.

Prior to that we will be confirming our Scope 3 target, which Miles and I signalled at last year's Annual Meeting.

Being a leader in sustainability is a fundamental part of our strategy. Introducing a Scope 3 target is a critical step for us when we consider our global competitive landscape, international market access, funding sources, and continued partnerships with customers.

We need to set a target that is meaningful and brings us into line with our international competitors – many of which have already set targets.

We know that the rate of change farmers are being asked to live with is already challenging. Good progress towards the target can already be made using the tools and information available to us today. The Co-op will support farmers to meet this target through the sharing of best practice and innovation. Our methodology will continue to evolve alongside the science that supports these changes. We will work with you, not against you.

We need to set a target that is meaningful and brings us into line with our international competitors – many of which have already set a target.

Outlook for the year ahead and beyond

Looking out to the end of the current season and new financial year it is clear that we will face a challenging operating environment – for our individual farming businesses and for our Co-op.

We know that the 2023/24 forecast Farmgate Milk Price range is below breakeven for many of our farmers. The Co-op is entirely focused on performance and, as you will be on farm, reducing its costs to offset the impact of inflation over the coming years.

Dairy is a long-term game and as an exporter, we need to accept that we are impacted by demand and supply dynamics, commodity prices and geopolitical events. The Co-op does its best to try and smooth the edges and optimise value, but there will always be volatility.

Right now, the Co-op is well-positioned to recover from this part of the cycle. Our strong balance sheet gives us options to consider how we create more value. It also benefits all farmers, as we know that the banks assess our individual farming business risks together with Fonterra's balance sheet and performance when considering their overall exposure to the sector.

Ultimately, strong performance is the best way we can support our farmers through this difficult period. That remains our focus for the year ahead.



Peter McBride
Chair of Board



Full year dividend

50c
per share and unit

Total cash return

\$9.22
per share backed kgMS

Letter from CEO

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Miles Hurrell
– Chief Executive Officer

Kia ora,
I'm proud to have led
a dedicated team who have
delivered a strong result for
your Co-op.

Our reported profit after tax is \$1.6 billion, up 170% on last year, and our return on capital is 12.4%, up from 6.8%.

This has put us in the position to pay a full year dividend of 50 cents per share, including the interim dividend of 10 cents per share.

Throughout FY23 we also made progress on several key strategic initiatives. We implemented our new Flexible Shareholding capital structure, completed divestment of our China Farms business and Chilean business, Soprole, and launched our new corporate ventures arm, provisionally named Nutrition Science Solutions.

As a result of the successful divestment of Soprole, we were able to return tax-free 50 cents per share to shareholders and unit holders.

These milestones were several years in the making and I'm proud the team has delivered upon the commitments we made to our shareholders.

I also acknowledge that these achievements have been against a backdrop of a falling Farmgate Milk Price across the season.

We work hard every day to maximise total shareholder returns. We ended the 2022/23 season with a final Farmgate Milk Price of \$8.22 per kgMS. When combined with our strong dividend and capital return, our total cash return to farmer shareholders was \$9.22 per share backed kgMS.

Strong earnings performance

FY23 was a volatile year for global economies and commodity markets as the world continued to recover from COVID-19.

There was strong demand for protein products, in particular cheese and caseinates, at the same time as demand for milk powders softened. This resulted in historic high price relativities across the year.

We captured the high protein prices in our Ingredients channel, and these have been a strong driver of our earnings performance for the year.

To optimise our Farmgate Milk Price, we moved milk into higher performing reference product categories, such as skim milk powder and cream, where possible.

However, we were required to reduce the forecast Farmgate Milk Price across the season as demand for whole milk powder from key importing regions, in particular China, continued to soften.

We recognised the impact the reduced forecast Farmgate Milk Price has on farm profitability, particularly at a time when farmers are facing higher input costs, and utilised our strong balance sheet to favourably adjust the Advance Rate Schedule, which meant that we were able to get cash to farmers sooner.

Progress on strategy

Despite economic headwinds, we've made good progress on strategic initiatives this year that will help to set us up for the future.

A sustainable supply of New Zealand milk is fundamental to the future prosperity of the Co-op, so that we can maintain efficient operations and continue to meet customer demand for New Zealand milk at scale.

Our new Flexible Shareholding capital structure, which was implemented in March, supports a sustainable milk supply and stable balance sheet by making it easier for farmers to join and remain with the Co-op.

One of the benefits of being part of the Co-op is having access to the advice and services provided through Farm Source.

The team is working alongside farmers to provide tools that support more efficient farming businesses and help to meet the changing needs of both regulators and our customers.

An important focus for the team right now is introducing a Scope 3, or on-farm emissions intensity target, which we will announce before the end of calendar year 2023.

Achieving the target will be a collective effort, with incremental efficiency gains enabled by the tools made available by the Co-op and wider industry partners.

We've made a strategic choice to be a leader in dairy innovation and science, with innovation expected to play an important role in achieving the target by reducing methane production on-farm. We are working with partners to invest in potential solutions.

Looking to the future, our innovation portfolio of activity is also exploring potential new revenue streams for the Co-op that utilise either our milk or our expertise.

This year, we've established Vivici, our joint venture with Royal DSM, which is exploring commercial opportunities in fermentation derived ingredients.

These ingredients could be used to extend our farmers' milk into products, categories, and markets which we do not currently sell into, as well as earn the Co-op a return on the commercialisation of our IP.

We've also launched our corporate ventures arm, Nutrition Science Solution (NSS), which made its first strategic investment in the form of a minority stake in Pendulum Inc, a biotech company specialising in metabolic health.

NSS is a long-term play for the Co-op, that will seek to partner with and invest in global start-ups in the nutrition science category.

Driving efficiencies across the Co-op

When pursuing these opportunities, we're assessing them against other investment opportunities for our farmers' capital.

Our new resource allocation framework demonstrates how we think about delivering value. It shows how we aim to allocate farmers' milk to the products and channels where we believe it will earn the highest risk-adjusted returns.

The priority use of the Co-op's capital is maintaining safe, productive operations. With any capital remaining, we assess the opportunities available to us and use it either to pay down debt, for dividends, capital returns, share buybacks, or for growth opportunities including innovation.

It is as part of this approach to capital management that we have allocated up to \$50 million to an on-market share buyback programme, which commenced in August 2023.

We're also taking a close look at our operating expenses to assist us to stay on track for our short and long-term financial targets.

We have announced a goal of reducing costs across the Co-op by about \$1 billion over the 7 years to 2030. This goal will help offset higher inflation expectations and we intend to achieve it through a range of projects that will streamline how we operate.

To track our progress, we have introduced two new efficiency metrics which we'll report against every six months.

These are:

1. Opex per kgMS – targeting a 4% cash operating cost improvement per year to support long-term discipline in our global overheads.
2. Gross profit per kgMS – targeting a 2% New Zealand cash manufacturing cost improvement every year to support efficient New Zealand operations while remaining laser focused on delivering value.

Outlook for FY24 and beyond

Looking at FY24, ongoing reduced demand for whole milk powder from key importing regions continues to impact the outlook for our Farmgate Milk Price, with our 2023/24 forecast range currently \$6.00 - \$7.50 per kgMS, with a midpoint of \$6.75.

We are watching market dynamics closely and there are indications demand for New Zealand milk powders will start to return from early 2024. Demand for other products, including Foodservice and our value-added Ingredients, continues to be robust.

The favourable price relativities that we've experienced across FY23 have reduced from their peaks. But we are forecasting improvement in our Consumer and Foodservice channels as our markets capture improved margins.

As such, our FY24 forecast earnings range for continuing operations is 45-60 cents per share.

We acknowledge that across the year, farmers will continue to feel the pressure from high input costs and a reduced Farmgate Milk Price. We'll continue to do all that we can to assist farmers through this challenging period.

Over the medium to long-term, the outlook for New Zealand dairy remains positive. Demand for sustainable nutrition is continuing to grow and by implementing our strategic plans we are well positioned to meet this demand.

We're also accelerating plans to extract more value from our farmers milk by refining our innovation portfolio and investing in new areas for growth.

I intend to provide an update on our long-term strategy early in calendar year 2024, which will further detail our market context and plans to 2030 and beyond.



Miles Hurrell
Chief Executive Officer

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Our purpose, values & goals

Our Purpose

Our Co-operative,
Empowering people,
To create goodness,
for generations.

You, me, us together,
Tātou, tātou

Our Values

Co-operative spirit

Do what's right

Make it happen

Challenge
boundaries

Our Principles

Our principles are
aligned with the Māori
world view.

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

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

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

We've made key strategic choices



Focus on Aotearoa
New Zealand Milk



Be a leader in
dairy Innovation
& Science



Be a leader in
Sustainability

Key aspirations for 2030

Group ROC

~9-10%

Operating Profit

40-50%
increase from FY21

50%

absolute reduction in
Scope 1&2 emissions by 2030,
from 2018 baseline

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The resources we rely on

People & Culture



- Approximately 18,000 skilled and motivated employees led by a board and management team with diverse skills and experience
- 20,000+ dedicated farmers and farm workers
- Thousands more people in our supply chain

Nature



- 4 million milking cows grazing on 1.5 million hectares of pastoral land
- Some fertiliser, irrigated water and supplementary animal nutrition
- Energy (27.5PJ) and freshwater (48.7 million cubic metres) for our manufacturing sites

Relationships



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

Intellectual Capital



- Our know-how, systems and intellectual property
- Our strong global brands
- 232 granted patents across 25 families of patents

Assets & Infrastructure

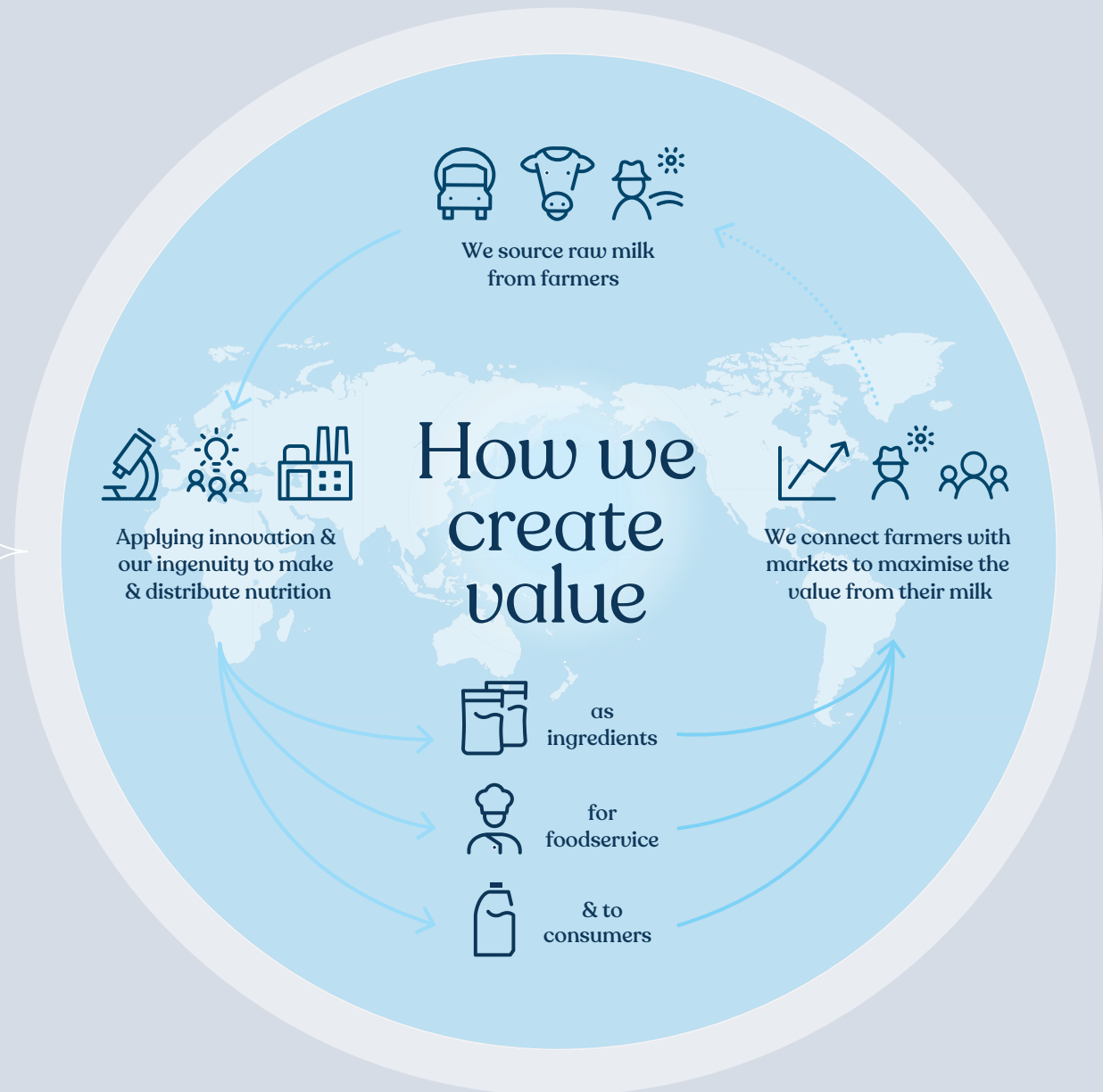


- Our portfolio of property, plant and equipment including right-of-use assets (\$6,343 million total net book value)
- 500+ milk collection tankers
- 45 manufacturing sites

Financial



- A strong financial base, capital from our farmer shareholders, unit holders and debt (\$12,774 million average capital employed)



Creating value for stakeholders

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Farmers

We create value by

- Delivering a strong total payout ([AR-22](#))
- Reliably collecting their perishable product and providing efficient access to valuable international markets ([AR-04](#))
- Adding value to their milk through innovation and a flexible product portfolio ([AR-46](#))
- Providing resilience to operating volatilities such as price, energy, foreign exchange rates and ocean freight ([BP-34 & 29](#))
- Providing access to technology and services that help meet regulatory requirements and continue to improve farming practices ([AR-32](#))

How we engage

- On an ongoing basis led by our locally based Farm Source support teams across New Zealand
- At meetings and roadshows, and through our formal governance processes



Kathryn,
Taranaki

Customers & consumers

We create value by

- Delivering nutrition products that are high-quality, low carbon and responsibly produced ([SR-20](#))
- Providing access to nutrition products that include healthier options and linked to sustainable credentials ([SR-22](#))
- Using responsible procurement to influence our supply chain ([SR-68](#))
- Responding quickly to changing needs and customer demand for innovative new products and ingredients ([AR-48](#))

How we engage

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



Kiri & Te Kaihou,
Bay of Plenty

Employees

We create value by

- Providing a safe workplace ([SR-17](#))
- Supporting health and wellbeing ([SR-16](#))
- Providing good learning and development opportunities ([SR-12](#))
- Building an inclusive culture where everyone contributes and feels supported ([SR-11](#))

How we engage

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



Lisa,
Canterbury

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Society

We create value by

- Complying with regulatory requirements, including food safety, marketing and environmental (SR-26)
- Reducing our environmental footprint including GHG emissions, water consumption and waste (SR-27)
- Contributing to the development of policy and responding to crises (AR-18)
- Collaborating with industry partners to achieve international commitments Ref. (SR-59)
- Taking a responsible approach to tax (SR-66)
- Supporting international relations through our presence in global markets (AR-47 & 48)

How we engage

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

Investors

We create value by

- Providing sustainable returns via dividends and interest paid (AR-22)
- Reducing investment risk through transparency and independent assessment (SR-67)
- Providing opportunities to invest in New Zealand dairy nutrition through the [Fonterra Shareholders' Fund](#)

How we engage

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

Local communities

We create value by

- Providing direct rural and urban employment (SR-83)
- Reducing our environmental footprint (SR-27)
- Supporting communities through natural disasters and crises such as floods (AR-18)
- Providing access to nutrition through in-school nutrition and food bank donations (AR-17)
- Strengthening and enhancing our relationships with tangata whenua (SR-15)

How we engage

- With interested groups, such as NGOs, through collaboration and consultation on specific topics
- On an ongoing basis with iwi around Aotearoa New Zealand
- Through public events, the media and our own social media channels
- Through our Community programmes, such as Hapori, Kickstart Breakfast, Feeding NZ Communities and supporting the Rural Support Trust



Fonterra Application Centre, Shenzhen



Annabelle & Rajiv, Auckland



KickStart Breakfast

Our year in review

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August

Fonterra and Royal DSM establish new start-up company, Vivici, to accelerate development and commercialisation of fermentation-derived proteins with dairy-like properties.

We take another step on our low carbon transition with our Waitoa site in the Waikato planning to install a 30 megawatt wood biomass boiler to replace a coal boiler. We also announce the closure of our small and ageing Brightwater site near Nelson.

October

The Co-operative releases its Sustainable Finance Framework. This Framework aligns Fonterra's funding strategy with its sustainability ambitions and reflects the evolving preferences of lenders and debt investors in this area.



December

Fonterra and Nestlé agree to sell their Dairy Partners Americas (DPA) Brazil joint venture to French dairy company Lactalis.



February

Fonterra and MAN Energy Solutions (MAN ES) enter a strategic partnership to reduce CO₂ emissions in dairy production using climate-friendly heat pump technology for steam generation.



April

We revise our 2022/23 season forecast Farmgate Milk Price range from \$8.20-\$8.80 per kgMS to \$8.00-\$8.60 per kgMS.

Announce the conversion of coal boilers at our Hautapu site to incubate, scale and invest in ventures in the area of nutrition science. First investment announced with Pendulum.



June

Acting Chief Operational Officer Anna Palairret announced.



Launch of new nutrition science venture arm to incubate, scale and invest in ventures in the area of nutrition science. First investment announced with Pendulum.



2022

2023

September

Announced 2021/22 season final Farmgate Milk Price of \$9.30 per kgMS.

Launch new wellbeing solution brand, Nutiani, targeting medical and everyday wellbeing nutrition markets.

We announce a partnership with Rural Support Trust (RST) to support rural New Zealanders by improving access to wellbeing and resilience services for farming families who are doing it tough.

November

Fonterra announces sale of its Chilean Soprole business to Gloria Foods JORB S.A.

Neil Beaumont appointed as new Chief Financial Officer.



Fonterra & Nestlé announce a new partnership designed to help reduce New Zealand's on-farm emissions, including a New Zealand first – a drive to develop a commercially viable net zero carbon emissions dairy farm.

January

Many co-operative farmers and their whānau, our employees and customers across the North Island of NZ are impacted by flooding during the wettest month on record. Fonterra supports those impacted throughout the coming months.



March

We complete the sale of Chilean Soprole business to Gloria Foods - JORB S.A. (Gloria Foods).

Announce a Profit After Tax of \$546 million, up 50% on same period last year, in our FY23 Interim Results.



May

Announced an opening 2023/24 season forecast Farmgate Milk Price of \$7.25 to \$8.75 per kgMS, with a midpoint of \$8.00.

Taranaki dairy farmer Donna Cram is announced as the 2023 Fonterra Dairy Woman of the Year and we welcome three new First Foundation Scholars to the Co-operative.



July

Announced an increase in our Scope 1&2 emissions target, along with a \$790 million investment, which includes up to \$90 million funding from Government.



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Doing Good Together

Durham Farm,
Northland

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As a co-op we know just how much good can come from working together, which is why we're working with partners right across the country to make a meaningful impact. Our Doing Good Together programme delivers across **three impact pillars** to care for people, the environment and our Co-op for generations.

Our impact pillars

- 1 Putting good quality nutrition in the hands of those who need it most
- 2 Keeping our communities strong
- 3 Protecting & regenerating the environment



Fred and Ken,
NZ Food Network

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5.6 million

KickStart breakfasts served in 1,400 schools



13 million

Dairy serves donated to communities in New Zealand



22,000 trees

Partnered with Trees for Survival to support 22 schools to nurture 22,000 trees

\$980K

Donated to community projects in regional New Zealand



\$650K

Over \$650K donated to community projects globally

\$100K

Farm Source Charitable Giving raised over \$100K



2,900 people

More than 2,900 people attended 16 events with Rural Support Trust on mental health & wellbeing



Helping communities respond to natural disasters

In response to the devastating floods and Cyclone Gabrielle that hit the North Island earlier this year, Fonterra along with our strategic partners supported community groups on the front-line giving assistance to affected Kiwis.

CEO of The New Zealand Food Network (NZFN), Gavin Findlay, said that with the many people displaced by the flooding, the donation of quality dairy products went a long way.

Along with the support we provided communities post the cyclone, the team also volunteered in the Wairoa region and got stuck in helping to clean up Tākitimu Marae. This was followed by cleaning silt beneath houses for whānau that had no insurance and could not occupy their houses until the silt had been removed.

The combined Fonterra support was significant and the Fonterra staff were incredibly proud to show up and offer support during this time.

“Once again, our great partners at Fonterra are helping us get food to where it’s needed most. Fonterra’s quick response to this emergency shows their commitment to doing good together for the sake of our communities and reinforces the value of having them on the NZFN team.”

Gavin Findlay,
CEO New Zealand Food Network



Fonterra Emergency Response Team supporting the clean up at Tākitimu Marae alongside Waikato Tainui in Wairoa following Cyclone Gabrielle.

Some of the ways we supported the community through the recent natural disasters:



1.3 million

Dairy serves to Auckland, Tairāwhiti, Hawke's Bay and Northland as part of flooding and cyclone response

\$60,000

Donated to Community Foundation flood relief funds in Hawke's Bay and Auckland

\$15,000

Donated to NZ Landcare Trust and Trees That Count to support remediation of restoration projects after the floods

\$40,000

Over \$40k donated through Farm Source Charitable Giving to the Hawke's Bay disaster relief trust



Penelope, Blair, Joe & Billie, Hawke's Bay

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The Big Feed and our continued commitment to getting food where it's needed the most

The Big Feed called to action thousands of farmers across the country to donate some of what they produce. In one day, the event aimed to raise 1 million 'meals'.

In FY23 Feed Out successfully raised 1 million meals with Fonterra and their farmers providing just under 430,000 milk meals towards the cause. The Big Feed event will now occur annually with a goal of raising 3 million meals on December 14th 2023.

With our partners New Zealand Food Network (NZFN) and Feed Out, our Feeding New Zealand Communities programme donated 13 million serves of dairy nutrition in FY23. We will continue to increase our contribution of more nutritious dairy goodness more frequently. In FY23 we've also had a strong focus on identifying surplus product across the Fonterra network to donate to the NZFN. This is complimented by our voluntary agreement to the Kai Commitment, under which we're working on a number of food waste reduction strategies.

Our Hapori programme continues to be present in 10 New Zealand regions, with each regional committee offering funding and donations of dairy products to local community groups, schools and marae.



“I’ve seen the faces of our rangatahi light up with excitement when they see they have milk in their kai boxes. Milk is a product that our rangatahi know how to confidently prepare. This is so helpful as some don’t have cooked meals to come home to and must source meals themselves. We are super appreciative for the milk that Fonterra has donated”.

Reconnect – Family Services, Manukau

Community connection – Farming

Fonterra formed a strategic partnership with Rural Support Trust in August 2022.

The shared vision for the partnership is to support rural New Zealanders by improving access to wellbeing and resilience services for farming families who are doing it tough.

Phase one of the partnership was to gain insight into the value Rural Support Trust brings and what future opportunities exist for the Co-op to strengthen and collaborate on. Early insights indicate we have formed the right community partnership to support farmers.

As we move into FY24, phase two of the partnership involves Fonterra supporting Rural Support Trust to thrive and embed the three opportunities identified to improve overall experience:

1. Grow their operational capability
2. Promote the value they bring to communities
3. Grow their reach in the primary sector

Together with the Rural Support Trust we have:

- Completed our insights work and identified three opportunities for FY24.
- Provided funding for the Time Out Tour which supports rural communities to start the conversation about mental health – 4,000 people have attended 27 events since 2022 with ambassador Matt Chisholm.
- Donated over \$50K to the trusts through our Farm Source Charitable Giving programme.
- Featured Rural Support Trust in the Fonterra tent at Field Days to provide rural communities further access.
- Employee Assistance Programme (EAP) available to all Fonterra farmers, indefinitely.

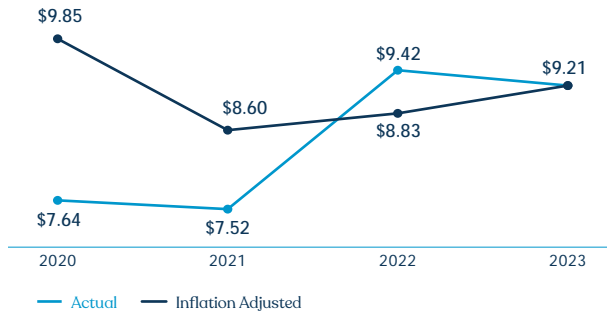


Tana & Rosy,
Waikato

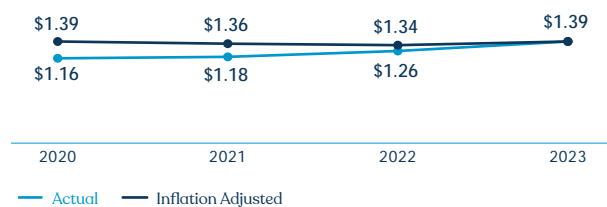
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Business performance

Gross profit from Core Operations per kgMS



Cash operating expenses per kgMS



Return on Capital

12.4%

↑ from 6.8%

Profit after tax

\$1,577m

↑ from \$583m

Earnings per share

95c

↑ from 36c

\$9.22

Total Cash Return¹

\$0.50

Capital Return

\$0.50

Dividend

↑ from 20c

\$8.22

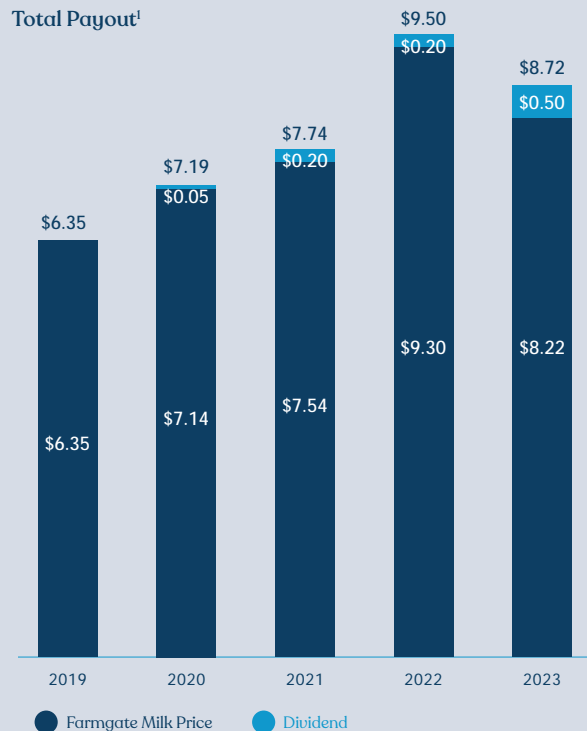
Farmgate Milk Price

↓ from \$9.30

1. Per share backed kgMS

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For the year ended 31 July 2023, our Co-op performed well. We returned \$8.22 on average for every kilogram of milk solids our farmer owners supplied us. Combined with a dividend of 50 cents per share, this means a total payout of \$8.72 per kgMS.



1. Refer to the Glossary for definition.

In addition, the Co-operative returned 50 cents per share to shareholders and unit holders in August following the divestment of Soprole. This resulted in a total cash return of \$9.22 per share backed kgMS for our farmer owners.

Commodity product prices that inform the Farmgate Milk Price (Reference Commodity Products) were down on average 14.2% compared to the prior season and the main reason for the \$1.08 per kgMS decline in the Farmgate Milk Price from \$9.30 per kgMS last season.

Our profit after tax increased \$994 million to \$1,577 million. Excluding non-controlling interests this is equivalent to 95 cents per share, up from 36 cents per share in the prior period.

Excluding the net gain on divestments, our normalised profit after tax is up \$738 million to \$1,329 million, excluding non-controlling interests this is equivalent to 80 cents per share.

The Co-operative's operating environment continues to improve following the pandemic, and with the global supply chain network stabilising and slowly returning to normal, our inventory levels at year end have improved.

Our net debt is \$3.2 billion, \$2.1 billion lower due to the improved inventory levels, increased earnings and the sale of Soprole for aggregate proceeds of \$1.3 billion

– of which \$804 million was returned to shareholders and unit holders on 18 August 2023.

Our increased earnings combined with the strength of our balance sheet has put us in a position to pay a full year dividend of 50 cents per share, comprising of 10 cents per share paid at interim and a final dividend of 40 cents per share.

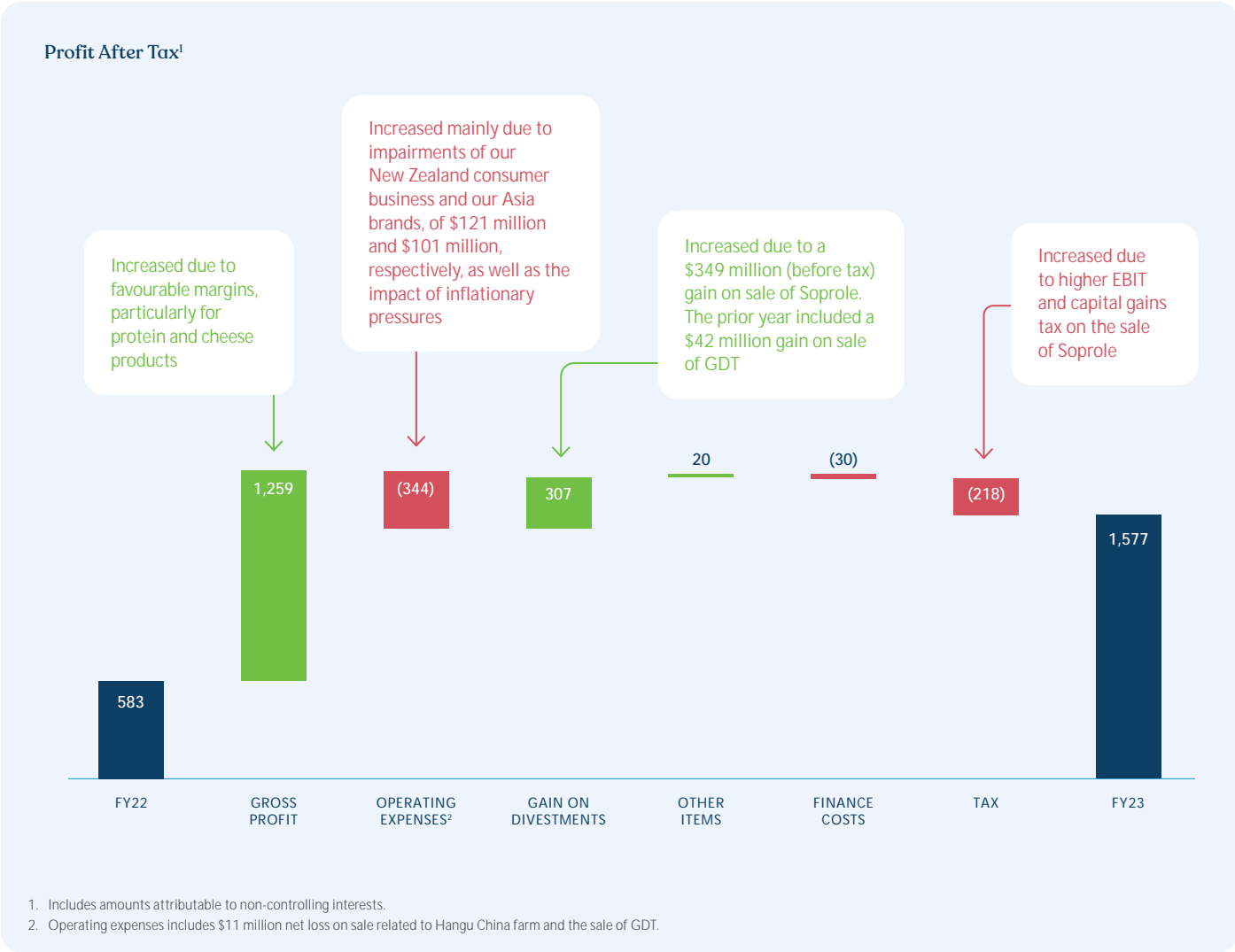
Our New Zealand milk collections increased 2 million kgMS compared with the 2021/22 season due to higher collections in the latter half of the season as a result of more favourable weather which was conducive to stronger pasture growth.



Business performance

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Our profit after tax increased \$994 million to \$1,577 million.



Our normalised profit after tax increased 125%, or \$738 million, to \$1,329 million.

We have normalised \$260 million related to the gain on sale from Soprole, and a \$12 million loss relating to the disposal of Hangu farm in China.

Consistent with our strategy to focus on our New Zealand milk, we've made progress divesting our operations in Chile, Brazil and China.

In November 2022, we announced the agreement to sell Soprole to Gloria Foods – JORB S.A – a consumer dairy market leader in Peru. The divestment was completed on 31 March 2023. The aggregate proceeds (including pre- settlement dividends) before tax, hedging and transaction costs were \$1.3 billion, of which \$804 million was returned to shareholders and unit holders on 18 August 2023.

In December 2022, Fonterra and Nestlé agreed the sale of DPA Brazil to French dairy company Lactalis for BRL 700 million. The proceeds at completion will be subject to closing transaction adjustments. Fonterra's 51% share of the DPA Brazil sale proceeds will be used to repay our share of debt held directly by DPA Brazil.

Breakdown of Total Group Performance

FOR THE YEAR ENDED	31 JULY 2022			31 JULY 2023		
	CONTINUING OPERATIONS ¹	DISCONTINUED OPERATIONS ¹	TOTAL GROUP	CONTINUING OPERATIONS ¹	DISCONTINUED OPERATIONS ¹	TOTAL GROUP
NZD MILLION						
Sales volume ('000 MT)	3,318	606	3,924	3,497	476	3,973
Revenue	21,901	1,524	23,425	24,580	1,466	26,046
Cost of goods sold	(18,992)	(1,093)	(20,085)	(20,399)	(1,048)	(21,447)
Gross profit	2,909	431	3,340	4,181	418	4,599
Gross margin (%)	13.3%	28.3%	14.3%	17.0%	28.5%	17.7%
Operating expenses	(2,065)	(390)	(2,455)	(2,496)	(303)	(2,799)
Other ²	102	(11)	91	70	348	418
EBIT	946	30	976	1,755	463	2,218
Net finance costs	(194)	(37)	(231)	(211)	(50)	(261)
Tax expense	(131)	(31)	(162)	(303)	(77)	(380)
Profit after tax	621	(38)	583	1,241	336	1,577

1. Refer to Note 1a and 2c of the FY23 Financial Statements. Comparative information has been re-presented for consistency with the current period.

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

The sale is subject to several conditions including receipt of regulatory approvals from competition authorities. The Brazilian competition regulator released its first report on the proposed sale in late July 2023. The parties are engaging with authorities to understand and address the matters raised in relation to limited

parts of the business and expect the sale to be completed within one year of balance date.

We also finalised our exit of China Farms, following the sale of our Hangu China farm.

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Reportable Segments

Fonterra’s reportable segments are presented on a continuing operations basis and are Core Operations and the two customer-facing regional business units, Global Markets and Greater China as presented to the right.

	Core Operations	Global Markets	Greater China	Total
External sales volume (’000 MT)		2,517 10% ↑	980 5% ↓	3,497 5% ↑
Profit after tax contribution from continuing operations				
Ingredients	\$602m \$459m ↑	\$429m \$114m ↑	\$133m \$13m ↑	\$1,164m \$586m ↑
Foodservice	\$(12)m \$72m ↑	\$50m \$53m ↑	\$203m \$46m ↑	\$241m \$171m ↑
Consumer	\$(18)m \$1m ↑	\$(94)m \$90m ↓	\$(52)m \$48m ↓	\$(164)m \$137m ↓
Total	\$572m \$532m ↑	\$385m \$77m ↑	\$284m \$11m ↑	\$1,241m \$620m ↑

Note: Figures are for the year ended 31 July 2023

Prepared on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period.

Financing Costs are allocated based on the average capital employed by each segment and channel. The effective tax rates applied are based on which country the entity, within a segment or channel, generates the income in.

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- Core Operations’ profit after tax was \$572 million, an increase of \$532 million on the prior comparable period. A key driver of Core Operations profit after tax is the relative price difference between product prices that inform the Farmgate Milk Price, referred to as Reference Products, and the product prices of Non-Reference Products.
- Global Markets’ profit after tax increased \$77 million to \$[385] million, mainly due to the Ingredients channel in-market profit after tax increasing by \$114 million as a result of improved pricing and higher sales volumes. Performance also improved in the Foodservice channel as our in-market sales teams were able to adjust sales prices to compensate for higher input costs. This was partially offset by impairments in Global Markets’ Consumer channel of our New Zealand Consumer business and our Asia brands (Annum™, Anlene™ and Chesdale™).
- Greater China profit after tax increased \$11 million to \$284 million due to the Foodservice channel earnings increasing by \$46 million, reflecting our in-market prices adjusting to higher input costs. However, this was partially offset by an impairment in Greater China’s Consumer channel of our Asia brands.

Looking at our business by product channel:

- Our Ingredients channel profit after tax increased \$586 million, or 101%, to \$1,164 million, due to continued favourable margins in our protein and cheese portfolio, as well as higher sales volumes due to the sell down of additional inventory held at 2022 financial year-end.
- Our Foodservice channel profit after tax increased \$171 million, or 244%, to \$241 million, due to improved gross margins combined with higher sales volumes.
- Our Consumer channel profit after tax decreased \$137 million to a loss of \$164 million, mainly due to impairments of our domestic New Zealand Consumer business and our Asia brands.

Financial Discipline

To assist our long-term discipline and focus on reducing operating expenses from continuing operations to around \$2 billion, we have introduced a new efficiency metric of cash operating expenses per kgMS.

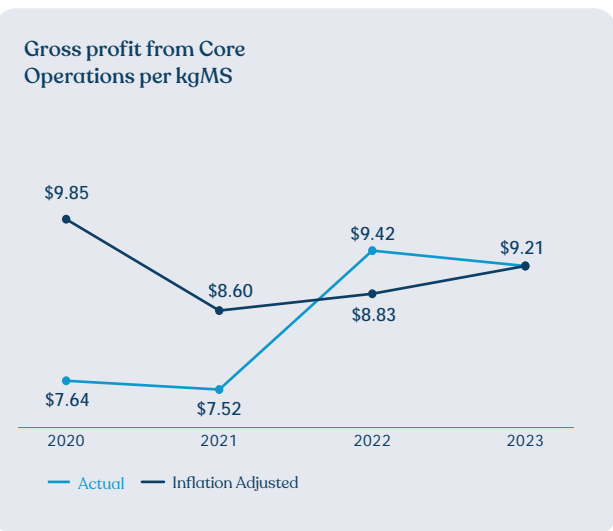
This metric monitors the actual cash cost base having regard to changing milk volumes, and adjusts for inflation so underlying efficiency gains/losses are transparent.

After removing the impact of inflation and non-cash costs, our operating expenses on a per kgMS basis increased from \$1.34 to \$1.39 per kgMS. The increase mainly reflects increased staff costs and storage and distribution costs.

To assist our long-term discipline on efficient New Zealand operations we have introduced a new efficiency metric of gross profit from Core Operations per kgMS.

This metric monitors the cash cost base having regard to changing milk volumes, and adjusts for inflation so underlying efficiency gains/losses are transparent. The metric is calculated at a gross profit level to take into account the net result of maximising value generated from every milk solid, which can increase the cost base.

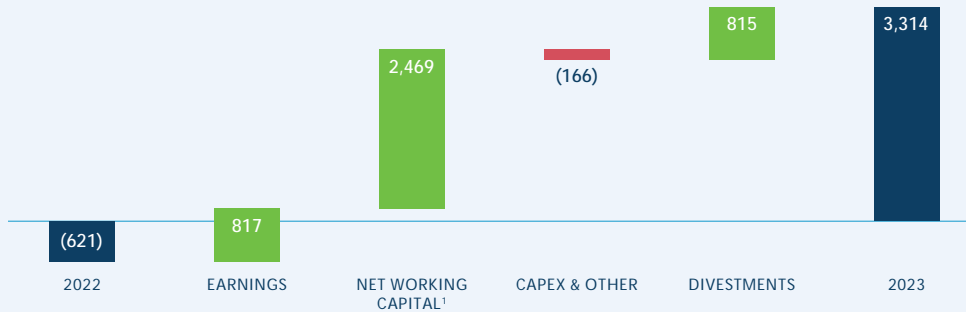
After removing the impact of inflation and non-cash costs, our gross profit from Core Operations on a kgMS basis improved from \$8.83 to \$9.21 per kgMS. The increase reflects favourable price relativities.



Cash Flows

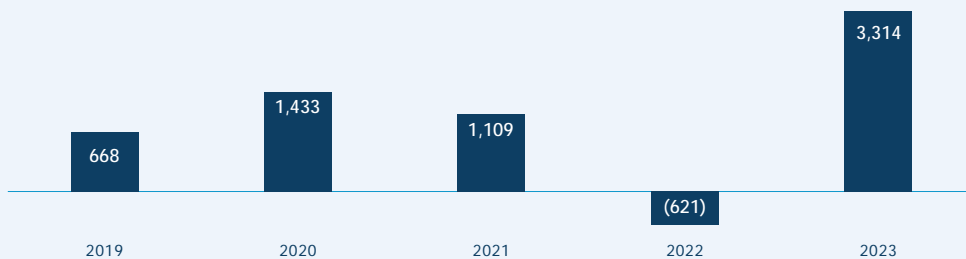
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Movements in Free Cash Flow (\$ million)



1. Includes amounts owing to suppliers.

Free Cash Flow¹ (\$ million)



1. Refer to the Glossary for definition.

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

Our Total Group free cash flow was \$3.9 billion higher than last year at \$3.3 billion, and is before the \$804 million capital return payment to shareholders and unit holders. The increase reflects:

- strong earnings performance resulting in underlying cash flow from earnings increasing by \$0.8 billion,
- an improvement in working capital cash flows of \$2.5 billion over the year, and
- an increase in net cash received from divestments of \$0.8 billion, due to the sale of Soprole during the year, partially offset by an increase in capital expenditure and other investing cash flows of \$0.2 billion.

The strong free cash performance supports the payment of the capital return of 50 cents per share and a 2023 full year dividend of 50 cents per share.

Balance Sheet

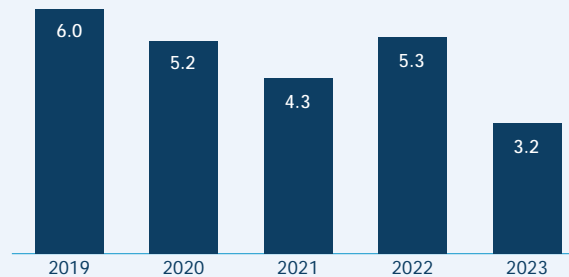
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Net debt has decreased by \$2.1 billion reflecting higher earnings, a reduction in working capital and the divestment of Soprole. This enabled an increase in cash dividends paid during the year and the capital return paid in August 2023.

The improvement in the Gearing Ratio from 42.4% to 28.8% reflects the lower level of debt coupled with the higher equity from our increased earnings.

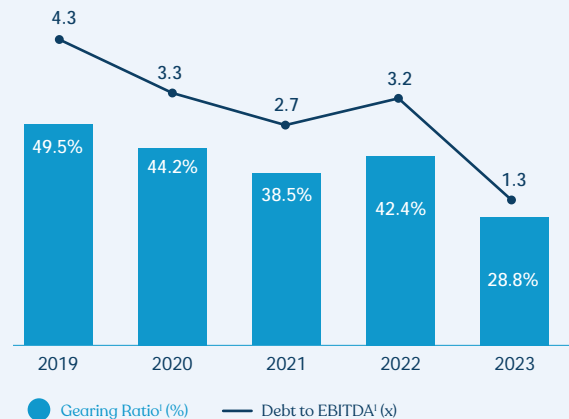
Debt to EBITDA has improved from 3.2x to 1.3x due to lower net debt combined with higher earnings for the year. Non-GAAP measures are not subject to audit unless they are included in Fonterra's audited annual financial statements.

Net Debt¹ (\$ billion)



¹ Refer to the Glossary for definition.

Leverage Metrics



¹ Refer to the Glossary for definition.

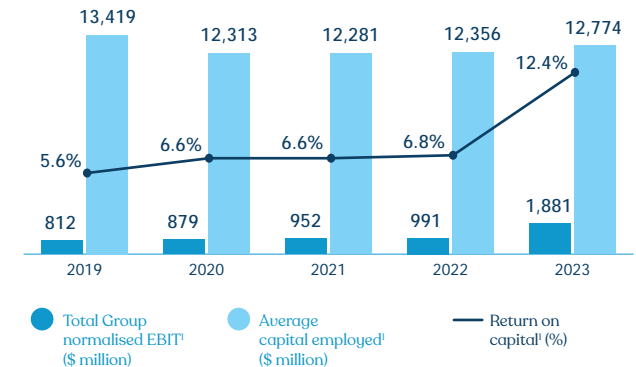
Return on Capital

Total Group Return on Capital improved from 6.8% to 12.4%

Our improved return on capital was due to the increase in our normalised EBIT. We have normalised \$349 million related to the gain on sale from Soprole, as well as normalising a \$12 million loss related to the divestment of Hangu China farm. The impairments of \$248 million, mainly recognised in our Consumer channel, have not been normalised.

The impact of the improved EBIT was partially offset by higher average levels of capital employed compared to the prior year. This was mainly driven by higher average working capital levels due to additional inventory carried forward from the prior year.

Return on Capital



¹ Refer to the Glossary for definition.

On-farm

We seek to work with farmers to build the collective strength of our Co-operative. The aim is to deliver them maximum sustainable returns while bringing value to our customers, consumers and communities.

We believe Aotearoa New Zealand has the world's best milk. Currently, our natural advantages, grass-fed approach and efficient farming methods combine to make our dairy farm emissions one third the global average.

The work we're doing with farmers to reduce emissions on an intensity basis is an important part of keeping our Co-op resilient for the future, as we look to ensure there is continued demand for our farmers' milk.

This includes supporting them with insights, tools and the most up-to-date advice, while also working to save them costs across our network of Farm Source stores.

We want farming in Aotearoa New Zealand to continue for generations to come, which is why we are committed to farming in a way that regenerates the environment.

The value we create by processing our farmers' premium, sustainable milk into a range of products helps to sustain regional New Zealand, with almost 50 cents of every dollar earned by a farmer spent in their local community.



The Co-operative Difference

Te Tihi - The summit of the mountain

718 up from 638

Te Puku - The mid point

5,038 up from 4,522

Te Pūtake - The start of the journey

1,383 up from 1,155

The Co-operative Difference is our framework for enabling our on-farm practices to support the delivery of our strategy to protect and grow the value of our sustainable, nutritious, New Zealand milk.

This is done by identifying and considering what we need to do today, what we need to be thinking about for tomorrow and what we need to consider in the longer term.

The Co-operative Difference is about getting ready for emerging issues that are either opportunities to create new value and/or risks to existing value. It provides farmers with the confidence to invest on farm at a pace that works for them and their business.

The framework is broken down into five performance areas – Environment, Animals, People & Community, Co-op & Prosperity and Milk.

Up to 10 cents of a farmer's milk payment is influenced through fulfilling the key practices within each of these areas.

The Co-operative Difference has three levels of achievement:

- Te Pūtake – achieving this first step is all about looking after people, animals, the environment and our Co-op. Farmers who meet the Te Pūtake requirements receive 7 cents per kgMS for all milk supplied during the season.
- Te Puku – once Te Pūtake is achieved, the next step is Te Puku, which is all about milk quality. To achieve Te Puku, a farm must achieve milk quality excellence for at least 30 days during the season. Once this has been achieved, farmers receive 3 cents per kgMS for all milk supplied during the season that meets the milk quality excellence standard.
- Te Tihi – once Te Puku is achieved, the next step is Te Tihi, which continues to focus on milk quality. To achieve Te Tihi, a farm must achieve milk quality excellence for at least 90% of days supplied in the season. Te Tihi is all about recognition of our leaders in the Co-operative and does not bring any additional financial recognition.

Farms that sustainably produce higher quality milk help to increase the value of all our milk. Getting the best returns for our farmers' milk is determined by our ability to access opportunities, markets, and premium prices.

It is also important that the wider community values our role and our approach to farming, animal wellbeing and guardianship of the land, so that dairy farming is seen as an attractive and respected career choice for future generations. This means staying at the forefront of issues such as quality, safety and sustainability. That's what The Co-operative Difference is all about.



Karlson,
Bay of Plenty

Supporting farmers through Farm Source

As the farmer-facing part of the Co-op, Farm Source plays an important role in getting alongside farmers to help them continue to lead the way in sustainable, efficient dairy farming.

The team is guided by what farmers have said they're looking for from their Co-op, grouped into four key areas:

- Co-operative leadership: including advocating on behalf of farmers and helping to foster a sense of connection and pride in the Co-op among farmers, our rural communities and the wider public.
- My Co-operative and business: engaging with farmers in a way that suits their individual business needs so that they get the support they need, in a way that works for them.
- Support to get better: working alongside farmers to further improve the efficiency and productivity of their farming businesses, including to meet on-farm standards and regulations of today and prepare for any that may be coming in the future so that we're continuing to build resilience in the Co-op.
- Products and solutions: providing products and solutions to help drive improvements, with a consistent and welcoming experience when farmers interact with the Farm Source team – whether in store or on farm – and offering competitive prices.

One of the top priorities for our Farm Source retail business is to reduce costs for farmers, including mitigating inflationary impacts as much as we can.

The team looks to leverage the Co-op's purchasing power and partnerships to deliver products and services at competitive prices. A practical example is the partnership we announced with 2degrees in November 2022, which offers farmers market leading rates on plans built to suit their telecommunication needs.

Farm Source offers a number of other market-leading offers – from up to 21 cents off a litre at Mobil for Fonterra suppliers, exclusive Power deals through Genesis, through to trade prices at Bunnings – and enables all Farm Source account holders to earn and redeem Farm Source Reward Dollars, contributing to further savings. We also play a critical role in helping to ensure farmers have a reliable supply of key farm inputs, as recently demonstrated when the country experienced supply shortages during COVID-19.

On top of the network of more than 60 stores across the country, Farm Source also brings market leading innovation like Allflex animal collars or Efflux to farmers. This is supported by industry-leading tools and services that are delivered in a personalised way to farmers.

In July 2023 we confirmed changes to our Farm Source team aimed at improving how the Co-op supports farmers today and into the future. It followed a genuine consultation process, with the original proposal changing based on feedback from our people. We also took onboard views shared by farmers during this time.

The focus is on three key areas – improving our local support, improving our phone and digital tools to make things easier, and endeavouring to see that we are all doing everything we can to maintain, and grow, sustainable milk supply for the Co-op.

The new structure came into effect in August and we've been working to ensure farmers know how Farm Source has evolved and why.

Making it easier for farmers to join & stay with the Co-op

In March, we implemented our new Flexible Shareholding capital structure, which makes it easier for new farmers to join our Co-op and for existing farmers to remain, by allowing greater flexibility in the level of investment required.

We believe the changes help us make further progress on our strategy by supporting a sustainable milk supply and stable balance sheet, while also protecting farmer ownership and control.

Under the new structure, farmers can now hold up to 4x their milk supply in shares or a minimum of 33% of their supply.

In addition, exit provisions were extended and more types of farmers can be part of our Co-op. Sharemilkers, contract milkers and farm lessors can apply to become what we've termed Associated Shareholders and Secondary Shareholders. Meanwhile, ceased farmers are able to transfer shares to their relatives and related parties, who are known as Permitted Transferees.

Under the new structure, farmers can now hold up to 4x their milk supply in shares or a minimum of 33% of their supply.

Adjusting our Advance Rate

In May we announced that we would start the 2023/24 season with a new Advance Rate guideline. The key driver for this decision was to respond to the pressure farmers had been under, particularly in terms of cashflow.

The opening Advance Rate is now set at 75%, up from 65%, and steps up to 80% in March paid April, rather than May paid June. This helps get cash to farmers sooner, and it is a change we were able to make due to our strong balance sheet.

Our intent is to use this new guideline for future seasons, starting with 2023/24.

When setting the Advance Rate, we balance getting farmers as much of their milk payment as early as possible, while also maintaining a strong balance sheet and having the necessary cashflow to operate day-to-day.

As a result of this approach, we will need to review our Farmgate Milk Price more frequently. As another way to get cash to farmers sooner, we announced in May 2023 that we were bringing forward the payment to shareholders of the capital return of 50 cents per share related to the sale of Soprole from October to August 2023.

Reducing on-farm emissions

Throughout the year, we've had conversations with our farmers about the need for Fonterra to introduce a Scope 3, or on-farm, emissions reduction target.

We held in person and online meetings across the country to hear farmers' views. We also released a comprehensive on-farm emissions booklet in April which was designed to help with those conversations as well as being a practical how-to guide.

We initially indicated that we would announce the target in the middle of 2023. However, timing is important, and we acknowledge that farmers have been under a lot of pressure right now.

With this in mind, we decided to delay introducing a Scope 3 target by a few months. We now expect to announce our target before the end of the calendar year.

There is no one solution to reducing on-farm emissions. It will require a combination of best farming practices as well as new technology and innovation to reduce methane, which is one of the biggest challenges the dairy industry faces, while also representing a significant opportunity for us. We're investing in our own research and development as well as partnering with others to try and find breakthroughs that will further support farmers. Two examples are included on the next page.



Exploring solutions to reduce methane

Kowbucha™

One potential solution is our own development, Kowbucha™. Kowbucha™ is probiotics derived from Fonterra's large bacterial culture collection that are designed to reduce the methane produced by cows.

Kowbucha™ has produced promising results with some trials showing up to a 20% reduction in methane without compromising productivity, but further work is needed to validate these effects.

As well as the potential to produce a methane reduction solution for use on farm, the Kowbucha™ venture could generate commercial returns for the Co-op. This is why we are creating a more formal structure around its potential commercialisation – starting with the appointment of a CEO in early July 2023.

Fonterra appointed Dr Ben Russell to lead the development of our Kowbucha™ business venture. He will focus on establishing the Kowbucha™ business through further development, validation, and commercialisation of Fonterra's world-leading probiotic technology both within New Zealand and internationally.

AgriZero^{NZ}

We are also investing in partnership with other agricultural companies and Government.

AgriZero^{NZ} is an investment fund established between Government and major agribusiness companies to make sure New Zealand pasture-based farmers have equitable access to affordable and effective tools and technology to reduce their agricultural emissions, while maintaining efficiency, production and profitability. Fonterra will contribute up to \$50 million over four years.

Since launching in February, AgriZero^{NZ} has announced investments of:

- \$4 million in a methane measurement facility that will be constructed at the Massey University dairy research farm in Palmerston North and will house 12 new cattle respiration chambers and associated infrastructure.
- \$1.8 million for a stake in Ruminant Biotech, a New Zealand-based start-up that is developing a slow-release, biodegradable methane-inhibiting bolus for livestock.
- \$2.5 million to support the continuation of research underway in New Zealand toward developing a methane vaccine and methane inhibitor for use in livestock.

AgriZero^{NZ}

Our industry leading farmers

Dairy Industry Awards

Co-op farmers continued their strong history in the New Zealand Dairy Industry Awards, winning all three 2023 national titles at a gala dinner in Auckland in May.

Hayden and Bridget Goble from Taranaki won the 2023 New Zealand Share Farmer of the Year title, Canterbury/North Otago's Jack Symes became the 2023 New Zealand Dairy Manager of the Year and Bill Hamilton from Northland was announced the 2023 New Zealand Dairy Trainee of the Year.

Hayden and Bridget are 20% VO equity partners together with Bridget Mooney, Kevin Goble and Diane Goble on their 200ha, 565-cow New Plymouth property.

Jack is farm manager on Judy and Brian Symes' 160ha, 630-cow property at Southbridge and Bill is farm assistant on Richard and Sharon Booth's 395-cow, 174ha property at Titoki, employed by Andrew and Vicky Booth.



Fonterra Dairy Woman of The Year Donna Cram

Taranaki farmer Donna Cram won the 2023 Fonterra Dairy Woman of the Year award.

Facilitated by Dairy Women's Network, the award recognises an outstanding woman who has contributed to the dairy sector with passion, drive, innovation and leadership and no other award in New Zealand specifically celebrates the capability and success of women in the dairy industry.

Donna is a fourth-generation dairy farmer and influences locally and nationally through a large range of positions. She is well known within our Co-op and is an outstanding ambassador for the industry. Her leadership qualities, community engagement and commitment to sustainability represent some of the best attributes of Kiwi dairy farmers.

Along with the award Donna received a scholarship from Fonterra of up to \$20,000 for an approved and personally chosen development programme, or professional/business coaching and/or learning experience.



Young Farmer of The Year Emma Poole

Waikato/Bay of Plenty Young Farmer and Co-op supplier Emma Poole was "absolutely buzzing" after being named the 2023 FMG Young Farmer of the Year in early July.

Emma is the contest's first-ever female champion and secured the win following three days of gruelling challenges against six other Grand Finalists. Contestants' farming skills and general knowledge were put to the test with tasks that included repairing farm machinery, creating a hydroponic system and an intense race-style challenge with multiple tasks that saw points awarded for both skill and speed.

As Emma accepted the award, Tim Dangen, her brother, mentor and last year's FMG Young Farmer of the Year was there to congratulate her as she said "we've finally knocked the grass ceiling off the roof".



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Honour roll for on-farm excellence

Thank you to all our farmers who have worked hard in the 2022/23 season to provide safe, high-quality milk. In addition to the honour roll, we acknowledge the efforts of all our farmers for their commitment to on-farm excellence and producing the best possible milk.

Legend

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

- | | |
|--------------------------------|--------------------------------|
| Abacus Dairy Limited | Milkwell Limited |
| Alton Pastures Limited | MR & TJ Frost Ltd |
| Ashgrove Dairy Farms Limited | Owhango Farms Limited |
| Black & White | P H & W F Iorns |
| Cow Company Limited | Pharlee Trust |
| C E & D L Rogers | R & S Singh |
| C J & C J McKenzie Limited | R S & R D Gordon |
| Caskey Farms | Rainbowcreek Farms Limited |
| Farmer Fred Ltd | S & S Iorns |
| Fowler Family Prosperity Trust | Schorn Trust |
| Glen Eden Otago Ltd | T D & J A Rhind |
| Golden Mile Farms Limited | The D & A Roberts Family Trust |
| Hillcrest at Fairfax Ltd | W J & J G Pile Family Trust |
| J & LM Van Burgsteden | Waiotu Farms Ltd |
| Kainui Peatlands Ltd | Whenuakura Farm Limited |
| Kemra Farm Ltd | Willcox Farms Ltd |

Te Tihi

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

46 South Limited

4RJ Aguilar Dairy Limited

4Smiths Limited

99 South Limited

A & A Renes Limited

A & H Ahlers Limited

A & J Mitchell Partnership

A & M Lopes Limited

A & R Gibson Trusts
Partnership

A B Lime Limited

A H Baxter Limited

A J & Est L R Arnet

A J & P T Bryant

A J & V A D McLellan

A J Porteous No. 2 Trust

A L & S E Hunter Family Trust

A L & W A Mullan

A Mackinnon & A L Aitchison

A P Jones & J G Craw

A S & G L Noble

A T & J L Hughes Trust

AAEJHM Family Trust

AAR Farming

Aaron and Marcia Flay
Partnership

Aaron Brown

Aaron Gopperth Trust

AB Dairies Limited

Abbott Trusts Partnership

ABR Family Trust

ABR Farms Limited

ACG Enterprises Limited

ADDR Limited

Aerodrome Farm Limited

Aghern Holdings Limited

Agromilk Limited

AGVenture Farms Limited

Ahipaipa Farms Limited

Ahipene Farming Limited

Ahol Trust

Alderbrook Farms Limited

Alkington Limited

Alley Farms Limited

Allison Family Farms Limited

Altura Dairy

Amtink Limited

Andrew Marshall Family Trust

Andrew Phipps

Aotearoa Kaitiaki Limited T/A
Te Mania Farm

AP & TM Davis T/A

Bushvalley Farm

AQA Agriculture

Aramaunga Farms Limited

Ardendale Farm Trust

Ardmore Farm Trust

Armer Farms (N I) Limited

Arrow Dairy Limited

Ashton Farming Limited

Ashvale Jerseys Limited

Aston Green Limited

AT Mills Partnership

Avery Partnership (Te Hawera)

Avon Downs Limited

B C & H J McLellan

B C McIntyre

B D & K M Sterritt

B D & M R Gray Trust
PartnershipB D Hiestand Trust & V J
Hiestand Trust

B F & R E Sanford Limited

B F & S J Gordon

B H & L J Bourne

B J & D A Verryt Family Trust

B J & J R Goodwin

B J & S R Morell

B L & D J Haylock

B M & J M Durcan

B M & R M Sarten

B N & E L Simmons

B R & S P Churstain

B W & S J Phillips

B W E Binnie

BAA Family Trust

Bailletresna Limited

Bailey Partnership

Baldwin & Bourke Limited

Barcia Dairies Limited

Barnscroft Dairy Limited

Barnsdale Farms 2014 Limited

Barridge Farms

Baucke Family Trust

Beckett Family Trust

Beckett Farm Limited

Beechbank Dairies Limited

Beith Farm Limited

Belbrook Farming Limited

Belfield Dairies Limited

Bell Family Farms Limited

Belmac Enterprises Limited

Ben Callum Investments
Limited

Benmore Downs Limited

Berry Dairy Farming Limited

Beyond The Gate Limited

BH Growth Limited

Birds Meadow Limited

Biz-E Farming Limited

BJ & TJ Bennett Limited

BJ & TM Verryt Limited

BJ Caird Limited

Blandyco Trusts Partnership

Blimar Dairies Limited

BLL Farm Trust

Bluegum Farms Ltd

BM & GI Watson Limited

Bobcat Trust

Bolton Walker Limited

Bonezco Farms Limited

Bosbry Trust

Braebid Limited

Brasen Trust

Brats Farms Limited

Braylor Farms Limited

Brenick Limited

Brentworth Dairying Limited

Brittany Trust Partnership

Brohen Farms Limited

Brok Farming Limited

Brookdale Dairy Farm Limited

Brooklyn Dairy Farm Limited

Broughshane Limited

Bruski Farms 2001 Limited

Bryant Silviculture Limited

Brymac Farms Limited

BS Farming Limited

Bula Dairy Farming Limited

Bullot Family Trust

Burnell Farms Limited

Burness Partnership

Burtlea Limited

Burton Farm Trust

Bushmills Trust

BW Dairy Limited

Byrne Tribe Limited

C & A Dairies Limited

C & R Ashcroft Partnership

C & R M Moir

C A & E A Brown

C A Rowe

C and J Piggott Limited

C D Farms

C G & J A Venn

C H Land Limited

C J & M D Blackwell Family
Trust

C J & S J Coll Family Trust

C J & V K Taylor

C J Neustroski & P T Bucknell

C J Smyth & O R H Malone

C M Tanner

C P Baldwin & M A Bourke

C Porter & O Mitchell-Bettles

C.J. & N.A. Williams Limited

Caiseal Partnership

Calcium Dairies Limited

Calsi Farms Limited

Camaro Trust

Cambourn Farm Limited

Te Tihi

C-G

Cameron McLellan
 Cameron Richards Family Trust
 Cantley Developments Limited No 1
 Cantley Developments Ltd T/A Sunrise Properties
 Caskey Farms
 Cavafarm Trust
 Ceamour Farms Limited
 Ceylandia Dairies Limited
 Chelu Limited
 Childs Creek Limited
 Chisnall Farms Limited
 Churi Farms Partnership
 Claremont Trusts Partnership
 Clark & Everitt Partnership
 Clarke Farms (2016) Ltd
 Clarknic Farms
 Clemcorp Ltd
 Clover Bell Limited
 Clutha Lea Ltd
 CMP Dairies Limited
 Colhaven Limited
 Collingwood Dairy Limited

Collingwood Farm Trust
 Collins & Murphy Farming Limited
 Contra Trusts
 Copeland Farming 2012 Ltd
 Cordyline Farms Limited
 Cornik Farms Limited
 Corona Farms Ltd
 Cotlands Ltd
 Countrywise Limited
 Cowley Ltd
 CPX Limited
 CQ Farming Limited
 Craigower Farms Ltd
 CRB Farming Limited
 Creekside Pastures Ltd
 Cressey Dairies Ltd
 Crossipol Ltd
 Croydon Agri Ltd
 Croydon Dairy Limited
 Cummings Family Trust
 Cupsville Limited
 Cutting Edge Dairies Limited
 D & A Cooper Limited
 D & D Alexander Trust
 D & D M Coupe Trust
 D & E Beckett Limited
 D & M Earl Limited
 D & T Farming Limited
 D B & N L Hinz Partnership
 D B & T A Wyber
 D D & D M Galletly

D J & J A Veen
 D J & L J McDrury
 D J & N J Williams
 D J Brook
 D J Conlan
 D J Wohlers Family Trust
 D L & P Wilson
 D M & C E L Turnbull
 D M & D L Bourke
 D M & J C Brogden
 D M J & A J U Smith
 D M J S Trust
 D P & T M Stephens
 D R & E M Henman
 D R & J E Gilchrist
 D R & L M Locke Ltd
 D S & R R Carey
 D W & M E Kidd
 D.C Clark Limited
 DA & ER Reid
 Daisy Dairying Ltd
 Dalmm Dairy Limited
 Daniel & Tracey Limited
 Danz Farm Limited Partnership
 David & Corina Youle Trust
 David & Lynley Ecclestone
 David Leng
 DB & MJ Kalma Ltd
 DDB Dairy Enterprises Limited
 Debnar Farms Limited
 Deebury Pastoral Partnership

Delarbe Farm Limited
 Denis J Crookenden & Bronwyn F Bax
 Dennley Farms Ltd
 Des Conlan Trust
 DG Farming Limited
 Diamond Family Trust
 Dillon & Co 2020 Limited
 DJ & AJ Williams Ltd
 DJAS Partnership
 DNR Farms
 Dobbie Farms Ltd
 Dogterom Farming Limited
 Donald Pearson Farm Ltd
 Doneve Agriculture Limited
 Donnelly Trust
 Double A Oaks Limited
 DPN Farming
 DR & PJ Hannah Ltd
 Draw Farming Limited
 Drought & Kalin Family Trusts Partnership
 Drumderg Farm Ltd
 Drumoak Trust
 Dryden Farming Limited
 Drylands Trust
 Drysdale Holdings Ltd
 E A White Ltd
 E C Briden & Sons Ltd
 E J & A M Kiser
 E L Mitchell
 E O'Brien
 E T De La Rue

Ealing Dairies Limited
 East Chatton Farms Limited
 Ebbett Agri Partnership
 Edale Farms Ltd
 Edge Holdings Limited
 Elamar Trust
 Est of M F Blake & M Blake
 Estate E A Bonner
 Estate John Harold & Muriel Mary Watt
 Estate M J Abbott
 Estate of T D & N M Miller
 Estee Holdings Limited
 Evans Partners Ltd
 Excel Farming Limited
 Eyretonlea Partnership
 F A & R C M Smits Ltd
 Fairfax Stonehouse Farm Ltd
 Falcon Farms Trust
 Farm Partners Limited
 Farmer Fred Ltd
 Farnley Tyas (2018) Limited
 Faull Contracting Limited
 Faybo Limited
 Feenstra & Bouwmeester Trust
 Fern Flat Limited
 Fernley Farm Limited
 Firdale Farms Limited
 Flaxwood Farm
 Flaxwood South
 Fleming Family Trust
 Flo New Zealand Limited

Fonterra -Te Rapa Farm
 Friendly Cow Farms Limited
 Full Moon Farming
 G & L Farming Limited
 G & M Moore Partnership
 G & P Russenberger
 G & R Ward Family Trust
 G & T Sloper Limited
 G A & J M Hall Limited
 G A & K T Lynch
 G A & W A Knight
 G A W & M C Van Rossum
 G B & D G Hodges Trust
 G Bearman & W Reid Partnership
 G D & C J Alexander
 G G Green Acres Limited
 G G Ring
 G I Norgate
 G J & E L Pinny
 G J Borst
 G K S Cows Limited
 G L & G F Bell
 G L & R L Burr
 G M & J M Zydenbos
 G P & D J Wolvers Family Trust
 G P S 2007 Ltd
 G R & K L Lovelock
 G R & L M Heywood
 G S & L J Rowe
 Galloway Enterprises Ltd
 Gambles Farm Ltd

Te Tihi

G-L

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Gavin Lozell Farming Limited
 GB Dairies Partnership
 GD & CJ Alexander Ltd
 Gema J Limited
 Geordie Farms Limited
 Gibbs G Trust
 Gillett Farms Ltd
 GKW Farms Ltd
 Gladvale Farms Limited
 Glanton Holdings Limited
 Glenarne Limited
 Glenkerry Farm Limited
 Glennevis Dairies Ltd
 GM & AM Woolley
 Golden Mile Farms Limited
 Gordon Dale Farms (2006) Ltd
 GPN Holdings Ltd
 Graejo Trust Partnership
 Granite Farms Ltd
 Grantley Trust
 Green Pastures Dairy Ltd
 Green Sky Dairies Limited
 Greenan Farms Limited

Greenhart Limited
 Greg Dawson
 Greg Low Limited
 Gregory Farms Ltd
 GST Investments Limited
 Guthrie Farms Limited
 Guyon Farm Limited
 Gwen-May Trust
 H E Argyle and Estate of L A Argyle
 H J & A M Van Hout
 H L & J E Wallace
 H Q Partnership
 H S Phillips
 Hahn Trading Limited
 Haket Trust
 Hamilton & Keene Sharemilking Ltd
 Hammens Limited
 Hann Bros
 Harakeke Dairy Ltd Partnership
 Haswell Farm Limited
 Haumako Farm Limited
 Haurere Farms Ltd
 Heartland Holdings (2008) Ltd
 Heavenly Moos Limited
 Henderson Partnership Farm
 Henmar Trust
 Heywood Trust
 Highland Downs Limited
 Hill Biddles Limited
 Hillcrest at Fairfax Ltd

Hitchcox Farming Ltd
 Hoe-o-Tainui Farms Ltd
 Hogsback Limited
 Hollands Farm Limited
 Holmleigh Trust Partnership
 Hororata Dairy Farm Limited
 Huntly Road Dairies Ltd
 Hwitane Tune Holdings Ltd
 I G Haigh
 I H & D J Bryant
 I J & H E Mitchell
 I J Sutherland Partnership
 Ingram Farming (2003) Limited
 Intensive Agriculture Ltd
 Inveraray Dairy Limited
 Ivy Plains Ltd
 J & C Gray Family Trust
 J & E Hansen
 J & L Delgado
 J & O Sergiychuk
 J & P S Malcolm
 J & R Ferguson Ltd
 J & S Belton
 J & S Nicholas Limited
 J A & E Fraser
 J A Rhind
 J C Rossiter
 J E & A E Watson
 J E & D L Morell
 J G & J M Wright
 J G & L M Mills

J G Cochrane
 J H & H R Smyth
 J J & T A Hickman Family Trust Partnership
 J J Bailey
 J L & K S Gwerder Family Trust
 J M Mellow
 J McKay & A Brown
 J P & A M McEwan Ltd
 J S Dairy Limited
 J Turner Limited
 J W & A M Steeghs
 J W & T L McElligott
 Jackson Partnership Ltd
 Jacob Abbott
 Jacob Olsson
 Jaeger Dairies Limited
 James Lyttle
 Janssen & Sons Limited
 Jareem Trust
 Jareem Trust Partnership
 Jascas Trust
 Jaska Farm Trust
 Jaydee Farm Limited
 JBHILLS Limited
 JBT Farming Limited
 JC Beattie Trust
 JCB Farms Limited
 JCDAF Dairy Farms Limited
 Jersey Girl Ltd
 Jerzey Rock Farm Ltd
 JF & LM Le Fleming Family Trust

Jomar Farm Ltd
 Joshua Lyon
 JP & DJ Hurley Partnership
 JS & KJ Lorimer trading as Laurel Hill Farm
 Juffermans Dairy Company Ltd
 Jurassic Farms Ltd
 K A & N J Riddington Ltd
 K G Reeve
 K J & H A Dravitzki
 K J & H Chalmers Ltd
 K J & L M Goodwin
 K J & S R Crowley
 K J Thompson & M Sataka
 K R Vollebregt
 K W & D J Hall
 K W & S H Smart Trust
 K W Laing
 K&M C Farms Limited
 Kahikatea Dairy Ltd
 Kainui Farms Limited
 Kaitiaki Whenua Farming Limited
 Kaiwhio Dairies Limited Partnership
 Kaja Limited
 Kanuka Terrace Limited
 Kapuka Investments Limited
 Karl Robert Peace
 Kavanagh Trust Partnership
 Keelinn Farms Limited
 Keitra Farms Limited
 Kelbretar Trusts Partnership

Kelly Farming Limited
 Kelvin Vickers Family Trust
 Kemra Farm Ltd
 Kerr Road Dairies Limited
 Kes Farming Limited
 Kevin Fleming Ltd
 Keystone Dairies Limited
 Kiekie Farms Ltd
 Kilfinan Farm Ltd
 Kilkenny Farm Ltd
 Kilkerran Farm Ltd
 Killinchy Dairies Limited
 Kinkora Farm Ltd
 Kirson Farms Ltd
 KJ&HL Uhlenberg(Waitui) Fam Tr. P'Ship
 KM & BM Muller
 Knapdale Farms Ltd
 Kohi Partnership
 Kohi Rose Ltd
 Kohinoor Farms Ltd
 Koning Dairies Limited
 Koroa Group Limited
 Korotawa Limited
 Kuklinski Family Trusts Partnership
 Kuriger Farms
 Kyle Farm (2005) Limited
 Kywaybre Farms Ltd
 L & M Wild River Limited
 L B & S A Udy
 L D & R M Barry
 L E Hill

Te Tihi

L-O

L G & H R Miller
 L H & K M Bonnar
 L J Hodges
 L M Farms
 L P & C L McClintock Limited
 L P & I Bylisma
 L Ross & A Parry
 L S & K A Phipps
 L.J. Fleming & Co. Limited
 LA Farms Limited
 Lakeside Farm (2010) Ltd
 Lamb Dairy Limited
 Landcorp Farming Limited
 Lavender Dairies limited
 Lawson Farms
 LB Dairies Limited
 Le Emari Trust T/A
 Willowbridge Dairies
 Le Prou Family Trust
 Legendairy Contracting Ltd
 Legrayle Farm Limited
 Lenek Farms Limited
 Leningrad Farm Ltd
 Lenssen Farming Partnership

Leona Green
 Leondale Trust
 Lepperton Farms 2021 Limited
 Lethol Farms Ltd No.1
 Lillburn Valley Dairies Ltd
 Lisdale Dairies Limited
 Little Mate 88 Farming
 Company Limited
 Livcon Farms Ltd
 Lizlyn Dairies Limited
 Loblinn Farms Limited
 Lochbuie Limited
 Lochhead Holdings Limited
 Lochiel Sharemilking Limited
 Lochlea Partnership
 Lockinge Farms Ltd
 LR and SJ Hammond Limited
 Ludell Limited
 Ludimac Dairying Ltd
 Luscombe Partnership
 Lynbrook Farm Limited
 Lynwood Dairies Limited
 M & A Bulanhagui Limited
 M & A Schrader Family Trust
 M & D Padrutt Family Trust
 M & G Askin Family Trust
 M & M Kidd Partnership
 M A Watt Family Trust
 M C & J P Fisher
 M D Hammond
 M E Hunt & Son Ltd

M F & D C Robinson Trust
 Partnership
 M J & D R McFetridge
 M J & M J Manley
 M J Adams Trust
 M J Robertson
 M L & K I Clark Family Trust
 M P & V M J Joyce Trusts P/Ship
 M R & K J Luke Ltd
 M S & P M Davey
 M S Dobson
 M T & J Torrie
 Maandonks Farm Limited
 Maandonks Pastoral Limited
 Macarm Farms Ltd
 Macedonian Properties Limited
 Macken Farm Ltd
 MacWilliams Dairies Limited
 Mahunga Farm Limited
 Majestech Farms Limited
 Majuba Farms Ltd
 Maken Milk Ltd
 Malandra Downs Limited
 Manaki Dairy Farms Limited
 Mangakiri Ltd
 Mangaroo Farms
 Mangatoki Partnership
 Mangawhiri Farms Ltd
 Mangin Dairying Ltd
 Manuka Downs Farm Limited
 Mardell Graham Limited
 Mark & Nerida Dodge Ltd

Marshlie Partnership
 Martindale Trust
 Marua Partnership
 Mary Rose Trust
 Mattajude Family Trust
 Maude Peak Farm Trust
 Mavora Farms Ltd
 Maxlands Farms Limited
 McBeth Dairy Ltd
 McCheesey Farming Limited
 McClan Ltd
 McConnell Ag Ltd
 McCoote Farms Limited
 McCullough Family 2008 Ltd
 McCullough Orakau Farm
 Trusts Partnership
 McDonnell Farming Company
 (Ohau) Ltd
 McDonnell Farming Limited
 McKay Creek Farms Limited
 McKinnon Dairy Limited
 McSwag Limited
 Mehroop Trading Limited
 Melgan Ltd
 Melrose Dairy Ltd
 Merivale Partnership
 Merrybent Limited
 MG Farms Limited
 Michael Clark Ltd
 Michael Kiser
 Mid Island Farms Limited
 Miedema Farms Limited
 Milestone Trust

Milk Drops Ltd
 Milk Power Ltd
 Milk Tap Limited
 Milka Dairies Limited
 Milkin It 2020 Limited
 Milky Whey Enterprises
 Limited
 Milldale Farm No 2 Limited
 Mills Road Estate Limited
 Minus 1 Trust
 Mish (2012) Ltd
 MJ & CD Beattie
 MJ Henderson Farming Limited
 MJG Limited
 MKJ Farms Limited
 Mokka Limited
 Molehill Farm Ltd
 Monte Vista Farms
 Moo Juice Limited
 Moo2U Ltd
 Mooi Dairies Ltd
 Mooi Farms Ltd
 Moojuice Dairies Limited
 Moonlight Farms Trust Ltd
 Moore Farming 2020 Limited
 Morag Farm Limited
 Morana Farms Limited
 Morelands Pastoral Ltd
 Moss Lane Limited
 Mount View Trust
 Mt Winchmore Farm Limited
 Mullerwhero Farming Ltd

Murdoch Southern Farms Ltd
 Murphy Farms Limited
 N & J A Lodge
 N & S Ganderton
 N A & K M McColl
 N G & B D Simmons
 N K Burgoyne
 Nadash Partners
 Nellnate Partnership
 Netherland Holdings Limited
 Newera Dairies Limited
 Newman & Clarke Limited
 Newman & Clarke Limited No 2
 Ngahape Valley Farm Ltd
 Ngai Tahu Farming
 Ngariki Trust
 Ngatahi Trust
 Ngatitu Whanau Trust
 Nikorima Trust
 Nilock & Camole Trusts
 Nimbalkar Farms Limited
 Nippyfarm Limited
 NNL Dairying Limited - NO 2
 Northland Agricultural
 Research Farm Incorporated
 Nottingham Farms Limited
 NZSF Canterbury Farms
 Limited - Lowry
 NZSF Rural Holdings Ltd
 O J & A J Williams
 O'Connell Dairy Ltd
 Old Kookaburra Farms Limited
 One Arrow Ltd

Te Tihi

O-S

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Opadadus Farming Ltd
 Openside Farms Ltd
 Oporo Farms Ltd
 Oraka Farms Limited
 O'Reilly Family Trust
 Orini Downs Station Limited
 Orongo Meadows Ltd
 Orwell Dairies Limited
 Oscar Farming Co Ltd
 OSK Limited
 Otira Farm Ltd
 Owen & Robyn Ruddell Partnership
 Owhango Farms Limited
 P & D M Miedema
 P & G Mulholland
 P & S De Lange
 P B & E J Chick
 P D & S F Smith
 P G & M A Cashmere
 P G O'Rorke Family Trust
 P H & W F Iorns
 P J & H M Butler
 P J & K J Henderson

P J & M E Gamble Family Trust
 P Jones Family Trust
 P L & R E Berryman
 P M & K F Westenra
 P R & R F Mossman
 P S & H J Wilson
 P T & E A Kelly
 Pahau Dairy Ltd
 Pahau Flats Dairy Limited
 Papakauri Farms Limited
 Paton Farms Limited
 Paton Trading Company Ltd
 Paton Trading Company Ltd
 Patterson Farming Limited
 Patterson Rawson Trusts Partnership
 Paul Kay Family Trust
 P B & C F Purdie Family Trust
 Pebble River Farms Ltd
 Pedestal Farms Limited
 Perks Farm Limited
 Peron Farming Limited
 Peter Reeve
 Pharlee Trust
 Philmara Ltd
 Pidgeon Pastures Ltd
 Pindar Farms Limited
 Pine Bush Grazing Limited
 Pineridge Partnership
 PKW Farms LP
 Platinum Dairies Ltd
 Poharu 2020 Limited

Pollock Dairies Limited
 Pomona Farming Limited
 Ponga & Pukeko Farms Ltd
 Port Molyneux Dairies Limited
 Pourakino Valley Trust
 Premier Dairies Limited
 Prima Farms Limited
 PT & CA Shearer Family Trust
 Pukerua Farm Ltd
 Puketaria Limited
 Pynewood Farm Limited
 Q F & H J Sherriff
 Quirke Family Trust
 QZL Farms Limited
 R & M King
 R & P McIntosh Ltd
 R A & K J Feaver
 R B & G E Potter
 R B & S M Grant Farming Limited
 R G & C K Chubb
 R G King Ltd
 R H & G H Smith
 R J Beckett
 R L & F M Hurley
 R L & S F Thompson
 R N & D A Schmidt
 R N & R C E Duncan Family Trust
 R N Van Der Fits Family Trust
 R P & C J Ballantine Family Trust

R W & H A Trotter
 R W & K M Powell Trust
 RA & L Lash
 RA Borst & MG Henderson
 Radcliffe Rugby Road Limited
 Raelene Williams
 Rakaia Incorporation (Pahau) Limited
 Rangatira 8A17A5 Trust
 Rangeview 2021 Limited
 Rangitata Island Dairy Limited
 Rangitata Island Dairy Partnership Ltd
 Rata Hill Farm
 Red Fox Farms Limited
 Redhawk Trust
 Reesby Family Farms Limited
 Regent Farms Limited
 Retell Holdings Limited
 Reuver Limited
 Reynard Fields Limited
 Rich Feet Limited
 Richfield & Gee Ltd
 Ridge View Dairies Limited
 Ridgedale Limited
 Ridgevale Dairy Limited
 Riley Glen Collinge
 Rimoo Farm Limited
 Riverbend Farmlands Limited
 Riverhill Farming Limited
 Riverlands Ko-Torp Ltd
 Riverlock Land and Property Limited

Riverside Dairying Limited
 Riverside Sharemilking Limited
 RJ & KB Smyth
 Robertson Allen Limited
 Robren Farms Ltd
 Rockhaven Farm Partnership
 Roger L Brook T/A Rosebrook
 Rogers Family Trusts Partnership
 Rolfe Farms Limited
 Rollett Farms Ltd
 Rollinson Farms Limited
 Rombouts Farm Ltd
 Rooney Farms Limited
 Rooster Dairy Limited
 Rose Fern Farms Ltd
 Rosebrae Farm Limited
 Rosevale Limited
 Roslyn Plains Limited
 Ross & Louise Fieten Family Trust
 Rostov Dairies (NZ) Ltd
 Rout Dairies Limited
 Rowlands 2022 Limited Partnership
 RP & KJ Willans Family Trust
 Rua Fox Limited
 Ruakiwi Dairies Limited
 Rubu Partnership
 Ruthe Farms Limited
 Rydal Farm Trust
 Ryelands Farm Company Limited

Rylock Farms Limited
 S & A Novo Limited
 S & A Wheeler Farms Limited
 S & G Chick
 S & R Pastoral Ltd
 S & S Iorns
 S B & Y M Thompson
 S E & S A Nicholas Family Trusts
 S G McKenzie
 S J & D L Smith
 S J & J L Fevre Trusts Partnership
 S J Bruce Family Trust
 S M & S A Field
 S R & C J Baucke
 S.V. & M.L. Helms
 Sailing Away Family Trust
 Sam Hunter & Amy Crofts Partnership
 Sanddale Farm Ltd
 Sandow Farming Limited
 Sarnia Farms Limited
 Sayer Severn Limited
 Sayer Trust Partnership
 SB & AM Gold Limited
 Schorn Trust
 Schouten Dairies Ltd
 Schouten Dairies Ltd
 Scott Evans Sharemilking Limited
 Scott Mark & Rachel May Ireland
 SD & CB Farming Limited

Te Tihi

S-Z

Settler's Inn Trust
 Sfarmer Partnership Limited
 Shady Farming Limited
 Shawlink Ltd
 Sheenfield Farms Ltd
 Shenandoah Trust
 Siberia Farm Limited
 Sidewayz Farming Limited
 Simon Maxwell Limited
 Sisley Farms Ltd
 SJ Bond & DJ Phillips
 Small Trading Ltd
 Smit Dairies Limited
 Smith Enterprises Limited
 Snaplulu Ltd
 Snip Snap Farming
 Sole Farms Ltd
 South Hilton Ltd
 Southern View Limited
 Springdale Farms Trust
 St Helena Farms Limited
 St Helena Trust
 Steele & Sons Limited
 Stevenson SR & JA Trust

Steward Dairy Ltd
 Stewartwood Limited
 Stichbury Farms Limited
 Stoked Enterprises Limited
 Stolzenberg Farms Ltd
 Stonebrook Dairy Farm Limited
 Stonedale Farming Limited
 Stoneleigh Park Limited
 Stonylea Dairies Limited
 Stornaway Farm Ltd
 Streamline Limited Partnership
 Sutherland Dairy Co Limited
 Swim Farms Ltd
 T H Davies Farming Limited
 T K & H K Guthrie
 T M & H D Green
 T M Mcdowall
 T R Bongers Trust
 T S Curtis
 Tablelands Dairy Limited
 Taikatu Plains Limited
 Tamac Farms Limited
 Tamatea Two Limited
 Tamlaght Farm Partnership
 Taranga Town Supply
 Tata Dairy Ltd
 Tayco Farm Limited
 Taylor Family Enterprises Ltd
 Te Awa Pararahi Limited
 Te Kiri Beers Limited
 Te Ngutu Land Holding Co Ltd

Te Puna Wai Dairy Farm Limited
 Te Whanake Enterprises Ltd
 Te Whanake Joint Venture
 Te Whenua O Matata Limited
 Telesis Trust
 Ternstone Limited
 Terrace Farms 2016 Limited
 Terrace Top Dairy Ltd
 The D & A Roberts Family Trust
 The Grange Ltd
 The Herewahine Trust
 The Isaac Conservation & Wildlife Trust (ICWT)
 The White Gold Farm 2022 Limited
 Thornehayes Farm Ltd
 Three Bells Ltd
 Three Daughters (2018) Limited
 Tiaki Farm Limited Partnership
 Tiger Hill Farm Ltd
 Tiroroa Farms Limited
 Titipua Limited Partnership
 TJ Gray & BA Johnston
 TK & MG Wright
 TL & SL Taylor Ltd
 Tobruk Farms Ltd
 Toggenburg Trust
 Tokoroa Pastoral Ltd
 Tom Hargreaves Farms Ltd
 Tomclan Holdings Ltd
 Tomco Limited

Tor View Ltd
 Torehape Sharemilking Co Limited
 Torran Moor Ltd
 Trenberth Family Trust
 Trinity Lands Limited
 TRK Farm Limited
 Tronnoco Farming Co Ltd
 True Blue Trusts
 TS Dairies Limited
 Tuki Tuki Awa Ltd
 Turpin Dairies Limited
 Tussocky Road Dairy Farm Limited
 Twin Creeks Partnership
 Tyndale Family Trust
 Tyndale Trust
 Tyrone Trust P/Ship
 Upper Balmoral Limited
 Uruwhenua Farms Ltd
 V & B Kalin Limited
 V & J Ralph Ltd
 V E & D M Grant
 Vale Green Services Limited
 Valley Views Southland Ltd
 Van De Pas Trust
 VDP Limited
 Ventsha Farms Limited
 Ventura Dairies Limited
 W & C Gibberd
 W A & D P McKenzie
 WR & D J Little

W S & K M Fleck
 W.A & H.R Simpson Farming Ltd
 Wade Industries Ltd
 Waikatland
 Waimak Dairies Limited
 Waimarama Farming Ltd
 Waimate Fields Ltd
 Wainui Dairies
 Waiongona Flats Ltd
 Waiotu Farms Ltd
 Wairakau Farm Trust
 Waitago Farms Ltd
 Waitoru Farm Limited
 Waituna Investments Ltd
 Waiwira Holdings Ltd
 Walker Holdings Taupiri Ltd
 Walsh Enterprises Limited
 Watford Trust
 Wattle Downs Limited
 Webber Farm Limited
 Webster Farming Limited
 Welsh Family Farms Limited
 West Mains Farm Ltd
 Westbrook Farming Company Limited
 Western Heights Partnership
 Westmere Co (2007) Ltd
 Westridge Farm Limited
 Whakahora Farm Ltd
 Whakatupu Farming Limited
 Wharepapa Trust

Whitestone Dairies Limited
 Wilcock Farming Limited
 Willans Holdings Ltd
 Willbound Farm Limited
 Williamson Trust Partnership
 Willowbrook Farms Ltd
 Willowcreek Trust
 Willowfields Limited
 Willowhaugh Enterprises Limited
 Willowview Pastures Limited
 Wilmat Farms Limited
 Wilson Produce Limited
 Windsor Park Dairies Limited
 Windy Hills Farms Ltd
 Winter Farms (2004) Ltd
 Wiremu Trusts
 Withco Holdings Ltd
 Wolff Farms Limited
 Woodlaw Farm Ltd
 Woodside Dairying Ltd
 Woody's Charters Limited
 WP & KA Myers Family Trusts Partnership
 Wynyard Dairies Ltd
 Youngish Farming Partnership
 Zagri Dairies Limited
 Zeeland Dairies Limited
 Zeldon View Limited
 Zoetermeer Agriculture Ltd

Off-farm

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Off-farm

High inflation and global recessionary pressures have made this a volatile year. While our Co-op hasn't been immune to these impacts, our earnings have benefited from our ability to capture favourable margins in our protein portfolio, while our Farmgate Milk Price has been impacted by reduced demand for powders.

We've made good progress on key strategic initiatives, including refining our asset portfolio, reducing our emissions, and growing our innovation portfolio.

Fonterra returns capital to shareholders

When we released our long term strategy in 2021, we committed to return capital to shareholders pending the outcome of the sale of our Chilean Soprole business.

We are pleased to have completed divestment of the business in FY23, putting us in the position to return \$804m, or 50 cents per share, to shareholders and unit holders.

On July 26, farmers voted in favour of the capital return with payment subsequently made on 18 August 2023.

As well as completing the divestment of Soprole, we completed the sale of our last remaining China Farm and agreed the sale of DPA Brazil, our joint venture with Nestlé, to Lactalis.

Fonterra increases emissions reduction ambitions

Fonterra's Scope 1&2 emissions largely come from our manufacturing operations and supply chain. Strengthening our emissions reduction target supports our ambition to be net zero by 2050.

Achieving our new emissions reduction target will require Fonterra to continue to undertake energy efficiency improvements and fuel switching to renewable energy source activities across our milk collection fleet and manufacturing sites, with a focus on the seven that use coal.

To do this, Fonterra is forecasting an investment of approximately \$790 million, including a government contribution of up to \$90 million through the Government Investment in Decarbonising Industry (GIDI) fund.

The decarbonisation plan will see Fonterra build on current and completed work at five of its manufacturing sites and explore multiple technologies to assist us selecting the most efficient transition to renewable energy across our manufacturing sites, while building resilience into our operations.

Accelerating these plans will help Fonterra continue to present customers with the world's lowest carbon dairy at scale¹. It will also contribute to New Zealand meeting its climate targets while delivering benefits across regional New Zealand, such as job opportunities in local communities, from our decarbonisation projects.

NZ's largest cool distribution centre

November marked the completion of over two years of construction, installation and commissioning to create our first and only retro fitted automated distribution centre in New Zealand.

It is the largest automated Cool Distribution Centre (DC) in New Zealand, located in Hamilton.

The upgraded DC will improve site efficiency, reduce energy consumption, and reduce product and infrastructure damage through the automation of 40,000 pallet spaces, resulting in an expected savings of \$4 million per year for the Co-op.

¹ [DairyNZ, February 2021: Mapping the carbon footprint of milk for dairy cows](#)

Decarbonising our operations

Stirling site running on renewable thermal energy

The Stirling wood biomass boiler fired up for the first time in April, marking the next step on the site's transition to be totally reliant on renewable energy for its process heat. Changing to this boiler will reduce the annual carbon emissions forecast by 18,500 tonnes – the equivalent of taking approximately 7,700 cars off New Zealand's roads.

Hautapu converting to wood biomass

The Co-operative will convert coal boilers at its Hautapu site to wood pellets. Once complete in early 2024 the Hautapu site will reduce our carbon emissions by a forecast 15,785 tonnes per annum - the equivalent of taking about 6,500 cars off New Zealand's roads.

Waitoa installs new biomass boiler

The new Waitoa wood biomass boiler, due to be operational in November 2023, will reduce the site's annual carbon emissions by approximately 48,000 tonnes, the equivalent of taking approximately 20,000 cars off New Zealand's roads.

Nutrition Science Solutions

Fonterra launches nutrition science venture arm

Fonterra has taken another step in implementing its strategy to be a leader in dairy innovation and science with the launch of a new nutrition sciences venture arm.

The business – provisionally named Nutrition Science Solutions (NSS) – will operate as a standalone business within Fonterra with its own board and CEO.

The NSS Board consists of two Independent Directors, William Fu-wei Liao (Chair) and Rodolphe Barrangou, and two Directors from the Fonterra Management Team, Mike Cronin and Komal Mistry-Mehta.

NSS will incubate and scale a portfolio of disruptive ventures by developing solutions that combine science, nutrition and technology to seek to make a real impact on human health.

The first investment made through NSS was US\$10 million for a minority shareholding in San Francisco based Pendulum, a biotech company pioneering the next frontier of metabolic health through its microbiome-targeted products.

Fonterra
Te Awamutu



Products & customers

We believe our New Zealand pasture-based farming produces the best milk in the world, a testament to the care and attention our farmers give to their animals and the land.

This high level of focus means that our on-farm carbon footprint is amongst the lowest in the world. As our customers and consumers become more interested in the provenance of their food, our sustainability credentials are more important than ever.



We play an important part in the development of new dairy innovations, helping customers as they look to nutrition solutions to help them live longer and healthier lives.

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



Fonterra Application Centre,
Shenzhen

Innovating close to customers

In April, we launched Fonterra's Shenzhen Application Center (FAC) focused on beverage innovation.

Strategically located in the heart of the "New Capital of Beverages," Shenzhen, it is our fifth FAC in China following Shanghai, Beijing, Chengdu, and Guangzhou.

China is a highly competitive beverage market, with consumers constantly seeking the next best drink. Last year, 1,434 new kinds of non-alcoholic beverages were launched in China by key tea and beverage brands.

Businesses must adapt quickly to market trends and continuously create novel products that typically combine traditional tea ingredients, dairy and fruit products.

The Shenzhen application centre provides a new platform to explore the diverse use of Fonterra products in beverages and provide innovative application solutions to meet the local needs of Chinese consumers.

A team of technical experts and experienced chefs are stationed at the centre and help to create an interactive, experiential space for customers, through product development seminars, demonstrations, and virtual live teachings.

In July, Prime Minister of New Zealand, Chris Hipkins, visited our application centre in Shanghai as part of his state visit to China. The Shanghai centre is the Co-op's first, established in 2014.

Fonterra and DSM's new venture: Vivici

With continued population growth, the world needs new nutritional and functional food options.

Based on this vision, Vivici is a new startup company founded by DSM Venturing and Fonterra.

It builds on a multi-year joint research development agreement of DSM and Fonterra which led to promising outcomes.

Vivici obtained IP rights and exclusive commercial rights from Fonterra and DSM for developing and commercialisation of precision fermentation-derived proteins.

The startup combines DSM's world-leading expertise in precision fermentation science and technology with Fonterra's world-leading dairy science and technology.

Since it was launched in August 2022, Vivici has cemented its structure and defined its mission 'to meet the world's growing need for sustainable, nutritious and great tasting proteins.'

These new sources of protein will meet demand that is expected to double by 2050, driven by a growing and more affluent global population, demand which the planet is not expected to be able to meet through existing production. It provides potential opportunity for Fonterra to extend our farmers' milk into products, categories and markets we're not currently participating in.

Vivici will target broad food and beverage markets and plans to be open for customer collaboration later in 2023.



Products & customers

Collaborating with customers to align on sustainability challenges

Fonterra and Mars benefit from shared values around innovation and sustainability which underpins our deepening global strategic partnership. Together, we ran a candy drop, where over 1,000 of our tanker drivers delivered Mars chocolates to our farmers thanking them for the work they're doing to improve on-farm sustainability practices.

At the end of 2022 we signed a Global Supply Agreement with Mars, where we will supply skim milk power, whole milk powder and anhydrous milk fat with Fonterra's share of wallet scaling significantly through 2025. This deep partnering with our customers around shared innovation and climate goals is a powerful way forward for both of our businesses.

Australia responds to consumer trends

Our Australian business is responding to consumer preferences for sustainable products.

The team launched a Mainland re-closeable snacking product, which keeps biscuits and cheese fresh in the fridge.

This caters to the ever-growing in-home snacking market by providing 16 slices of cheese along with two options for crackers.

This innovation means less waste and gives consumers more choice for their snacking budget.

Premium Nutrition

Our innovation teams have launched numerous novel applications as we seek to extract maximum value out of NZ milk this year. Two examples are the Power Up high protein coffee milk solution and high protein yoghurts.

In the first example, Fonterra offers an Intellectual Property formulation, process know-how and ingredients package. This accelerates and de-risks our customers' ability to launch a high protein coffee milk, in a UHT format, that is designed to remain stable during shelf life. This is challenging as the acidity from the coffee in a protein packed system can cause sedimentation over the long shelf life expected of a UHT product.

For high protein yoghurts, Fonterra has a range of ingredients that allow unrivalled protein enrichment and enable a wide range of textures, including drinking, spoonable and set; without compromising flavour and mouthfeel. This is a significant unlock and has proven difficult for competitors to replicate and further demonstrates the quality ingredients, application and processing knowledge held by the Co-op. So far, these yoghurt innovations have seen success in USA, Korea and Japan, to name a few.



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Fonterra Management Team



Miles Hurrell

Chief Executive Officer

Miles was appointed Chief Executive in 2018. He is responsible for leading the organisation, delivering strategy and financial performance, and engaging with our farmer owners, employees, customers and shareholders.

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

Previously, Miles held the role of Chief Operating Officer, Farm Source, with responsibility for farmer services and engagement, milk sourcing and the operation of New Zealand's 70 Farm Source™ retail stores.

Miles has also held a number of leadership roles across the Co-op, including Group Co-operative Affairs Director and General Manager Middle East, Africa, Russia and Eastern Europe where he led a period of sustained growth across the region. Earlier in his career, Miles worked as the General Manager of Global Sourcing, building relationships with many of our global partners of today.

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



Neil Beaumont

Chief Financial Officer

Neil Beaumont joined Fonterra in 2023 and is responsible for the Co-operative's finances, its financial portfolios, as well as mergers and acquisitions. He is a highly accomplished Chief Financial Officer with 25+ years of diverse and global finance leadership experience, having lived and worked in Canada, Australia, and Chile.

Most recently, Neil was Group CFRO of Canada's largest investment fund – the Canadian Pension Plan Investment Board (CPPIB) – responsible for finance, risk, and strategic planning of this C\$500B+ organisation.

Prior to that, he had a six-year career with Australian multinational resources company BHP, where he spent time in both Group Finance and as CFO for the Minerals Americas region.

Neil also spent over ten years as a Senior Partner with KPMG operating as Business Unit Leader for Canada's Western region, with broad-reaching leadership across 13 offices and industry client responsibility across agriculture, resources, technology, and oil and gas.

He is a Chartered Professional Accountant and holds a Bachelor of Commerce degree from the University of Saskatchewan.



Judith Swales

Chief Executive Officer, Global Markets

Judith Swales leads Fonterra's Global Markets region. Responsible for our Consumer, Foodservice and Ingredients channels across the region, Judith and her team lead the global strategy to help bring the goodness of dairy to generations of customers and consumers.

Prior to this Judith was Fonterra's CEO for Asia Pacific, and earlier led the Global Consumer and Foodservice business, and the Innovation and Transformation business unit. Judith joined the Co-operative originally in 2013 as Managing Director Australia and Fonterra Oceania.

The daughter of a milkman, Judith grew up helping her father on his daily milk run. She has extensive experience in senior management and business turnarounds. Before joining Fonterra, she was Managing Director of Heinz Australia, CEO and Managing Director of Goodyear Dunlop, Australia and New Zealand, and Managing Director of Angus and Robertson.

She currently serves as a Non-Executive Director for Super Retail Group and has served on the boards of Virgin Australia, DuluxGroup and Fosters.

Judith has a Bachelor of Science (Honours) in Microbiology and Virology and is a graduate member of the Australian Institute of Company Directors.



Teh-han Chow

Chief Executive Officer, Greater China

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

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

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

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

Teh-han has a Bachelor's degree in Marketing from California State University Northridge, and a Master's degree, with honours, in International Management from Thunderbird Graduate School of International Management.



Kate Daly

Managing Director, People and Culture

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

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

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

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

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



Mike Cronin

Managing Director, Co-operative Affairs

Mike Cronin oversees Co-operative Affairs which includes Governance, Risk and Audit, Farm Source, Global Sustainability, Stakeholder Affairs and Trade, Legal, Inclusion and Māori Strategy.

Mike joined Fonterra in 2002 and has been a member of teams that have contributed to some of Fonterra's key initiatives, including Trading Among Farmers, the Governance and Representation Review, the Fonterra Purpose, The Co-operative Difference and Flexible Shareholding.

Prior to 2014 when he joined the Fonterra Management Team, Mike was the General Manager of Strategy Deployment and then Group Director Governance and Legal.

Mike has a Bachelor of Laws and Bachelor of Arts from the University of Auckland.

Information about the Board of Directors can be found in the [Governance & Statutory Disclosures](#).



Komal Mistry-Mehta

Chief Innovation and Brand Officer

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

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

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

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

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



Emma Parsons

Managing Director, Strategy and Optimisation

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

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

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

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



Anna Palairet

Chief Operating Officer (Acting)

Anna is currently the Chief Operating Officer (Acting) for Fonterra, responsible for our New Zealand manufacturing sites and global supply chain operations, technical excellence, and global safety, quality and regulatory teams.

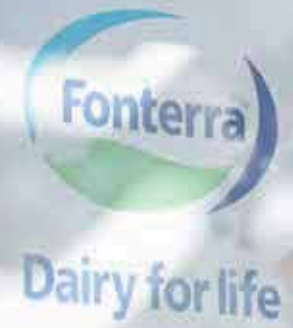
She re-joined the dairy industry in October 2022 as the Director, Global Supply Chain before moving into the Chief Operating Officer (Acting) role in June 2023. She is also Chair of Kotahi Logistics.

Anna is an experienced business leader with a career spanning some of Australasia's largest multinational companies across multiple industries including Fonterra, Carter Holt Harvey, Amcor, and Air New Zealand.

During her 16 years with Air New Zealand, Anna led commercial portfolios in the company's Engineering, Group Supply Chain, Operations, Customer and Sales divisions. Positions included GM Air New Zealand Cargo, GM Property and Infrastructure, Head of Sustainability and Head of Procurement.

Anna is a past Board Director for the New Zealand Green Building Council (NZGBC) and past Board Trustee of Gladstone Primary School. She has a Bachelor of Science, Genetics and Microbiology degree from Massey University.

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Jack, Maheswary & Bronte, Auckland

Non-GAAP measures

Fonterra uses several non-GAAP measures when discussing financial performance. Non-GAAP measures are not defined or specified by NZ IFRS. They are not subject to audit unless they are included in Fonterra's audited annual financial statements.

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

Please refer to the following tables for reconciliations of NZ IFRS to non-GAAP measures, and the Glossary for definitions of non-GAAP measures referred to by Fonterra. Non-GAAP measures are not subject to audit unless they are included in Fonterra's audited annual financial statements.

Reconciliation from profit after tax to total Group normalised EBITDA

	GROUP \$ MILLION	
	31 JULY 2023	31 JULY 2022 RE-PRESENTED ¹
Profit after tax	1,577	583
Net finance costs from continuing operations	211	194
Net finance costs from discontinued operations	50	37
Tax expense from continuing operations	303	131
Tax expense from discontinued operations	77	31
Depreciation and amortisation from continuing operations	654	602
Depreciation and amortisation from discontinued operations	8	33
Total Group EBITDA	2,880	1,611
Gain on sale of Chilean Soprole business	(349)	–
Loss on sale of Hangu China farm	12	–
Gain on sale of Global Dairy Trade	–	(42)
Brazil consumer and foodservice business impairment	–	57
Total normalisation adjustments	(337)	15
Total Group normalised EBITDA	2,543	1,626

¹ Comparative information has been re-presented for consistency with the current period. Refer to the Notes to the Financial Statements section – Note 20 *Re-presentations* for further details.

Reconciliation from profit after tax to total Group normalised EBIT

	GROUP \$ MILLION	
	31 JULY 2023	31 JULY 2022 RE-PRESENTED ¹
Profit after tax	1,577	583
Net finance costs from continuing operations	211	194
Net finance costs from discontinued operations	50	37
Tax expense from continuing operations	303	131
Tax expense from discontinued operations	77	31
Total Group EBIT	2,218	976
Normalisation adjustments (as detailed on previous page)	(337)	15
Total Group normalised EBIT	1,881	991

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

	GROUP \$ MILLION	
	31 JULY 2023	31 JULY 2022
Profit after tax	1,577	583
Normalisation adjustments (as detailed on the previous page)	(337)	15
Tax on normalisation adjustments	89	(7)
Normalised profit after tax	1,329	591
(Profit)/loss attributable to non-controlling interests	(40)	1
Normalisation adjustments attributable to non-controlling interests	–	(24)
Normalised profit after tax attributable to equity holders of the Co-operative	1,289	568
Weighted average number of Co-operative shares (thousands of shares)	1,610,507	1,613,353
Normalised earnings per share (\$)	0.80	0.35

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

	GROUP \$ MILLION	
	31 JULY 2023	31 JULY 2022 RE-PRESENTED ¹
Gross profit from continuing operations	4,181	2,909
Gross profit from discontinued operations	418	431
Total Group normalised gross profit	4,599	3,340

¹ Comparative information has been re-presented for consistency with the current period. Refer to the Notes to the Financial Statements section – Note 20 *Re-presentations* for further details.

Glossary

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Terms	Definitions
Active Living	represents ingredients and solutions sold to businesses who cater to consumers' health and wellness needs. It addresses three dimensions of wellbeing (Physical, Mental, Inner), extending to meet the nutrition needs of medical patients through to everyday people pursuing active lifestyles. This portfolio includes proteins, specialty ingredients such as probiotics, lactoferrin and lipids, and patented formulations.
Adjusted net debt	is calculated as total borrowings, plus bank overdraft, less cash and cash equivalents, plus a cash adjustment for 25% of cash and cash equivalents held by the Group's subsidiaries, adjusted for derivatives used to manage changes in hedged risks on debt instruments. Amounts relating to disposal groups held for sale are included in the calculation.
Associated Shareholder	is a Shareholder that is a Farm Lessor, Sharemilker or Contract Milker.
Attributable to equity holders of the Co-operative	is used to indicate that a measure or sub-total excludes amounts attributable to non-controlling interests.
Average capital employed	is a 13-month rolling average of capital employed.
Bulk liquids	means bulk raw milk that has not been processed and bulk separated cream.
Capital employed	is adjusted net debt less the cash adjustment (used in calculating adjusted net debt), plus cash and cash equivalents held by subsidiaries for working capital purposes, plus equity excluding hedge reserves and net deferred tax assets.
Capital expenditure	is purchases of property (less specific disposals where there is an obligation to repurchase), plant and equipment and intangible assets (excluding purchases of emissions units), net purchases of livestock, and includes amounts relating to disposal groups held for sale.
Capital invested	is capital expenditure plus right of use asset (e.g. leases) additions and business acquisitions, including equity contributions, long-term advances, and investments.

Terms	Definitions
Cash operating expenses per kgMS	is continuing operations operating expenses, less non-cash costs (depreciation, amortisation, right of use asset costs, impairments). Shown by kilogram of New Zealand milk solids collected.
Ceased Shareholder	is a Shareholder that has given notice of ceasing supply, or is treated as having given such a notice, and whose cease notice has become effective.
Consumer	is the channel of branded consumer products, such as powders, yoghurts, milk, butter and cheese.
Continuing operations	means operations of the Group that are not discontinued operations.
Core Operations	represents core operating functions including New Zealand milk collection and processing operations and assets, supply chain, Group IT and Sustainability; Fonterra Farm Source™ retail stores; and the Strategy and Optimisation function.
Custodian	means the Fonterra Farmer Custodian, which is the legal holder of the shares in respect of which economic rights are held for the Fund and any Market Makers.
Debt to EBITDA	is adjusted net debt divided by Total Group normalised earnings before interest, tax, depreciation and amortisation (Total Group normalised EBITDA) excluding share of profit/loss of equity accounted investees, net foreign exchange gains/losses and any normalised EBITDA relating to entities divested during the year.
DIRA	means the Dairy Industry Restructuring Act 2001, which authorised Fonterra's formation and regulates its activities, subsequent amendments to the Act, and the Dairy Industry Restructuring (Raw Milk) Regulations 2012.
Discontinued operations	means a component of the Group that is classified as held for sale (or has been sold) and represents, or is part of a single co-ordinated plan to dispose of, a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.
Dividend yield	is dividends (per share) divided by volume weighted average share price for the period 1 August to 31 July.

Terms	Definitions
Earnings before interest and tax (EBIT)	is profit before net finance costs and tax.
Earnings before interest, tax, depreciation and amortisation (EBITDA)	is profit before net finance costs, tax, depreciation and amortisation.
Earnings per share (EPS)	is profit after tax attributable to equity holders of the Co-operative divided by the weighted average number of shares on issue for the period.
EBIT margin	is EBIT divided by revenue from sale of goods.
EBITDA margin	is EBITDA divided by revenue from sale of goods.
Economic rights	means the rights to receive dividends and other economic benefits derived from a share, as well as other rights derived from owning a share.
Eliminations	represents eliminations of inter-business unit sales.
Farmgate Milk Price	means the average price paid by Fonterra for each kilogram of milk solids (kgMS) supplied by Fonterra's farmer shareholders under Fonterra's standard terms of supply. The season refers to the 12-month milk season of 1 June to 31 May. The Farmgate Milk Price is set by the Board, based on the recommendation of the Milk Price Panel. In making that recommendation, the Panel provides assurance to the Board that the Farmgate Milk Price has been calculated in accordance with the Farmgate Milk Price Manual.
Fonterra's average NZD/USD conversion rate	is the rate that Fonterra has converted net United States Dollar receipts into New Zealand Dollars including hedge cover in place.
Foodservice	represents the channel selling to businesses that cater for out-of-home consumption; restaurants, hotels, cafés, airports, catering companies etc. The focus is on customers such as; bakeries, cafés, Italian restaurants, and global quick-service restaurant chains. High performance dairy ingredients including whipping creams, mozzarella, cream cheese and butter sheets, are sold in alongside our business solutions under the Anchor Food Professionals brand.

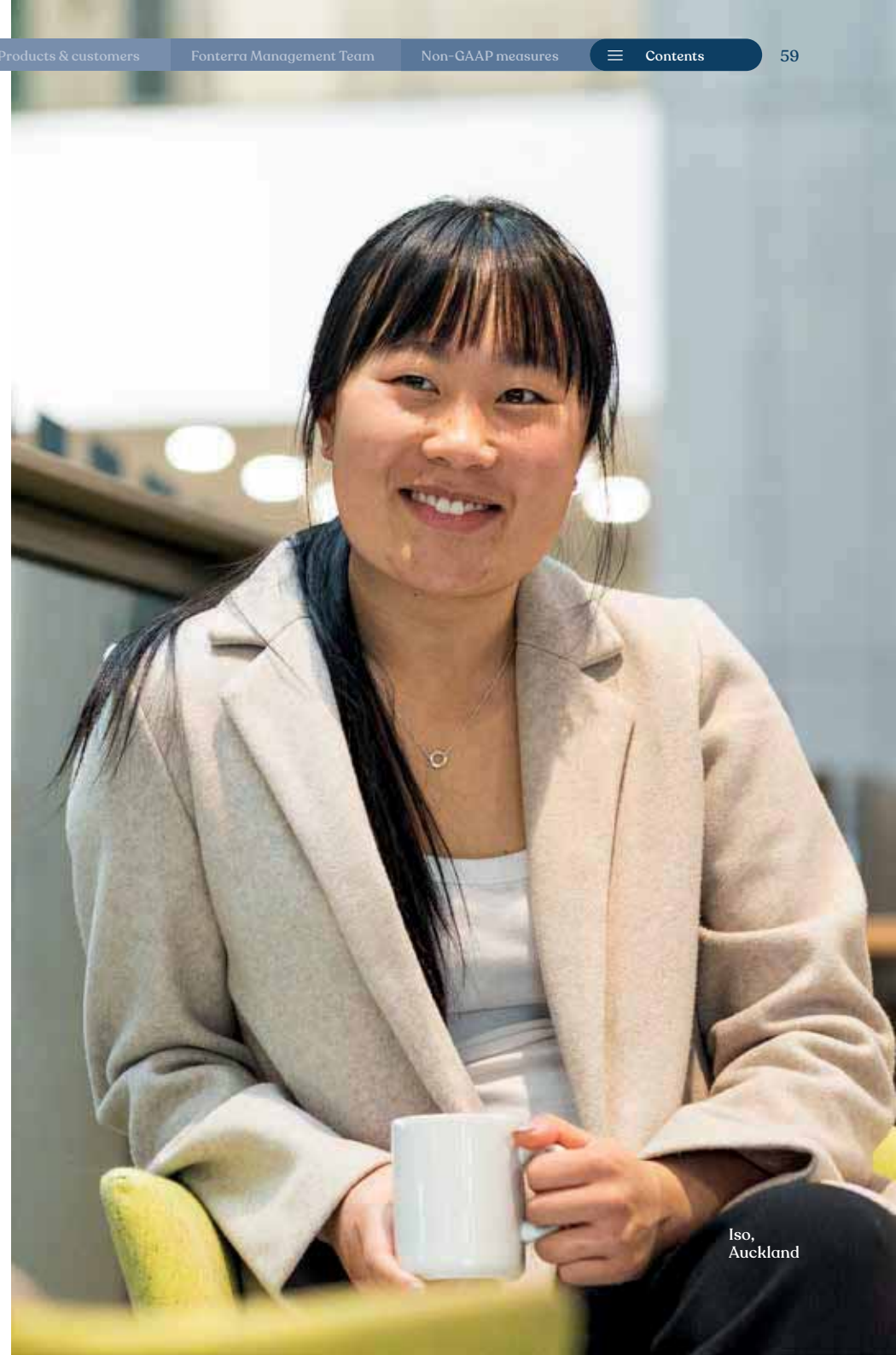
Terms	Definitions
Free cash flow	is the total of net cash flows from operating activities and net cash flows from investing activities.
Fund	is the Fonterra Shareholders' Fund.
Gearing ratio (%) (adjusted net debt)	is adjusted net debt divided by total capital. Total capital is equity excluding hedge reserves, plus adjusted net debt.
Global accounts	means large scale, multi-national/multi-region customers.
Global Dairy Trade (GDT)	means the electronic auction platform that is used to sell commodity dairy products.
Global Markets	represents the Ingredients, Foodservice and Consumer channels outside of Greater China.
Greater China	represents the Ingredients, Foodservice and Consumer channels in Greater China.
Gross margin	is gross profit divided by revenue from sale of goods.
Gross profit from Core Operations per kgMS	is Core Operations business unit (excluding Farmsource) gross profit, less the cost of New Zealand milk sold. Shown per kilogram of New Zealand milk solids sold by Core Operations (continuing business).
Growth capital expenditure	is investments to drive business expansion or improvement toward our strategy and generate incremental revenue. This includes organic growth (existing business projects) and inorganic growth (mergers and acquisitions).
Held for sale	is an asset or disposal group is classified as held for sale if it is available for immediate sale in its present condition and its sale is highly probable. A disposal group is a group of assets and liabilities to be disposed of (by sale or otherwise) in a single transaction.
Ingredients	represents the channel comprising bulk and specialty dairy products such as milk powders, dairy fats, cheese and proteins manufactured in New Zealand, Australia and Europe, or sourced through our global network, and sold to food producers and distributors.

Terms	Definitions
kgMS	means kilograms of milk solids, the measure of the amount of fat and protein in the milk supplied to Fonterra.
Market Maker	is a third party appointed by the Co-op who is active in making bids and offers on a minimum number of Fonterra Co-operative Group Shares.
Maximum Holding	is the maximum number of shares a Supplying Shareholder can hold, which is equal to 4 times the Share Standard.
Minimum Holding	is the minimum number of shares a Supplying Shareholder is required to hold, which is equal to 33% of the Share Standard. New entrants have up to six seasons to meet this.
Net debt	means adjusted net debt.
Net working capital	is total trade and other receivables plus inventories, less trade and other payables. It excludes amounts owing to suppliers and employee entitlements.
Non-Reference Products	means all New Zealand milk solids processed by Core Operations, except for Reference Commodity Products.
Non-shareholding farm	means a farm where the owning entity is not entitled to hold shares in the Co-operative. As an example, farms supplying MyMilk.
Non-supplying Shareholder	means all shareholdings that are not Supplying Shareholders.
Normalisation adjustments	means adjustments made for certain transactions that meet the requirements of the Group's Normalisation Policy. These transactions are typically unusual in size and nature. Normalisation adjustments are made to assist users in forming a view of the underlying performance of the business. Normalisation adjustments are set out in the Non-GAAP Measures section. Normalised is used to indicate that a measure or sub-total has been adjusted for the impacts of normalisation adjustments. E.g. 'Normalised EBIT'.
Permitted Transferee	is a person who has been approved by the Co-op and who is (and remains) related to or associated with a Ceased Shareholder.

Terms	Definitions
Price Relativities	refers to the difference in the weighted average price (in USD) between the Co-op's Reference Product portfolio and Non-reference Product portfolio. The difference between these two weighted average prices is a key driver of the Co-op's gross margin.
Product channel	Fonterra has three product channels, Ingredients, Foodservice and Consumer.
Profit after tax margin	is profit after tax attributable to equity holders of the Co-operative, divided by revenue from sale of goods.
Reference Commodity Products (also referred to as Reference Products)	is commodity specifications of the five Reference Commodity Products (RCPs) which are Whole Milk Powder (WMP) and Skim Milk Powder (SMP), and their by-products Butter, Anhydrous Milk Fat (AMF) and Buttermilk Powder (BMP). These commodity groups are included in the calculation of the Farmgate Milk Price.
Reported	is used to indicate a sub-total or total is reported in the Group's Financial Statements before normalisation adjustments. E.g. 'Reported profit after tax'.
Retentions	means earnings per share, less dividend per share. Retentions are reported as nil where Fonterra has reported a net loss after tax.
Return on Capital (ROC)	is calculated as Total Group normalised EBIT including finance income on long-term advances less a notional tax charge, divided by average capital employed.
Rules for Shareholding	is the Rules for Shareholding adopted by the Fonterra Board from time to time.
Season	New Zealand: A period of 12 months from 1 June to 31 May. Australia: A period of 12 months from 1 July to 30 June.
Secondary Shareholder	is a sharemilker as defined in section 34 of the Co-operative Companies Act that holds shares as if they were a Supplying Shareholder, pursuant to section 44 of the Co-operative Companies Act and clause 30.5 of the Constitution.
Share Standard	means one share per one kgMS supplied, used to calculate a Supplying Shareholder's Minimum Holding and Maximum Holding.

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Terms	Definitions
Shareholding farm	means a farm where the owning entity of the farm has a minimum required shareholding of at least 1,000 shares in the Co-operative. This includes farms where the owning entity is in the process of sharing up on a Share Up Over Time contract.
Supplying Shareholder	is a shareholder supplying milk to the Co-op.
Sustaining capital expenditure	represents investments to maintain the capability of our existing assets from risk management, legislation/regulation commitments, business continuity and capital replacement, as well as projects that drive the Co-operative's sustainability targets.
Total Group	is used to indicate that a measure or sub-total comprises continuing operations, discontinued operations and non-controlling interests. E.g. 'Total Group EBIT'.
Total payout	means the total cash payment per milk solid that is backed by a share, being the sum of the Farmgate Milk Price per kgMS and the dividend per share.
Total Shareholder Return (TSR)	is the measure of share price movements and all economic distributions (e.g. dividends, capital returns) over a specified period of time, divided by the original investment amount. Expressed as an annualised percentage.
Tradeable shares	represents shares on issue that are in excess of aggregate minimum shareholding.
WACC	means weighted average cost of capital.
Weighted average share price	represents the average price Fonterra Co-operative Group Limited shares traded at, weighted against the trading volume at each price over the reporting period.
Working capital days	is calculated as 13-month rolling average working capital divided by revenue from the sale of goods (excluding impact of derivative financial instruments) multiplied by the number of days in the period. The working capital days calculation excludes other receivables, prepayments, other payables and includes working capital classified as held for sale.



Iso, Auckland

Directory

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Fonterra Board of Directors

Peter McBride
Clinton Dines
Brent Goldsack
Leonie Guiney
Bruce Hassall
Holly Kramer
Andrew Macfarlane
John Nicholls
Cathy Quinn
Scott St John
Alison Watters

Fonterra Management Team

Miles Hurrell
Neil Beaumont
Judith Swales
Teh-han Chow
Kate Daly
Mike Cronin
Komal Mistry-Mehta
Emma Parsons
Anna Palairot

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Auditor

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New Zealand

Farmer shareholder & supplier services

Freephone 0800 65 65 68

Fonterra Shares & FSF Units Registry

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Services Limited
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Investor Relations Enquiries

Phone +64 9 374 9000
<https://www.fonterra.com/nz/en/investors.html>



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Fonterra Financial Statements 2023

Fonterra Co-operative Group Limited – For the year ended 31 July 2023

Pūrongo pūtea Te Mātāpuna

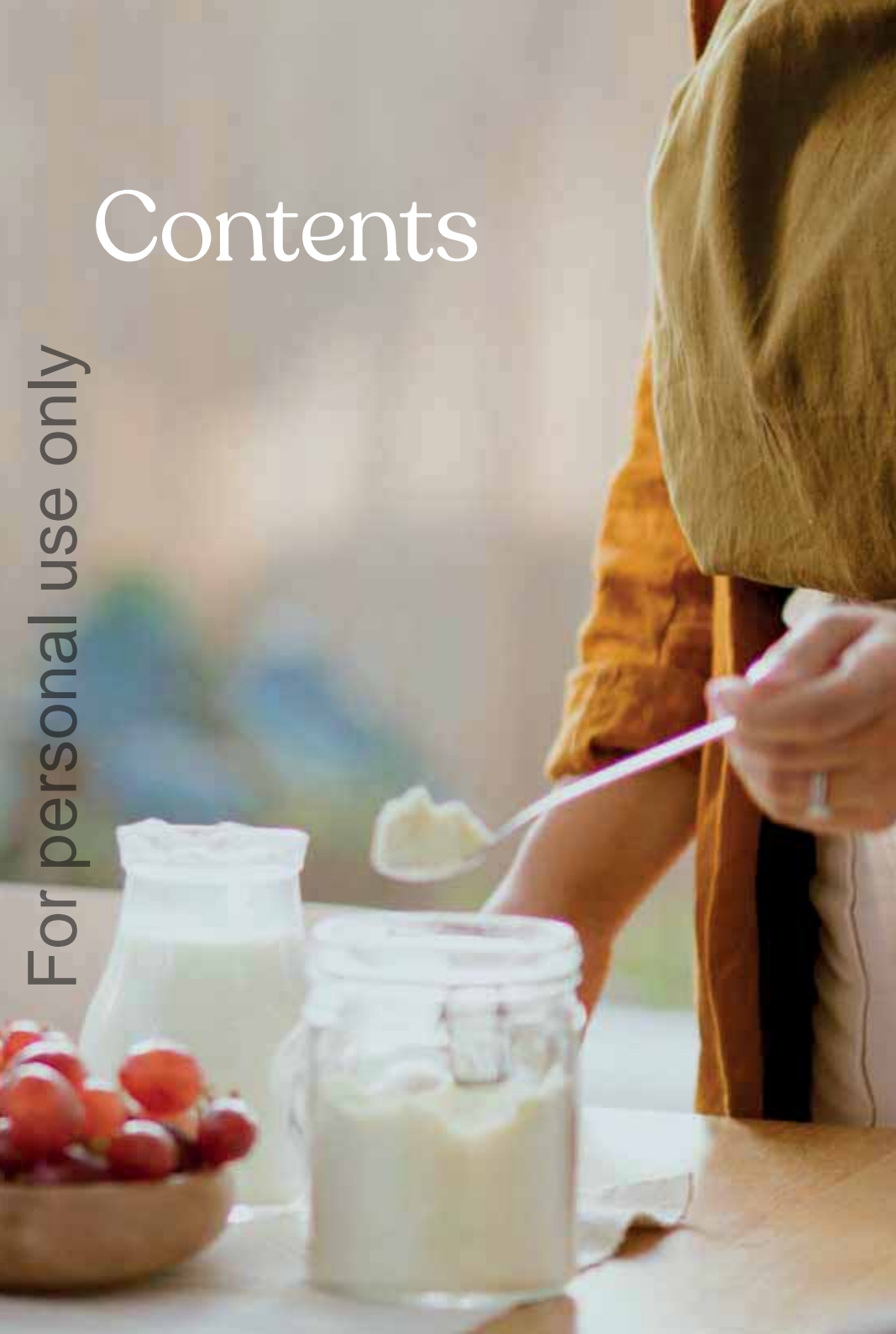


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OUR 2023 SUITE OF REPORTS

[Annual Review 2023](#)
(Referenced as AR)

[Financial Statements 2023](#)
(Referenced as FS)

[Business Performance Report 2023](#)
(Referenced as BP)

[Sustainability Report 2023](#)
(Referenced as SR)

[Governance & Statutory Disclosures 2023](#)
(Referenced as G&S)

[Modern Slavery Statement 2023](#)
(Referenced as MS)

[Farmgate Milk Price Statement 2023](#)
(Referenced as MP)

OUR REPORTS ARE AVAILABLE FROM FONTERRA.COM/NZ/EN/INVESTORS.HTML



Independent Auditor's Report



To the shareholders of Fonterra Co-operative Group Limited Report on the audit of the consolidated financial statements

Opinion

In our opinion, the consolidated financial statements of Fonterra Co-operative Group Limited (the 'company') and its subsidiaries (the 'Group') on pages 10 to 60 present fairly, in all material respects:

- i. the Group's financial position as at 31 July 2023 and its financial performance and cash flows for the year ended on that date;
- ii. in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards issued by the New Zealand Accounting Standards Board.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 31 July 2023;
- the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (Including International Independence Standards)* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

Our firm has also provided other services to the Group that are related to our role as the Group's auditor, such as assurance and agreed upon procedures services. This includes an engagement to provide a separate reasonable assurance report in connection with the Farmgate Milk Price. A copy of this assurance report is attached as an appendix to Fonterra's Farmgate Milk Price Statement. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at \$65 million determined with reference to a benchmark of the cost of New Zealand sourced milk. We chose the benchmark because, in our view, this is a key measure of the Group's performance.

Scoping

The scope of our audit is designed to ensure that we perform adequate work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the financial reporting systems, processes and controls, and the industry in which it operates.

In establishing the overall approach to our audit, we considered the centralised nature of the Group's operations, the risk profile of countries where the Group operates, and changes taking place within the business. We also considered the financial significance of each business unit together with any local statutory audit requirements.

The Group financial statements are a consolidation of over 100 individual subsidiaries and equity accounted investees. We scoped in 7 subsidiaries in New Zealand and Australia to be subject to audit due to their financial significance and risk profile. We undertook audits of these subsidiaries ourselves. In addition, we performed specific risk-focused audit procedures on certain transactions and balances in respect of a further 7 subsidiaries in Japan, the Netherlands, the USA, New Zealand and Singapore, as well as 1 subsidiary accounted as held for sale during the year in Brazil. We also identified 3 additional subsidiaries in Malaysia, New Zealand and Sri Lanka to include in our scoping to provide additional coverage over the Group's revenue and assets.

Taken together, the subsidiaries in scope for the Group audit accounted for 93% of the Group's revenue and 89% of the Group's total assets. For the remaining subsidiaries, we performed analysis at an aggregated Group level to confirm our assessment that there were no significant risks of material misstatement associated with them.

We assigned materiality levels to in scope subsidiaries for performance of audits and specified audit procedures. These were lower than the materiality level for the Group as a whole, ranging from \$10 million to \$40 million, and determined with reference to the size and risk profile of the subsidiary.

We visited subsidiary locations in New Zealand, Australia, Japan, the USA, Singapore, Malaysia, Sri Lanka, China and Hong Kong. We held meetings with management responsible for the financial information of all in scope subsidiaries.

We audited the Group consolidation, financial statement disclosures and a number of complex items centrally in New Zealand. These included general IT controls, controls operated through Fonterra's shared service centre environment, revenue recognition, the cost of New Zealand sourced milk, impairment of goodwill and brands, useful lives of property, plant and equipment, accounting for divestments and assets held for sale and financial instruments.

Independent Auditor's Report CONTINUED



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
<p>Revenue Recognition</p> <p>Refer to Note 1 to the financial statements.</p> <p>We considered the recognition of revenue from contracts with key customers and distributors to be a key audit matter due to:</p> <ul style="list-style-type: none"> – the significance of the Group's \$24.6 billion of revenue to the financial statements as a whole; – the level of judgement involved in establishing the timing and amount of revenue recognised for certain customers and distributors, in particular judgement related to agent versus principal considerations; and – the extent of audit effort required to examine the Group's contracts with customers in the context of the size and complexity of this area, and the requirement under auditing standards for us to consider fraud risk associated with revenue recognition. 	<p>The procedures we performed to evaluate whether revenue had been recognised appropriately included:</p> <ul style="list-style-type: none"> – identifying and testing relevant controls over revenue recognition, and using data analytics routines to evaluate 100% of sales transactions undertaken through the Group's two core ERP systems (representing 92% of Group revenue); – assessing the Group's revenue recognition accounting policies, and evaluating the application of these policies to actual contracts with customers as noted below; – evaluating contractual arrangements with key customers and distributors through discussion with management and inspection of the underlying documentation, as well as sample testing other sales arrangements; and – performing other audit procedures specifically designed to address the risk of management override of controls including journal entry testing, applying particular focus to the timing of revenue transactions. <p>We completed these procedures and have no matters to report.</p>

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Independent Auditor's Report CONTINUED



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THE KEY AUDIT MATTER

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

Goodwill and Brands

Refer to [Note 3](#) to the financial statements.

We considered the Group's annual impairment testing of goodwill and brands to be a key audit matter due to the significance of the balance of \$1.5 billion to the financial statements as a whole and the level of judgement involved in determining the methodology and assumptions used in the testing.

\$0.7 billion of goodwill and brands is included within two cash generating units ('CGUs'):

- Fonterra Brands New Zealand ('FBNZ') (\$390 million of goodwill and brands) tested using the earnings multiple method (a change from the discounted cash flow method used in previous years); and
- Fonterra Australia (\$283 million of goodwill and brands) tested using the discounted cash flow method.

The Group's consumer & foodservice brands are tested using the relief from royalty valuation method.

We focused our testing on two consumer brands with a heightened risk of impairment:

- Annum (\$68 million of brand value); and
- Anlene (\$159 million of brand value).

We focused on the significant forward-looking assumptions the Group applied in their impairment testing, including:

- the estimate of FBNZ's future maintainable earnings, and the earnings multiple;
- forecast cash flows, taking into account the Group's growth plans for Fonterra Australia;
- local currency sales forecasts and market royalty rates appropriate to each brand; and
- terminal growth rates and discount rates, as the Group's discounted cash flow models are highly sensitive to small changes in these assumptions.

In addition to the above, the carrying amount of the Group's net assets at 31 July 2023 was \$8.0 billion whilst the market capitalisation of Fonterra Co-operative Group Limited was \$5.1 billion. This is an indicator of impairment and required additional analysis and interpretation.

The procedures we performed to evaluate the impairment assessments included:

- assessing whether the methodology adopted was consistent with accepted valuation approaches of IAS 36 Impairment of Assets;
- evaluating the significant assumptions by comparing to historical trends, approved budgets, business plans and external market data;
- comparing the earnings multiple to observed trading multiples using KPMG valuation specialists;
- comparing discount rates and terminal growth rates applied to the estimated future cash flows to relevant benchmarks using KPMG valuation specialists;
- challenging the above assumptions and judgements by performing sensitivity analysis, considering a range of likely outcomes based on various scenarios;
- evaluating the estimate of the recoverable amount of the Group as a whole, including evaluating the work performed by the Group's external valuation specialists; and
- considering the appropriateness of the disclosures in the financial statements.

The Group recognised an impairment of goodwill of \$121 million in respect of FBNZ, of which \$92 million was recognised at half-year. No impairment of goodwill was recognised in respect of Fonterra Australia.

The Group recognised an impairment of \$96m in respect of the Annum and Anlene brands, of which \$68 million was recognised at half-year.

We found the impairment testing methodologies to be consistent with IAS 36. We found the earnings multiple, discount rate and terminal growth rate assumptions were in an acceptable range, and that the other significant assumptions were largely supported by comparison to the sources we considered.

For FBNZ, Annum and Anlene, our scenario analysis indicated that the impairments recognised were appropriate. As there is no headroom over the carrying value of these assets, any adverse movement in key assumptions would result in further impairments.

For Fonterra Australia our scenario analysis indicated that the recoverable amount exceeded its carrying value.

The estimate of the recoverable amount for the Group as a whole exceeded the carrying amount of the Group's net assets. The evidence we obtained in respect of valuation ranges for the Group as a whole did not indicate that further impairment of goodwill and brands was necessary.

We consider the impairment disclosures to be a fair reflection of the underlying impairment tests.

Independent Auditor's Report CONTINUED



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THE KEY AUDIT MATTER

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

The cost of New Zealand sourced milk

Refer to [Notes 4](#) and [11](#) to the financial statements.

The cost of New Zealand sourced milk supplied by farmer shareholders amounted to \$12.3 billion and comprises the volume of milk solids supplied at the Farmgate Milk Price as determined by the Board of Directors for the relevant season.

In making that determination, the Board takes into account the Farmgate Milk Price calculated in accordance with the Farmgate Milk Price Manual.

We considered the cost of New Zealand sourced milk to be a key audit matter due to:

- its significance to the financial statements as a whole. The cost of New Zealand sourced milk is a key component of the Group's cost of goods sold of \$20.4 billion and the carrying value of the Group's inventory of \$4.3 billion; and
- the extent of audit effort required to examine the cost of New Zealand sourced milk due to the complexity of applying the Board approved milk price to cost of goods sold and inventory.

The procedures we performed to evaluate the impact of the Farmgate Milk Price calculation on the cost of New Zealand sourced milk included:

- examining minutes of Milk Price Panel meetings and confirming with the Company Secretary that the Board considered the recommended Farmgate Milk Price from the Milk Price Panel and approved the payment of \$8.22 per kgMS for New Zealand sourced milk for the season ended 31 May 2023; and
- examining the application of the Board approved Farmgate Milk Price to cost of goods sold and inventory. This involved understanding and evaluating relevant controls to ensure that the latest milk price forecast series has been applied to cost of goods sold and inventory.

At season end, we checked that the cost of New Zealand sourced milk reflected the Board approved Farmgate Milk Price for the season, particularly where there has been a dynamic monthly milk price and how that should be correctly applied to the month of collection.

We completed these procedures and have no matters to report.

The Farmgate Milk Price calculation prepared by the Milk Price Group amounted to \$8.22 per kgMS (which equates to \$12.2 billion in total) and we confirmed with the Company Secretary that the Board of Directors approved a payment of \$8.22 per kgMS for New Zealand sourced milk for the season ended 31 May 2023 at their meeting on 20 September 2023.

Independent Auditor's Report CONTINUED



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Other information

The Directors, on behalf of the company, are responsible for the other information included in the entity's Annual Review and supporting reports. Other information includes:

- the Annual Review;
- the Corporate Governance Statement and Statutory Information; and
- the Business Performance Report.

Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the company, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards issued by the New Zealand Accounting Standards Board;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Matthew Diprose.

For and on behalf of

KPMG

Auckland

20 September 2023

Group Financial Statements 2023

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David, Southland

Statement of Financial Position

AS AT 31 JULY

(\$ MILLION)

	NOTES	2023	2022
ASSETS			
Current assets			
Cash and cash equivalents		1,822	288
Trade and other receivables	21,18b	2,473	2,482
Inventories	10	4,346	5,148
Derivative financial instruments		190	230
Other assets	14	149	171
Assets held for sale	2b	515	473
Total current assets		9,495	8,792
Non-current assets			
Property, plant and equipment	12	6,343	6,465
Intangible assets	3,13	1,824	2,153
Deferred tax assets	17b	182	551
Derivative financial instruments		379	434
Other assets	14	378	386
Total non-current assets		9,106	9,989
Total assets		18,601	18,781

The Board approved and authorised for issue these Financial Statements on 20 September 2023.

For and on behalf of the Board:



Peter McBride
Chairman



Bruce Hassall
Director

	NOTES	2023	2022
LIABILITIES			
Current liabilities			
Bank overdraft		102	31
Borrowings	7	785	356
Trade and other payables	11,18b	4,370	4,522
Derivative financial instruments		415	733
Capital return payable	5	804	–
Other liabilities	15	249	248
Liabilities held for sale	2b	536	628
Total current liabilities		7,261	6,518
Non-current liabilities			
Borrowings	7	3,156	4,900
Derivative financial instruments		106	313
Other liabilities	15	110	144
Total non-current liabilities		3,372	5,357
Total liabilities		10,633	11,875
Net assets		7,968	6,906
EQUITY			
Subscribed equity	5	5,073	5,891
Retained earnings		2,774	1,611
Reserves	22a	59	(569)
Non-controlling interests		62	(27)
Total equity		7,968	6,906

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Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 JULY

(\$ MILLION)

	NOTES	2023	2022
Revenue from sale of goods	1	24,580	21,901
Cost of goods sold			
<i>New Zealand sourced cost of milk</i>		(12,306)	(13,722)
<i>Non-New Zealand sourced cost of milk</i>		(1,109)	(843)
<i>Other collection and manufacturing costs</i>		(6,182)	(5,712)
<i>(Decrease)/increase in inventories</i>		(802)	1,285
Total cost of goods sold ¹	4a	(20,399)	(18,992)
Gross profit		4,181	2,909
Other operating income		78	151
Operating expenses	4a	(2,504)	(2,114)
Net finance costs	8	(211)	(194)
Profit before tax from continuing operations		1,544	752
Tax expense	17	(303)	(131)
Profit after tax from continuing operations		1,241	621
Profit/(loss) after tax from discontinued operations	2c	336	(38)
Profit after tax		1,577	583
Cash flow hedges and other costs of hedging, net of tax	22a	389	(320)
Net investment hedges and translation of foreign operations, net of tax	22a	66	103
Foreign currency translation reserve losses/(gains) transferred to profit or loss	22a	194	(1)
Other movements in reserves		5	4
Total items that may be reclassified subsequently to profit or loss		654	(214)
Total items that will not be reclassified subsequently to profit or loss		(4)	24
Total other comprehensive income/(expense)		650	(190)
Total comprehensive income		2,227	393
Earnings per share attributed to equity holders of the Co-operative			
Basic and diluted earnings per share from continuing operations (\$)		0.75	0.36
Basic and diluted earnings per share from discontinued operations (\$)		0.20	–
Total basic and diluted earnings per share (\$)		0.95	0.36
Weighted average number of shares (thousands of shares)		1,610,507	1,613,353

1 This Statement is presented on a functional basis. The shaded information provides an additional breakdown of Cost of goods sold by nature of expense.

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Statement of Cash Flows

FOR THE YEAR ENDED 31 JULY

(\$ MILLION)

	NOTES	2023	2022
Cash flows from operating activities			
Profit after tax		1,577	583
Adjustments for:			
Net finance costs		261	231
Tax expense		380	162
Depreciation and amortisation		662	635
Impairments	3	252	109
Gain on sale of businesses	2a	(341)	(42)
Foreign exchange (gains)/losses		(137)	309
Other		66	(59)
Total adjustments		1,143	1,345
Decrease/(increase) in working capital and other operating activities	16	871	(1,598)
Interest paid		(336)	(297)
Net taxes paid		(73)	(137)
Net cash flows from operating activities		3,182	(104)
Cash flows from investing activities			
Proceeds relating to divestments	2	1,084	26
Other cash inflows		44	19
Acquisition of property, plant and equipment		(598)	(480)
Hedging activities relating to the Chilean Soprole divestment	2	(148)	-
Taxes paid relating to divestments	2	(118)	-
Acquisition of intangible assets		(72)	(72)
Acquisition of investments		(44)	-
Other cash outflows		(16)	(10)
Net cash flows from investing activities		132	(517)

	NOTES	2023	2022
Cash flows from financing activities			
Proceeds from borrowings		2,698	3,919
Other cash inflows		101	15
Repayment of borrowings		(4,214)	(3,634)
Dividends paid		(430)	(355)
Share buyback		(11)	(1)
Net cash flows from financing activities		(1,856)	(56)
Net increase/(decrease) in cash		1,458	(677)
Opening cash		281	982
Effect of exchange rate changes		11	(24)
Closing cash		1,750	281
Reconciliation of closing cash to the Statement of Financial Position			
Cash and cash equivalents		1,822	288
Bank overdraft		(102)	(31)
Cash balances included in assets and liabilities held for sale	2b	30	24
Closing cash		1,750	281

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Statement of Changes in Equity

FOR THE YEAR ENDED 31 JULY

(\$ MILLION)

	NOTES	ATTRIBUTABLE TO EQUITY HOLDERS OF THE CO-OPERATIVE			NON-CONTROLLING INTERESTS	TOTAL EQUITY
		SUBSCRIBED EQUITY	RETAINED EARNINGS	RESERVES		
As at 1 August 2022		5,891	1,611	(569)	(27)	6,906
Profit after tax		–	1,537	–	40	1,577
Transfer between reserves		–	29	(29)	–	–
Other comprehensive income/(expense)		–	–	657	(7)	650
Total comprehensive income		–	1,566	628	33	2,227
Transactions with equity holders:						
Dividends paid	6	–	(403)	–	(27)	(430)
Dairy Partners Americas Brasil Limitada capital contributions received	2b	–	–	–	83	83
Capital return	5	(804)	–	–	–	(804)
Share buyback	5	(14)	–	–	–	(14)
As at 31 July 2023		5,073	2,774	59	62	7,968
As at 1 August 2021		5,892	1,350	(379)	6	6,869
Profit/(loss) after tax		–	584	–	(1)	583
Other comprehensive expense		–	–	(190)	–	(190)
Total comprehensive income/(expense)		–	584	(190)	(1)	393
Transactions with equity holders:						
Dividends paid	6	–	(323)	–	(32)	(355)
Share buyback	5	(1)	–	–	–	(1)
As at 31 July 2022		5,891	1,611	(569)	(27)	6,906

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Basis of Preparation

FOR THE YEAR ENDED 31 JULY 2023

At a glance

The basis of preparation describes the significant accounting policies, judgements and estimates that are relevant to the Group's Financial Statements as a whole. Where a policy, judgement or estimate is specific to a particular Note, it is included in the Note to which it relates.

a) About Fonterra

Fonterra Co-operative Group Limited (Fonterra, the Company or the Co-operative) is a multinational dairy co-operative. Fonterra is primarily involved in the collection, manufacture and sale of milk and milk-derived products through its Ingredients, Consumer and Foodservice channels.

Fonterra is incorporated and domiciled in New Zealand. Fonterra is registered under the Companies Act 1993 and the Co-operative Companies Act 1996, and is an FMC Reporting Entity under the Financial Markets Conduct Act 2013. Fonterra is also required to comply with the Dairy Industry Restructuring Act 2001 (DIRA).

b) Basis of preparation

These Financial Statements comprise Fonterra and its subsidiaries (together referred to as the Group) and the Group's interests in its equity accounted investments.

These Financial Statements:

- comply with International Financial Reporting Standards (IFRS);
- comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS);
- have been prepared in accordance with Generally Accepted Accounting Practice (GAAP) applicable to for-profit entities;
- have been prepared on a historical cost basis except where otherwise stated. Assets and liabilities measured at fair value are summarised in [Note 19 Fair value measurement](#); and
- are presented in New Zealand Dollars (\$) or NZD, which is Fonterra's functional currency, and rounded to the nearest million, except where otherwise stated.

Re-presentations

Simplification of Financial Statements

To improve disclosure effectiveness and focus on the most relevant and material information, the Group has made a number of simplifications to the Financial Statements in the current year, and expanded disclosure for areas of interest.

The previously separate Income Statement and Statement of Comprehensive Income have been combined into the Statement of Profit or Loss and Other Comprehensive Income.

The Statement of Cash Flows has been re-presented to start with Net profit after tax instead of Profit before net finance costs and tax, and to classify interest paid as an operating activity rather than a financing activity. The re-presentations have changed the subtotals of Total adjustments, Net cash flows from operating activities and Net cash flows from financing activities.

The simplification has also resulted in a number of aggregations and amendments where line items are not material, and affected comparatives have been re-presented for consistency. These re-presentations have not had an impact on the Profit after tax or Total comprehensive income in the Statement of Profit or Loss and Other Comprehensive Income, Net assets in the Statement of Financial Position, or the Net increase/(decrease) in cash presented in the Statement of Cash Flows.

Discontinued operations

During the period the Chilean Soprole business was classified as a disposal group held for sale and considered to be a discontinued operation. The business was sold in March 2023.

- Discontinued operations are presented in a single line item in the Statement of Profit or Loss and Other Comprehensive Income in the current and comparative reporting periods. Comparative period information has been re-presented to reflect the classification of the Chilean Soprole business as a discontinued operation. Refer to [Note 2 Divestments](#) and [Note 20 Re-presentations](#) for further information.
- As the Chilean Soprole business was classified as a disposal group held for sale and sold during the current reporting period, associated amounts are not presented in the Assets held for sale and Liabilities held for sale line items in the Statement of Financial Position, and no amounts have been re-presented.

c) Basis of consolidation

In preparing these Financial Statements, subsidiaries are consolidated from the date the Group gains control until the date on which control ceases. The Group's share of results of equity accounted investments are included in the Financial Statements from the date that significant influence or joint control commences, until the date that significant influence or joint control ceases. All transactions with subsidiaries are eliminated.

Translation of the Financial Statements into NZD

The assets and liabilities of Group companies whose functional currency is not NZD are translated into NZD at the year-end exchange rate. The revenue and expenses of these companies are translated into NZD at rates approximating those at the dates of the transactions. Exchange differences arising on this translation that are attributable to equity holders of the Co-operative are recognised in the foreign currency translation reserve. On disposal or partial disposal of an entity, the related exchange differences that were recorded in equity are recognised in the Statement of Profit or Loss and Other Comprehensive Income as part of the gain or loss on disposal.

Basis of Preparation CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

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d) Material accounting policies

Accounting policies which are considered material to an understanding of the Financial Statements are provided throughout the notes in green shading.

Changes in accounting policies

The Group has changed its accounting policy in relation to emissions units held for compliance purposes in the Statement of Financial Position, and now presents these as inventory (previously intangible assets) as this better reflects the nature and use of these units. This has not resulted in a change to the measurement of these assets. There has been no impact to the Statement of Profit or Loss and Other Comprehensive Income or the Statement of Cash Flows. Comparative information has been re-presented for consistency with the current period (31 July 2022: current intangible assets of \$78 million and non-current intangible assets of \$63 million have been reclassified to inventory).

The Group has also changed its accounting policy in relation to the classification of interest paid in the Statement of Cash Flows, and now presents interest paid as an operating activity rather than a financing activity. This change has been made on the basis that Net cash flows from operating activities, inclusive of interest paid to support operations, better reflects the underlying available operating cash flows of the business. This has not resulted in a change to the amount presented. There has been no impact to the Statement of Financial Position or the Statement of Profit or Loss and Other Comprehensive Income. Comparative information has been re-presented for consistency with the current period (31 July 2022: \$297 million presented as a cash flow from financing activities).

New and amended New Zealand Equivalents to International Financial Reporting Standards

No new or amended standards and interpretations that became effective for the year ended 31 July 2023 have had a material impact to the Group.

Accounting standards issued but not yet effective

NZ IFRS 17 *Insurance Contracts* (effective 1 August 2023) replaces the current guidance NZ IFRS 4 *Insurance Contracts*. The new standard provides a comprehensive accounting model, which applies to all types of insurance contracts regardless of the type of entity that issues them. The Group has assessed the effect of applying NZ IFRS 17 and no material impact to the Group's Financial Statements is expected.

There are no other new or amended standards that are issued but not yet effective that are expected to have a material recognition or measurement impact on the Group.

e) Significant judgements and estimates

In the preparation of these Financial Statements, a number of judgements and estimates have been made. Accordingly, actual outcomes may differ to these estimates.

Information about judgements, estimates and assumptions which are considered material to an understanding of the Financial Statements are provided in the following notes in grey shading.

NOTE		ITEM INVOLVING SIGNIFICANT JUDGEMENT OR ESTIMATION
Note 1	<i>Segment reporting and revenue</i>	Revenue recognition for transactions involving distributors
Note 2	<i>Divestments</i>	Determining if a disposal group is held for sale, and fair value measurement of assets and liabilities held for sale
Notes 3 and 13	<i>Impairments and Intangible assets</i>	Assumptions used in the impairment tests
Note 12	<i>Property, plant and equipment</i>	Determining residual values and useful lives

Basis of Preparation CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

f) Climate risk

At a glance

This section provides information on climate-related risks, and how the impact has been considered in these Financial Statements.

Climate change, Fonterra's response, and how farmer shareholders, customers, regulators and others also respond may have significant impacts on the recognised amounts of assets and liabilities.

The Group has committed to exiting coal by 2037, and in July 2023 the Group announced its target of reducing global absolute Scope 1 and 2 greenhouse gas emissions by 50% by 2030 (from a 2018 base year).

While the effects of climate change are a continuing source of uncertainty, climate-related risks have been assessed as not having a material impact on the Financial Statements for the year ended 31 July 2023.

Judgements and estimates

The Group has specifically considered the following areas of uncertainty:

Estimated useful lives of property, plant and equipment

The Group revisits the appropriateness of useful life estimates annually and as described in [Note 12 Property, plant and equipment](#).

The Group's property, plant and equipment useful lives have recently been shortened to a maximum of 35 years (which did not result in a material depreciation adjustment). In addition, the useful lives of vehicles are aligned to the staged fleet electrification, and assets that will no longer be used following decarbonisation are expected to be fully depreciated by 2037.

Recoverable amounts of assets - impairment assumptions

The Group performs impairment reviews as described in [Note 3 Impairments](#), and although there have been impairments recognised in the current year, these are not explicitly related to climate change and are attributed to the estimates and assumptions for each cash generating unit as described in [Note 3 Impairments](#).



Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2023

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FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

Performance

This section focuses on the Group's financial performance and the returns provided to equity holders.

1 Segment reporting and revenue

At a glance

This note provides information on the Group's organisational structure and segment performance, from continuing operations, together with information on the Group's external revenue. The Group's reportable segments are Global Markets, Greater China, and Core Operations.

Segment information provided in this note reflects the Group's performance from continuing operations only. The Chilean Soprole business, China Farms and Brazil consumer and foodservice businesses are considered discontinued operations and have been excluded from the disclosures in this note. Please see [Note 2 Divestments](#) for further information about the Group's discontinued operations.

a) Reportable segments

Operating segments reflect the way financial information is regularly reviewed by the Fonterra Management Team (FMT). The FMT is considered to be the Chief Operating Decision Maker (CODM). The FMT consists of the Group's Chief Executive Officer (CEO), Chief Financial Officer, Chief Operating Officer, the CEO Global Markets, the CEO Greater China, the Chief Innovation and Brand Officer, the Managing Director Strategy and Optimisation, the Managing Director People and Culture and the Managing Director Co-operative Affairs.

During the year the measure of profit or loss used by the FMT to evaluate the underlying performance of operating segments was earnings before interest and tax (EBIT), excluding corporate costs. In July 2023 this transitioned to Profit or loss after tax attributable to equity holders, inclusive of corporate costs, updating the way information is now presented to the FMT.

In June 2022 Fonterra announced changes to its organisational structure to better align with the long-term aspirations of the Co-operative, following its strategy refresh announced in September 2021. Two new FMT roles were created effective 1 August 2022, the Chief Innovation and Brand Officer and the Managing Director Strategy and Optimisation. In addition to this, effective from 1 October 2022 the Group's Asia Pacific and Africa, Middle East, Europe, North Asia and Americas (AMENA) business units were merged into a combined Global Markets business unit.

The Group's operating model and the way financial information is presented to the FMT has been updated to align to this new organisational structure. This is now based around the two customer-facing regional business units, Global Markets and Greater China, and Core Operations which comprises:

- Chief Operating Office (COO) which includes New Zealand milk collection and processing operations, supply chain, Group IT, Safety and Food Safety;
- Strategy and Optimisation (S&O), which includes optimising the New Zealand milk pool, product pricing support for the regions, managing Fonterra's dairy and non-dairy price risk and providing price risk management tools to both our customers and farmer shareholders; and
- Fonterra Farm Source™ retail stores.

During the year corporate costs were not included within the operating segment EBIT presented to the FMT. From July 2023, corporate costs, including Co-operative Affairs and other Group Functions, are included within Global Markets, Greater China and Core Operations, updating the way financial information is presented to the FMT. Following the organisational structure change, Innovation and Brand was also reported to the FMT within the operating segments.

The operating model forms the basis for the Group's operating segments.

The Group has identified its reportable segments based on a number of factors, including how the CODM makes decisions about resource allocations and assesses performance. The Group has determined that its reportable segments are Global Markets, Greater China and Core Operations. Comparative information within this note has been restated to reflect the change in the Group's reportable segments.

REPORTABLE SEGMENTS	DESCRIPTION
Global Markets	Represents the global Ingredients, Foodservice and Consumer channels outside of Greater China.
Greater China	Represents the Ingredients, Foodservice and Consumer channels in Greater China.
Group Operations	Represents COO, S&O and Fonterra Farm Source™ retail stores.

The performance of large multinational customers are reported within the reportable segment that they are managed by. This can differ from the geographical region of the destination of goods sold.

The performance of the Group's reporting segments includes transactions between the regional business units and Core Operations for the purchase and sale of goods, which are eliminated at the total Group level. Transactions between Core Operations and the other reportable segments are based on transfer pricing that is indexed where possible to observable market pricing (such as Global Dairy Trade prices). For products with specifications that vary from those with observable market pricing, incremental manufacturing and services costs are included in the transfer price.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

1 Segment reporting and revenue CONTINUED

a) Reportable segments CONTINUED

	GLOBAL MARKETS		GREATER CHINA		CORE OPERATIONS		ELIMINATIONS		TOTAL	
	2023	2022 RESTATED	2023	2022 RESTATED	2023	2022 RESTATED	2023	2022 RESTATED	2023	2022 RESTATED
CONTINUING OPERATIONS										
Revenue from sale of goods	18,401	15,374	7,072	6,869	19,142	16,987	(20,035)	(17,329)	24,580	21,901
Cost of goods sold	(16,565)	(13,832)	(6,356)	(6,238)	(17,513)	(16,251)	20,035	17,329	(20,399)	(18,992)
Gross profit	1,836	1,542	716	631	1,629	736	-	-	4,181	2,909
Operating expenses	(1,310)	(1,081)	(346)	(293)	(840)	(691)	-	-	(2,496)	(2,065)
Other ¹	53	(15)	-	7	17	110	-	-	70	102
EBIT	579	446	370	345	806	155	-	-	1,755	946
Profit after tax	385	308	284	273	572	40	-	-	1,241	621
Profit after tax attributable to equity holders of the Co-operative	369	297	262	250	571	39	-	-	1,202	586
<i>Other segment information:</i>										
- Inter-segment revenue	299	246	43	2	19,693	17,081	(20,035)	(17,329)	-	-
- External revenue ² :										
Ingredients channel revenue	13,291	10,940	4,440	4,648	(315)	(53)	-	-	17,416	15,535
Foodservice channel revenue	1,792	1,515	2,212	1,850	(139)	(63)	-	-	3,865	3,302
Consumer channel revenue	3,019	2,673	377	369	(97)	22	-	-	3,299	3,064
Total external revenue	18,102	15,128	7,029	6,867	(551)	(94)	-	-	24,580	21,901
- Depreciation and amortisation	(156)	(143)	(13)	(15)	(485)	(444)	-	-	(654)	(602)
- Share of profit of equity accounted investees	7	8	-	-	10	2	-	-	17	10

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

² External revenue is determined in accordance with the accounting policy, estimates and judgements set out below. Core Operations includes external revenue together with adjustments to reflect that it acts as an agent for other segments, and the volatility associated with the Group's sales hedging activities.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

1 Segment reporting and revenue CONTINUED

b) Revenue

The Group recognises revenue from the sale of products when control of the products transfers to the customer. The transfer of control of products typically occurs at the following times:

- Ingredient products (export sales) – once the products are loaded onto the ship.
- Ingredient products (domestic sales) – on delivery of the products to the customer's designated location.
- Consumer and foodservice products – on delivery of the products to the customer's designated location.

The amount of revenue recognised reflects the consideration that the Group expects to be entitled to for providing the products to the customer. Revenue is measured as the sales price specified in the contract adjusted for pricing adjustments, trade spend and rebates. Pricing adjustments, trade spend and rebates are recognised as deductions from revenue at the time that the related sale is recognised. The estimated amount of the deduction from revenue is based on historical experience and the specific terms of the contracts with customers so that it is highly probable that a significant reversal of revenue recognised will not occur.

For export sales the Group sells a significant proportion of its products on terms that include freight and insurance to the destination port. For these sales the Group has a separate performance obligation to arrange freight and insurance services for the customers after the date at which control of the products passes to the customer. As the Group does not control the freight and insurance services before those services are transferred to the customer, the Group is acting as an agent. Therefore, the Group recognises the net agency fee as revenue when freight and insurance services are made available to customers, usually this is when the products are loaded onto the ship.

The Group offers credit terms which are short-term in nature. In addition, as part of its normal trade terms, the Group receives payments in advance from certain customers. Contracts with customers do not contain significant financing components.

The Group sells products either directly to customers or through distributors. For transactions involving distributors, judgement is required to assess whether:

- control of the products passes and therefore revenue is recognised when the products are transferred to the distributor, in which case the distributor is the Group's customer; or
- the Group retains control of the products after transfer to the distributor, in which case control of the products does not pass until the products reach the customer in the supply chain who does obtain control of the product. In this situation the customer, referred to as the 'end customer' may be a retailer, reseller or food manufacturer. Revenue is not recognised until the products are transferred to the end customer.

The assessment of whether control of the products passes to the distributor can involve significant judgement. In assessing control, the following indicators are considered:

- The ability to direct the use of the product. This includes consideration of who has the primary responsibility for providing the products to the end customer and whether the Group can restrict who the distributor sells the product to.
- The transfer of inventory risk and demand risk. This includes consideration of the level of, or allowance for, product returns and who bears the residual risk of product expiry.
- The level of support provided by the Group to assist the distributor to on-sell the product. This includes consideration of collaboration on marketing plans, financial support provided by the Group through pricing discounts or funding of promotional activity.

Sales to distributors where significant judgement is involved in determining the timing of revenue recognition are primarily in the Foodservice channel.

Contractual terms vary across markets and sales channels. In most arrangements the contractual terms indicate that the distributor is responsible for providing the products to the end customer and has assumed the inventory risk. The Group often retains price risk through the provision of price discounts, funding promotional activity or influence over price setting. In general, these pricing mechanisms impact the amount of revenue recognised by the Group rather than indicating control of the products is retained.

In order to conclude on the transfer of control of the products the contract must be assessed in its entirety, along with implied contractual terms based on commercial customary practices.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

1 Segment reporting and revenue CONTINUED

b) Revenue CONTINUED

In addition to the segment and channel revenue set out above, revenue is also presented by geography on the basis of the destination of the goods sold. Geographical groupings in the following table are not aligned with the Group's reportable segments.

GEOGRAPHICAL EXTERNAL REVENUE	ASIA (EXCLUDING CHINA)	CHINA	NEW ZEALAND	AMERICAS	AUSTRALIA	REST OF WORLD	TOTAL
Year ended 31 July 2023	9,012	6,192	2,518	2,495	2,239	2,124	24,580
Year ended 31 July 2022	8,016	6,244	2,140	1,998	1,726	1,777	21,901

c) Geographical analysis of non-current assets

Geographical groupings in the following table are not aligned with the Group's reportable segments.

GEOGRAPHICAL NON-CURRENT ASSETS	ASIA (EXCLUDING CHINA)	CHINA	NEW ZEALAND	AMERICAS	AUSTRALIA	REST OF WORLD	TOTAL
As at 31 July 2023	751	23	6,519	81	962	209	8,545
As at 31 July 2022	799	20	6,542	378	1,026	239	9,004
RECONCILIATION OF GEOGRAPHICAL NON-CURRENT ASSETS TO TOTAL NON-CURRENT ASSETS						2023	2022
Geographical non-current assets						8,545	9,004
Deferred tax assets						182	551
Derivative financial instruments						379	434
Total non-current assets						9,106	9,989

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Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

2 Divestments

At a glance

This note provides information on components of the Group that have been divested or are held for sale, and discontinued operations.

At 31 July 2023, the Brazil consumer and foodservice business continued to meet the definition of held for sale and a discontinued operation.

The Group completed the sale of the Chilean Soprole business and the Hangu China farm during the year ended 31 July 2023.

a) Divestments

An asset, investment or group of assets and liabilities (e.g. a business) are derecognised when the Group loses control in a sale transaction. A gain or loss on sale is recognised as the difference between the total sales proceeds and the carrying amount of the assets and liabilities at the date of sale, less transaction and other disposal costs.

Foreign currency translation reserves (and cash flow hedge reserves) recorded in equity and reclassified to the Statement of Profit or Loss and Other Comprehensive Income at sale also form part of the gain or loss on sale.

Sale of the Chilean Soprole business

In November 2022, the Group announced the sale of its Chilean Soprole business. The Chilean Soprole business is considered a discontinued operation and its performance has not been included in a reportable segment.

The divestment was completed in March 2023, and is comprised of two transactions. The Group sold its equity interest in the Chilean Soprole business, and sales proceeds amounted to CLP197 billion (\$392 million) after adjustments for net debt and working capital. The purchaser assumed a debenture liability of \$684 million as part of the equity sale, and this was subsequently repaid.

In relation to the sale of Group's equity interest, a gain of \$260 million has been recognised in profit after tax from discontinued operations in the Statement of Profit or Loss and Other Comprehensive Income, comprised of the following:

	2023
Sales proceeds received in cash	392
Add: Net liabilities disposed of (including the debenture liability)	274
Add: Non-controlling interests	1
Less: Hedging losses and costs ¹	(152)
Less: Transaction costs	(13)
Less: Reclassification of other foreign currency translation reserve	(153)
Gain before tax	349
Tax expense	(89)
Gain after tax	260

¹ Includes economic hedging, together with the reclassification of foreign currency translation reserves in respect of net investment hedges (\$33 million), and cash flow hedges (\$22 million).

A breakdown of net liabilities disposed of is presented in the following table.

	2023
Cash and cash equivalents	10
Trade receivables	174
Inventory	245
Property, plant and equipment	174
Intangible assets	128
Other assets	136
Borrowings (including the debenture liability)	(714)
Trade and other payables	(382)
Other liabilities	(45)
Net liabilities disposed	(274)

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Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

2 Divestments CONTINUED

b) Disposal groups held for sale

A disposal group is a group of assets and liabilities to be disposed of (by sale or otherwise) in a single transaction. A disposal group is classified as held for sale if it is available for immediate sale in its present condition and its sale is highly probable.

Disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Immediately prior to being classified as held for sale, the carrying amounts of assets and liabilities in the disposal group are measured in accordance with the applicable accounting policy. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

Once classified as held for sale, assets are no longer depreciated or amortised and equity accounted investments are no longer equity accounted.

Assets of disposal groups held for sale are presented in a single line item within current assets, and liabilities of disposal groups held for sale are presented in a single line item within current liabilities. Comparative period information for assets and liabilities held for sale is not re-presented in the Statement of Financial Position.

Judgement is involved in determining whether a disposal group is held for sale at balance date.

Uncertainty is involved in estimating fair value less costs to sell. The fair value less costs to sell for assets and liabilities held for sale has been estimated based on information received through the sales process, including agreed purchase price(s) where an agreement has been reached.

The major classes of assets and liabilities held for sale are presented in the following table.

ASSETS AND LIABILITIES HELD FOR SALE	2023	2022
Cash and cash equivalents	30	24
Trade receivables	70	58
Inventory	37	32
Property, plant and equipment	90	79
Intangible assets	124	111
Other assets	164	169
Total assets held for sale	515	473
Borrowings	199	333
Trade and other payables	239	209
Other liabilities	98	86
Total liabilities held for sale	536	628
Net liabilities held for sale	(21)	(155)

Brazil consumer and foodservice business

As at 31 July 2023 the Brazil consumer and foodservice business continued to meet the requirements to be classified as held for sale (31 July 2022: held for sale).

During the year the equity holders each contributed their proportionate share of \$169 million to repay borrowings of the business, which reduced the net liabilities held for sale.

The Group reassessed the fair value less costs to sell at 31 July 2023, and no adjustment has been recognised (31 July 2022: a write-down of \$57 million (\$50 million after tax)).

On 13 December 2022 the Group announced the sale of the Brazil consumer and foodservice business, subject to a number of conditions including receipt of regulatory approvals from competition authorities. The Brazilian competition regulator released its first report on the proposed sale late July 2023. The parties are engaging with authorities to understand and to address the competition concerns raised in relation to limited parts of the business, and expects the sale to be completed within one year of balance date.

The foreign currency translation reserve at 31 July 2023 attributable to the Brazil consumer and foodservice business was a debit balance of \$68 million (31 July 2022: debit balance of \$67 million).

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

2 Divestments CONTINUED

c) Discontinued operations

A disposal group that meets the criteria to be classified as held for sale (or has been sold) is a discontinued operation if it represents, or is part of a single co-ordinated plan to dispose of, a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Profit/(loss) after tax from discontinued operations is presented in a single line item in the Statement of Profit or Loss and Other Comprehensive Income for both the current and comparative year.

The summarised financial performance of the Hangu China farm, Brazil consumer and foodservice business, and Chilean Soprole business recognised in profit after tax from discontinued operations, total comprehensive income/(expense) from discontinued operations, and net cash generated by the discontinued operations, is presented in the following table.

DISCONTINUED OPERATIONS	2023	2022
Revenue	1,466	1,524
Cost of goods sold	(1,048)	(1,093)
Gross profit	418	431
Other operating income	349	–
Operating expenses	(304)	(401)
Net finance costs	(50)	(37)
Profit/(loss) before tax from discontinued operations	413	(7)
Tax expense	(77)	(31)
Profit/(loss) after tax from discontinued operations	336	(38)
Share of (profit)/loss attributable to non-controlling interests	(1)	36
Profit/(loss) after tax attributable to equity holders of the Co-operative	335	(2)
Movement in exchange differences on translation of discontinued operations	17	(55)
Foreign currency translation reserve losses/(gains) transferred to the Statement of Profit or Loss and Other Comprehensive Income	188	(1)
Other reserve movements	(4)	9
Total comprehensive income/(expense) from discontinued operations	537	(85)

DISCONTINUED OPERATIONS	2023	2022
Net cash inflow/(outflow) from operating activities	63	(12)
Net cash inflow/(outflow) from investing activities	769	(24)
Net cash (outflow)/inflow from financing activities	(82)	24
Net increase/(decrease) in cash generated by the discontinued operations	750	(12)

At 31 July 2023, the Brazil consumer and foodservice business continues to meet the definition of a discontinued operation.

During the year ended 31 July 2023, the financial performance of the Hangu China farm business and Chilean Soprole business was recognised in profit after tax from discontinued operations up until the date of their respective sales.

Within Cash flows from investing activities presented in the Statement of Cash Flows, Proceeds relating to divestments includes the following.

	2023	2022
Chilean Soprole business		
Sale of equity interest	392	–
Debenture repayment	684	–
Proceeds received	1,076	–
Less: Cash and cash equivalents disposed of	(10)	–
Total Chilean Soprole business proceeds relating to divestments¹	1,066	–
Other divestments	18	26
Total proceeds relating to divestments	1,084	26

¹ When including dividends of \$198 million received during the year (prior to settlement), aggregate proceeds were \$1,264 million (before tax).

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

3 Impairments

At a glance

This note provides information on the Group's assessment of impairment for continuing operations. An impairment is recognised when the carrying amount of an asset or cash-generating unit (CGU) is greater than its recoverable value.

Impairment testing

A CGU is tested for impairment when there are indicators of impairment. An impairment test is also completed on an annual basis when a CGU has goodwill or indefinite life intangibles allocated to it. To determine if an asset or CGU is impaired, the carrying amount of the asset or CGU is compared to its recoverable amount, being the higher of its value in use and fair value less costs of disposal. If the carrying amount is higher than the recoverable amount, the CGU is impaired to its recoverable amount.

Uncertainty is involved in estimating value in use and fair value less costs of disposal.

Value in use is determined as the present value of the future cash flows expected to be derived from the CGU. Judgement is involved in estimating future cash flows, discount rates and terminal growth rates. Cash flows are based on approved forecasts which are consistent with the Board approved strategy. Cash flows do not exceed five years, and discount rates are based on external data where possible.

Where the Group has applied the relief from royalty method for valuing its brands, judgement is involved in estimating royalty rates.

Fair value less costs of disposal reflects the price that would be received to sell the CGU in an orderly transaction between market participants at the measurement date, less the costs of disposal. Fair value has been determined using a market approach, with judgement involved in the estimate of future maintainable earnings and the earnings multiple applied.

Impairments from continuing operations recognised in the Statement of Profit or Loss and Other Comprehensive Income are presented in the following table.

	2023	2022
New Zealand consumer and foodservice business goodwill impairment	121	–
Asia brands impairment	101	34
Other impairments	26	18
Total	248	52

The Group has performed impairment tests for CGUs with goodwill or intangible assets with indefinite useful lives. Annual impairment tests are performed at 31 March, with CGUs and assets assessed for indicators of impairment at 31 July. Apart from the Group's market capitalisation (refer to [Note 5 Subscribed equity instruments](#) for further information), no indicators of impairment were identified at the reporting date.

Impairment of \$222 million for goodwill and brands has been recognised within operating expenses in the Statement of Profit or Loss and Other Comprehensive Income (31 July 2022: \$34 million). Goodwill and intangible assets are set out in [Note 13 Intangible assets](#).

The allocation of goodwill and brands is presented in the following table. All brands presented have indefinite lives.

	2023			2022		
	BRANDS	GOODWILL	TOTAL	BRANDS	GOODWILL	TOTAL
New Zealand consumer and foodservice CGU	282	108	390	282	229	511
Australia CGU	148	135	283	148	140	288
Asia brands	611	–	611	678	–	678
NZMP brand	120	–	120	120	–	120
Chile CGU	–	–	–	20	90	110
Other CGUs	–	73	73	–	74	74
Total	1,161	316	1,477	1,248	533	1,781

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Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

3 Impairments CONTINUED

a) Impaired CGUs and indefinite life brands

Further information for those CGUs with goodwill or indefinite life brands where an impairment has been recognised is provided below.

New Zealand consumer and foodservice CGU

This CGU represents a business which sells dairy products in the consumer and foodservice channels in New Zealand and selected export markets.

At 31 July 2022, the recoverable amount of the business was determined on a value in use basis using a discounted cash flow methodology, with the recoverable amount exceeding its carrying amount by \$66 million. As presented in the Group's Financial Statements for the year ended 31 July 2022, it was determined a reasonably possible change in certain key assumptions (including volume and margin growth) used to determine the value in use would result in an impairment.

The business has experienced challenging market conditions, including higher input costs and inflationary pressures. The New Zealand domestic dairy market is highly competitive, and this has impacted the sales team's ability to fully recover the higher input costs through product price increases. During the year margin and volume were lower than forecast and costs higher than forecast, which combined with an increase in the discount rate resulted in the value in use being below the carrying value of the business.

The fair value less costs of disposal of the business was determined under a market approach. The valuation uses a sustainable earnings before interest, tax, depreciation and amortisation (EBITDA) based on expected future maintainable earnings, and an appropriate earnings multiple based on benchmarking against peers, performed by an external expert. This valuation uses unobservable inputs, which would be categorised under Level 3 of the fair value hierarchy.

The fair value less costs of disposal is higher than the value in use at 31 July 2023 and has been used to determine the recoverable amount of the business.

The recoverable amount of the business was assessed to be \$645 million. This was lower than the carrying value of the business, resulting in an impairment of goodwill of \$121 million (31 July 2022: nil) recognised in the Group's Global Markets reportable segment.

Following the impairment of goodwill the carrying value of the CGU has been reduced to its recoverable amount. As such, if a change in market conditions adversely impacts the earnings multiple applied, a deterioration in sustainable EBITDA occurs, or the value of the CGUs net assets significantly increases, a further impairment may be possible.

Asia brands

The Asia brands represent the Group's trademarks and other intellectual property in territories outside of New Zealand and Australia, relating to the Anchor™, Annum™, Anlene™ and Chesdale™ brands.

The relief from royalty method is used to calculate the recoverable amounts of the brands. The relief from royalty methodology is a value in use calculation which determines the recoverable amount by calculating the present value of what a licensee would theoretically pay as a royalty to use the brands.

The key assumption used in the relief from royalty method is forecast sales growth. The value attributed to the assumption is based on five-year revenue forecasts using the three-year business plans approved by the Board. Revenues for years four and five have been prepared based on growth expectations for the brand. A range of other possible scenarios were also considered, and a probability weighting applied to determine the recoverable amount.

The royalty rates applied in the calculation are determined based on comparable market data, and range from 3% to 7% (31 July 2022: 3% to 7%).

The carrying amount for the Anchor™, Anlene™ and Annum™ brands and revenue forecasts for each region are in local currency and converted to NZD. The carrying amount for the Chesdale™ brand is in NZD and revenue forecasts for each region are in local currency and converted to NZD.

The total impairment recognised across the Asia brands is \$101 million (31 July 2022: \$34 million). Of this impairment, \$55 million is attributed to the Global Markets reportable segment and \$46 million to the Greater China reportable segment (31 July 2022: \$33 million Global Markets, \$1 million Greater China). Refer below for further information specific to each brand.

Anchor™ brand

No impairment has been recognised for the Anchor™ brand, and no reasonably possible change in key assumptions would cause the carrying amount of the brand to exceed its recoverable amount.

As the brand is sold across a number of markets, all with different characteristics, the range of post-tax discount rates applied was 9.2% to 32.3% (31 July 2022: 7.7% to 26.3%). The range of pre-tax discount rates was 10.7% to 45.7% (31 July 2022: 9.6% to 33.7%).

The long-term growth rates applied range from 1.5% to 5.1% (31 July 2022: 1.6% to 7.4%).

Anlene™ brand

The recoverable amount of the Anlene™ brand was assessed to be \$158 million. This was lower than the carrying value of the brand, resulting in an impairment of \$45 million (31 July 2022: \$22 million).

The impairment recognised is primarily due to a reduction in forecast sales growth, with the current inflationary environment and challenging market conditions impacting the outlook for the brand. Increases in discount rates and changes in foreign exchange rates have also contributed to the impairment recognised.

As the brand is sold across a number of markets, all with different characteristics, the range of post-tax discount rates applied was 9.2% to 32.3% (31 July 2022: 9.2% to 31.5%). The range of pre-tax discount rates was 10.7% to 45.7% (31 July 2022: 11.1% to 41.4%).

The long-term growth rates applied range from 1.5% to 5.1% (31 July 2022: 1.6% to 7.4%).

Following this impairment, the carrying value of the brand has been reduced to the recoverable value. An adverse change in a key assumption could result in a further reduction in the recoverable amount, in which case a further impairment may be possible.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

3 Impairments CONTINUED

a) Impaired CGUs and indefinite life brands CONTINUED

Annum™ brand

The recoverable amount of the Annum™ brand was assessed to be \$67 million. This was lower than the carrying value of the brand, resulting in an impairment of \$51 million (31 July 2022: \$11 million).

The impairment recognised is primarily due to a reduction in forecast sales growth, with the current inflationary environment and challenging market conditions impacting the outlook for the brand. Increases in discount rates and changes in foreign exchange rates have also contributed to the impairment recognised.

As the brand is sold across a number of markets, all with different characteristics, the range of post-tax discount rates applied was 9.2% to 16.4% (31 July 2022: 9.2% to 15.8%). The range of pre-tax discount rates was 10.7% to 19.8% (31 July 2022: 11.1% to 19.8%).

The long-term growth rates applied range from 1.5% to 3.7% (31 July 2022: 1.6% to 3.8%).

Following this impairment, the carrying value of the brand has been reduced to the recoverable value. An adverse change in a key assumption could result in a further reduction in the recoverable amount, in which case a further impairment may be possible.

Chesdale™ brand

The recoverable amount of the Chesdale™ brand was assessed to be \$22 million. This was lower than the carrying value of the brand, resulting in an impairment of \$5 million (31 July 2022: \$1 million).

The impairment recognised is primarily due to a reduction in forecast sales growth for the brand, with increases in discount rates and changes in foreign exchange rates also contributing to the impairment recognised.

As the brand is sold across a number of markets, all with different characteristics, the range of post-tax discount rates applied was 9.2% to 32.3% (31 July 2022: 8.8% to 31.5%). The range of pre-tax discount rates was 10.7% to 45.7% (31 July 2022: 11.1% to 41.4%).

The long-term growth rates applied range from 1.5% to 3.8% (31 July 2022: 1.6% to 3.8%).

Following this impairment, the carrying value of the brand has been reduced to the recoverable value. An adverse change in a key assumption could result in a further reduction in the recoverable amount, in which case a further impairment may be possible.

b) CGUs with significant goodwill and indefinite life brands not impaired

Further information for those CGUs with significant goodwill or indefinite life brands that have not been impaired during the year is provided below.

Australia CGU

The recoverable amount of the business was determined on a value in use basis using a discounted cash flow methodology.

The model uses a five-year cash flow forecast based on the three-year business plan approved by the Board. Cash flows for years four and five have been prepared based on growth expectations for the business.

A key driver for the business to achieve its performance targets is growth in forecast milk supply (inclusive of solids sourced from New Zealand, if required), a key assumption included in the impairment model, which is expected to support sales volume growth. In determining this key assumption, the Group has leveraged from past experience, adjusted where appropriate for future expectations around forecast milk supply.

The long-term growth rate applied to the future cash flows after year five of the forecast was 2.5% (31 July 2022: 2.5%). This reflects the expected long-term economic growth rate for Australia.

The post-tax discount rate was 7.0% (31 July 2022: 7.0%). The pre-tax discount rate was 9.3% (31 July 2022: 9.3%).

The recoverable amount of the business exceeded its carrying amount by \$197 million. The Group has identified that a reasonably possible change in several key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these assumptions would need to change individually for the carrying amount to exceed estimated recoverable amount.

KEY ASSUMPTIONS	VALUE ATTRIBUTED	CHANGE REQUIRED FOR THE CARRYING AMOUNT TO EXCEED THE RECOVERABLE AMOUNT
Growth in milk supply	4.0% per annum	A decrease in growth of 2.8%
Discount rate (post-tax)	7.0%	An increase in the discount rate of 0.6%
Long-term growth rate	2.5%	A decrease in the long-term growth rate of 0.7%

While not considered an indicator of impairment, the post-tax discount rate has increased to 7.2% (pre-tax discount rate 9.5%) at 31 July 2023, which would reduce the recoverable amount.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

4 Profit before tax from continuing operations

At a glance

This note provides information on expenses and cost of goods sold by function that have been included in profit before tax from continuing operations, together with additional information on expenses by nature.

Cost of goods sold is primarily made up of New Zealand sourced cost of milk.

New Zealand-sourced cost of milk includes the cost of milk supplied by farmer shareholders, supplier premiums paid, and the cost of milk purchased from contract milk suppliers during the financial year.

New Zealand-sourced cost of milk supplied by farmer shareholders comprises the volume of milk solids supplied at the Farmgate Milk Price as determined by the Board for the relevant season. In making that determination the Board takes into account the Farmgate Milk Price calculated in accordance with the Farmgate Milk Price Manual, which is independently assured. The Fonterra Farmgate Milk Price Statement sets out information about the Farmgate Milk Price, and how it is calculated. It can be found in the 'Investors/Farmgate Milk Prices/Milk Price Methodology' section of Fonterra's website.

Other collection and manufacturing costs include changes in inventory levels together with purchases of other products, raw materials, packaging, direct labour costs, depreciation and other costs directly incurred to bring inventory to its final point of sale location.

a) Expenses by function

	2023	2022
Cost of goods sold	20,399	18,992
Administrative expenses	928	784
Selling and marketing expenses	542	532
Distribution expenses	433	404
Other operating expenses	601	394
Operating expenses	2,504	2,114

b) Expenses by nature

	2023	2022
COST OF GOODS SOLD		
Cost of milk:		
– New Zealand sourced	12,306	13,722
– Non-New Zealand sourced	1,109	843
Other ingredient purchases and manufacturing costs	2,813	2,760
Employee benefits expense	1,267	1,174
Energy costs	632	569
Packaging	519	459
Storage and distribution	477	321
Depreciation and amortisation	474	429
Total other collection and manufacturing costs	6,182	5,712
Decrease/(increase) in inventories	802	(1,285)
Total cost of goods sold	20,399	18,992

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Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

4 Profit before tax from continuing operations CONTINUED

b) Expenses by nature CONTINUED

OPERATING EXPENSES	2023	2022
Employee benefits expense	963	860
Storage and distribution	263	241
Advertising and promotion	219	227
Information technology	205	191
Professional and management fees	167	149
Depreciation and amortisation	180	173
Impairments	248	44
Other	259	229
Total operating expenses	2,504	2,114

The table below presents further information on expenses recognised in the Statement of Profit or Loss and Other Comprehensive Income within both Cost of goods sold and Operating expenses from continuing operations.

	2023	2022
Total employee benefits expense	2,230	2,034
Total depreciation and amortisation expense	654	602
Total research and development costs	116	96

c) Fees paid to the auditor and network firms

KPMG has been appointed the Group's external auditor for four consecutive years. The lead audit partner has served for four consecutive years. The Board has overseen compliance with the Group's Audit Independence Policy. KPMG has not provided any services during the year other than audit, review and audit-related services.

A breakdown of fees paid to the auditor and network firms which are included in the Statement of Profit or Loss and Other Comprehensive Income is presented in the following table. Fees are inclusive of any disbursements.

	\$ THOUSANDS	
	2023	2022
Audit and review of the Financial Statements of the Group and its subsidiaries:		
– New Zealand	6,627	6,017
– Network firms of the auditor	2,000	1,700
Total fees for the audit and review of the Financial Statements	8,627	7,717
Audit and review related services:		
<i>Assurance engagements</i>		
– Farmgate Milk Price statement	89	80
– Shareholder continuity report	13	13
<i>Agreed upon procedures engagements</i>		
– AGM vote scrutineering	4	4
– Compliance with banking arrangements	12	11
– Annual update of debt issuance prospectus	68	67
– Government grant compliance	–	16
– Distribution of Dairy Industry Support Funds	–	12
Total fees for audit and review related services	186	203
Total fees paid to auditor	8,813	7,920

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Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

Debt and Equity

This section outlines the Group's capital structure and the related financing costs. It also provides information on how the funds that finance current and future activities are raised and how the Group manages capital.

5 Subscribed equity instruments

At a glance

This note provides information on the Group's capital structure, including shares of the Co-operative and Units of the Fonterra Shareholders' Fund.

Subscribed equity instruments comprise Co-operative shares and units in the Fonterra Shareholders' Fund (the Fund). Incremental costs directly attributable to equity transactions are recognised as a deduction from subscribed equity.

Fonterra transitioned to a new Flexible Shareholding capital structure (Flexible Shareholding) on 28 March 2023. Farmer share compliance obligations (which were on hold during the pre-implementation phase of Flexible Shareholding) are no longer on hold and farmer shareholders are required to hold their "minimum holding" and no more than their "maximum holding" of shares in accordance with Fonterra's Constitution for the 2023/2024 season by the Compliance Date of 1 December 2023. The current cap on the Fund remains, so Co-operative shares are not able to be exchanged into units in the Fund on a day-to-day basis. A capped Fund is a feature of Flexible Shareholding.

Information about the Group's capital structure is available in the 'Investors/Capital Structure' section of Fonterra's website.

On 26 July 2023, shareholders voted to pass the resolution to approve the scheme of arrangement for the Co-operative's return of approximately \$800m of capital to shareholders (the Scheme). Final Court orders sanctioning the Scheme were made on 9 August 2023 and the Scheme was implemented on 17 August 2023, with payment to Shareholders being made on 18 August 2023. Shares held by Fonterra Farmer Custodian Limited (as Custodian of the Fund) were also subject to the Scheme. The payment due to the Custodian was paid directly to unit holders on the same date.

At 31 July 2023, the approved capital return was recognised as a reduction in subscribed equity and a liability, \$750 million relating to Co-operative shareholders and \$54 million relating to unit holders. Under the Scheme Fonterra repurchased and cancelled one in every six shares held by each shareholder and, at the same time, one share held by each shareholder which was not repurchased was subdivided into such number of ordinary shares as were repurchased from that shareholder, plus one. As a result, each shareholder continued to hold the same total number of shares as they held before the capital return.

a) Co-operative shares, including shares held within the Group

Co-operative shares can be traded between eligible shareholders on the Fonterra Shareholders' Market (a private market operated by NZX Limited). Following the transition to Flexible Shareholding Co-operative shares may only be held by:

- a shareholder supplying milk to Fonterra (farmer shareholder);
- former farmer shareholders and/or their "permitted transferee(s)" (being a relative of, or someone with a sufficient ownership or control relationship with, a former farmer shareholder) who must dispose of their shares within a specified period after cessation of supply. This "exit period" is determined by when the former farmer shareholder became a farmer shareholder;
- sharemilkers, contract milkers and lessors who are associated with a farm that supplies milk to Fonterra; and
- Fonterra Farmer Custodian Limited (the Custodian).

Voting rights are dependent on milk supply supported by Co-operative shares. The rights attaching to Co-operative shares are set out in Fonterra's Constitution, available in the 'Our Co-operative/Governance and Management' section of Fonterra's website.

A reconciliation of movements in shares of the Co-operative is presented in the following table.

	SHARES		\$ MILLION	
	2023	2022	2023	2022
Co-operative shares on issue at beginning of period	1,612,825,585	1,613,357,879	5,891	5,892
Shares acquired (and cancelled) under buyback programmes	(3,580,916)	(532,294)	(9)	(1)
Capital return payable	–	–	(804)	–
Co-operative shares on issue at end of period	1,609,244,669	1,612,825,585	5,078	5,891
Treasury shares ¹	(2,000,000)	–	(5)	–
Co-operative shares on issue, excluding treasury shares	1,607,244,669	1,612,825,585	5,073	5,891

¹ The treasury shares relate to shares acquired by the Market Makers with the legal title held by Fonterra Farmer Custodian Limited, but which are treated as treasury shares for accounting purposes.

On 27 July 2023, Fonterra announced that it would allocate up to \$50 million to an on-market share buyback programme, as part of Fonterra's ongoing capital management programme. This programme commenced on 18 August 2023 and is expected to continue until 13 August 2024.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

5 Subscribed equity instruments CONTINUED

b) Units in the Fonterra Shareholders' Fund (the Fund)

The Custodian holds legal title of Co-operative shares of which the Economic Rights have been sold to the Fund on trust for the benefit of the Fund. Units in the Fund are traded on the New Zealand Stock Exchange (NZX) and Australian Securities Exchange (ASX).

The overall limit on the Fund size (as a percentage of total Co-operative shares) has reduced from 20% to 10%. The current cap on the Fund remains, so Co-operative shares are not able to be exchanged into units in the Fund on a day-to-day basis. The Fonterra share buyback programmes have not had a material impact on the Fund size as a percentage of the total number of Co-operative shares on issue.

The rights attaching to units are set out in the Fonterra Shareholders' Fund 2023 Annual Report, available in the 'Investors/Fonterra Shareholders' Fund' section of Fonterra's website.

A reconciliation of movements in units of the Fund is presented in the following table.

	UNITS	
	2023	2022
Units on issue at beginning of period	107,417,322	107,420,162
Units redeemed	(6,338)	(2,840)
Units on issue at end of period	107,410,984	107,417,322

c) Market capitalisation

The Group's market capitalisation has been below the carrying amount of net assets since Fonterra's capital review announcement in May 2021, and the gap has been increasing over time. At 31 July 2023, the Group's market capitalisation was \$5.1 billion (31 July 2022: \$4.4 billion) and the carrying amount of net assets was \$8.0 billion (31 July 2022: \$6.9 billion).

The share price is not considered an accurate reflection of the fair value of the Group's net assets for a number of reasons, including the nature of the Co-operative and its unique capital structure. For example, shares traded in a restricted market (i.e. Co-operative shares) are generally expected to trade at a discount compared to unrestricted markets, there is reduced liquidity in the market, supply and demand dynamics are impacted, and there is limited or no ability for investors to take a significant ownership interest or controlling interest.

However, accounting standards consider market capitalisation below the value of net assets to be an indicator of impairment and an impairment test has been performed. An external valuation was obtained to support the recoverable amount of the Group's net assets, using a multiples based approach on a fair value less costs of disposal basis. The valuation used key estimates including maintainable EBIT, earnings multiples of between 13.0x to 14.0x and seasonally adjusted net debt (includes the capital return payable). This implied an equity valuation of between \$10.3 billion and \$11.5 billion which exceeds the net assets of the Group. As such, no impairment has been recognised.

6 Dividends

All Co-operative shares, including those held by the Custodian, are eligible to receive dividends if declared by the Board.

Dividends are recognised as a liability in the Group's Financial Statements in the period in which they are declared by the Board. The Group's Dividend Policy can be found in the 'Investors/Results & Reporting/Dividends & Reinvestment Plan' section of Fonterra's website.

	2023	2022
2023 Interim dividend – 10 cents per share	161	–
2022 Final dividend – 15 cents per share	242	–
2022 Interim dividend – 5 cents per share	–	81
2021 Final dividend – 15 cents per share	–	242

Dividend declared after balance date

On 20 September 2023, the Board declared a final dividend of 40 cents per share, to be paid on 13 October 2023 to all holders of Co-operative shares on issue at 28 September 2023.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

7 Borrowings

At a glance

This note provides information on the Group's borrowings, including movements during the year.

Borrowings (excluding lease liabilities) are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method, with the hedged risks on certain debt instruments measured at fair value.

Lease liabilities are recognised at the commencement date of the lease as the present value of the lease payments over the lease term. The lease payments include the exercise price of a purchase option where the Group is reasonably certain to exercise the option.

The lease payments are discounted using the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease term is the non-cancellable period, plus renewal options if they are reasonably certain to be exercised. Once a lease has commenced, the Group will only reassess the lease term on the occurrence of a significant event or change in circumstance that is within its control and affects its ability to exercise, or not exercise, an option not previously included in the lease term.

	2023	2022
Total current borrowings	785	356
Total non-current borrowings	3,156	4,900
Total borrowings¹	3,941	5,256
Commercial paper	–	98
Bank loans	50	999
Lease liabilities	392	438
Capital notes ²	–	35
NZX-listed bonds	100	250
Medium-term notes	3,399	3,436
Total borrowings^{1,3}	3,941	5,256

1 Borrowings of \$199 million attributable to disposal groups held for sale are not included in the table above (31 July 2022: \$333 million).

2 Capital notes (redeemed on 10 July 2023) were unsecured subordinated borrowings.

3 All borrowings other than lease liabilities and capital notes are both unsecured and unsubordinated.

A breakdown of movements in total borrowings is presented in the following table.

	2023	2022
Opening balance	5,256	5,072
Proceeds	2,493	3,894
New lease liabilities	81	41
Repayments	(3,828)	(3,634)
Foreign exchange movements	98	168
Changes in fair values	(132)	(270)
Other	(27)	(15)
Closing balance	3,941	5,256

During the year ended 31 July 2023 total cash payments for leases (including lease liability repayments above, and also short-term and low value leases) were \$130 million (31 July 2022: \$145 million).

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

8 Net finance costs

Interest income and expense is recognised on an accrual basis in the Statement of Profit or Loss and Other Comprehensive Income, using the effective interest method.

Finance costs also include the changes in fair value relating to derivatives used to manage interest rate risk, and the associated changes in fair value of the borrowings designated in a hedge relationship attributable to the hedged risk. Information about the Group's hedge accounting policies are included in [Note 22 Hedge accounting](#).

	2023	2022
Finance income	23	10
Interest expense ¹	(256)	(259)
Changes in fair value relating to:		
– Borrowings designated in a hedge relationship	132	270
– Derivatives designated in a hedge relationship	(110)	(225)
– Derivatives where hedge accounting has not been applied	–	10
Total interest income from fair value movements	22	55
Finance costs	(234)	(204)
Net finance costs	(211)	(194)

¹ Includes interest expense of \$13 million (31 July 2022: \$13 million) relating to lease liabilities.

9 Capital management

At a glance

This note provides information on measures the Board uses to monitor the Group's capital.

The Group's objectives when managing capital are to maintain an appropriate balance between debt and equity to finance the Group's activities, assets and growth. The Group is not subject to substantive debt covenants or any other externally imposed capital requirements. The Board closely monitors the following non-GAAP measures: debt to EBITDA ratio, gearing ratio and return on capital.

a) Adjusted net debt, gearing and debt to EBITDA

Adjusted net debt, the gearing ratio and the debt to EBITDA ratio are monitored by the Board and Management and provide useful information aligned with how certain rating agencies calculate these ratios when considering and determining the Group's credit rating.

The Board approved Gearing Policy establishes a maximum adjusted net debt gearing ratio of 45%, with a long-term target range of 30% to 40%, and the Board approved Debt Policy establishes a maximum debt to EBITDA ratio of 3.75x, with a long-term target range of 2.5 to 3.0x.

The Adjusted net debt gearing ratio and Debt to EBITDA ratio are presented in the following tables.

	2023	2022
Total borrowings	3,941	5,256
Add: Bank overdraft	102	31
Less: Cash and cash equivalents	(1,822)	(288)
Add: Capital return payable	804	–
Add: Borrowings attributable to disposal groups held for sale	199	333
Less: Cash and cash equivalents attributable to disposal groups held for sale	(30)	(24)
Add: Cash adjustment of 25% for cash held by subsidiaries (including cash and cash equivalents attributable to disposal groups held for sale)	50	77
Less: Derivatives used to manage changes in hedged risks on debt instruments	(37)	(46)
Adjusted net debt	3,207	5,339
Equity excluding hedge reserves	7,925	7,252
Total capital	11,132	12,591
Adjusted net debt gearing ratio	28.8%	42.4%

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

9 Capital management CONTINUED

a) Adjusted net debt, gearing and debt to EBITDA CONTINUED

	2023	2022
Adjusted net debt	3,207	5,339
Profit after tax	1,577	583
Add: Net finance costs from continuing operations	211	194
Add: Net finance costs from discontinued operations	50	37
Add: Tax expense from continuing operations	303	131
Add: Tax expense from discontinued operations	77	31
Total Group EBIT	2,218	976
Add: Depreciation and amortisation from continuing operations	654	602
Add: Depreciation and amortisation from discontinued operations	8	33
Less: EBITDA relating to divestments	(78)	–
(Less)/add: Normalisation adjustments ¹	(337)	15
Less: Share of profit of equity accounted investees	(17)	(10)
Add: Net foreign exchange losses from continuing operations	8	49
Add: Net foreign exchange gains/losses from discontinued operations	1	11
Total Group normalised EBITDA excluding share of profit of equity accounted investees and net foreign exchange gains/losses	2,457	1,676
Debt to EBITDA ratio	1.3x	3.2x

¹ Comprised of a gain on sale of the Chilean Soprole business of \$349 million less Hangu China farm loss of \$12 million (31 July 2022: Gain on sale of Global Dairy Trade of \$42 million less Brazil consumer and foodservice business impairment of \$57 million).

b) Average capital employed and return on capital

Return on capital is calculated as total Group normalised earnings before interest and tax (total Group normalised EBIT) including finance income on long-term advances less a notional tax charge, divided by average capital employed.

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

	2023	2022
Adjusted net debt	3,207	5,339
Less: Cash adjustment	(50)	(77)
Add: Cash and cash equivalents held by subsidiaries for operational purposes	185	166
Add: Equity excluding hedge reserves	7,925	7,252
Less: Net deferred tax assets	(146)	(501)
Capital employed (at 31 July)	11,121	12,179
Impact of seasonal variation in capital employed	1,653	177
Average capital employed (13 month rolling average)	12,774	12,356
Total Group EBIT	2,218	976
(Less)/add: Normalisation adjustments ¹	(337)	15
Total Group normalised EBIT	1,881	991
Add: Finance income on long-term advances	11	7
Less: Notional tax charge	(305)	(161)
Total Group normalised EBIT including finance income on long-term advances less notional tax charge	1,587	837
Return on capital	12.4%	6.8%

¹ Comprised of a gain on sale of the Chilean Soprole business of \$349 million less Hangu China farm loss of \$12 million (31 July 2022: Gain on sale of Global Dairy Trade of \$42 million less Brazil consumer and foodservice business impairment of \$57 million).

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

Assets and Liabilities

This section provides information about certain elements of the Group's assets and liabilities. This includes:

- Short-term operating assets and liabilities generated by the Group. Movements in these items have a direct impact on the net cash flows generated from operating activities.
- Long-term assets to operate the business and generate returns to equity holders. These assets include physical assets such as land and buildings, and non-physical assets such as right-of-use assets, brands and goodwill.

10 Inventories

Raw materials and finished goods

Raw materials and finished goods are measured at the lower of cost or net realisable value on a first-in-first-out basis.

In the case of manufactured inventories, cost includes all direct costs plus the portion of fixed and variable production overheads incurred in bringing inventories to their present location and condition.

Net realisable value is the estimated selling price, less the costs of completion and selling expenses.

Emissions units

Emissions units are held primarily for compliance purposes, which are measured at the lower of cost or net realisable value on a weighted average cost basis. The Group's obligation to surrender emissions units is included in other current liabilities. Emissions units are derecognised as they are surrendered to settle the Group's emissions obligation.

	2023	2022
Raw materials	692	802
Finished goods	3,596	4,261
Less: Provision for impairment of raw materials and finished goods	(117)	(95)
Emissions units	175	180
Total inventories	4,346	5,148

11 Trade and other payables

Trade and other payables are recognised at the amount invoiced by the vendor and employee entitlements are recognised on an accrual basis. Due to their short-term nature, they are not discounted. Amounts owing to farmer shareholders and New Zealand contract milk suppliers are recognised in owing to suppliers.

Amounts owing to suppliers are amounts the Group owes to farmer shareholders and New Zealand contract milk suppliers for the collection of milk, which includes end of season adjustments, offset by amounts owing from farmer shareholders for goods and services provided to them by the Group. These amounts are recognised at the net amount due to the supplier for the milk provided.

	2023	2022
Owing to suppliers	1,997	2,119
Trade payables	1,909	1,863
Employee entitlements	344	368
Other	120	172
Total trade and other payables	4,370	4,522

The Board uses its discretion in establishing the rate at which the Group will pay suppliers for the milk supplied over the season. This is referred to as the advance rate. For the 2023 season, amounts advanced during the financial year as a percentage of the Farmgate Milk Price (per kgMS) were 85% (31 July 2022: 85%). The Fonterra Farmgate Milk Price Statement sets out information about the Farmgate Milk Price as calculated in accordance with the Farmgate Milk Price Manual. It can be found in the 'Investors/Farmgate Milk Prices/Milk Price Methodology' section of Fonterra's website.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

12 Property, plant and equipment

At a glance

This note provides information on owned and leased assets including movements during the year, and capital commitments at the reporting date.

Property, plant and equipment are comprised of owned and leased assets.

	2023	2022
Property, plant and equipment – owned	5,982	6,067
Right-of-use assets – leased	361	398
Total	6,343	6,465

a) Owned assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses. Cost includes the purchase consideration and those costs directly attributable to bringing the asset to the location and condition necessary for its intended use. It also includes financing costs directly attributable to the acquisition, production or construction of the asset. Subsequent costs are capitalised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance costs are charged to the Statement of Profit or Loss and Other Comprehensive Income during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

Depreciation

Depreciation is calculated on a straight-line basis to allocate the cost of the asset, less any residual value, over its estimated useful life. The range of estimated useful lives for each class of property, plant and equipment is as follows:

- Land Indefinite
- Buildings and leasehold improvements 2 to 35 years (31 July 2022: 2 to 55 years)
- Plant, vehicles and equipment 2 to 35 years (31 July 2022: 2 to 50 years)

Judgement is involved in determining the assets' residual values and useful lives, which are reviewed and adjusted each financial year, based on the Group's ten year outlook.

The estimates of useful lives may be impacted by climate-related risks in future and changes in expectations, for example the following events may shorten estimated useful lives of existing assets and result in an acceleration of depreciation:

- Milk supply and demand: In the event milk supply and demand reduce faster than expected, a plant closure may become necessary before the end of an existing asset's useful life; and
- Capital expenditure: In the event regulatory change or other factors require larger or earlier future investments, existing assets may need to be replaced before the end of their useful lives.

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

- Possible flat or declining milk supply scenarios (together with individual plant peak milk processing requirements);
- Regulatory or environmental matters (such as the New Zealand Government's Emissions Reduction Plan);
- The Group's investment in sustainability, including its decarbonisation plan to exit coal by 2037 and electrification of the vehicle fleet;
- Technological advancements; and
- Changing consumer preferences and market competition.

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Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

12 Property, plant and equipment CONTINUED

a) Owned assets CONTINUED

A breakdown of total owned property, plant and equipment is presented in the following table.

	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	PLANT, VEHICLES AND EQUIPMENT	CAPITAL WORK IN PROGRESS	TOTAL
<i>Net book value</i>					
As at 1 August 2022	368	1,517	3,674	508	6,067
Additions	14	1	3	571	589
Transferred from capital work in progress	–	70	469	(539)	–
Depreciation charge	–	(106)	(372)	–	(478)
Transferred to assets held for sale	(4)	(50)	(110)	(24)	(188)
Other	–	–	(13)	5	(8)
As at 31 July 2023	378	1,432	3,651	521	5,982
<i>Represented by:</i>					
Cost	378	2,641	8,294	521	11,834
Accumulated depreciation and impairment	–	(1,209)	(4,643)	–	(5,852)
<i>Net book value</i>					
As at 1 August 2021	350	1,552	3,706	371	5,979
Additions	22	16	5	490	533
Transferred from capital work in progress	–	35	309	(344)	–
Depreciation charge	–	(87)	(352)	–	(439)
Other	(4)	1	6	(9)	(6)
As at 31 July 2022	368	1,517	3,674	508	6,067
<i>Represented by:</i>					
Cost	368	2,706	8,356	508	11,938
Accumulated depreciation and impairment	–	(1,189)	(4,682)	–	(5,871)

Capital commitments

As at 31 July 2023 the Group was committed to spend \$98 million (31 July 2022: \$225 million), primarily related to plant, vehicles and equipment.

b) Leased assets

The Group is a lessee of various types of assets, including buildings, plant, vehicles and equipment. Right-of-use assets reflect the Group's right to use leased assets. Corresponding lease liabilities reflect the present value of the related future lease payments.

Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses. Cost is calculated as the initial amount of the lease liability plus any initial direct costs incurred and an estimate of costs required to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located.

Right-of-use assets are depreciated on a straight-line basis over the lease term, unless the useful life of the asset is less than the lease term or if the Group will own the asset at the end of the lease term. In these situations, the right-of-use asset is depreciated over the useful life of the asset, which is determined on the same basis as those of property, plant and equipment. Right-of-use assets are also adjusted for any impairment losses and certain remeasurements of the lease liability.

The Group enters into lease arrangements for land and buildings with options for renewal that typically run for a period of 3 to 10 years, however some property leases can run up to a period of 35 years. Lease payment changes are renegotiated at periods specified in the lease contracts and are usually based on local price indices or market rental rates.

Leases for plant, vehicles and equipment typically run for a period of 2 to 5 years.

Information about right-of-use assets from leases for which the Group is a lessee is presented in the following table.

	NET BOOK VALUE		DEPRECIATION CHARGE	
	2023	2022	2023	2022
Land	24	22	2	1
Buildings	240	275	59	64
Plant, vehicles and equipment	97	101	29	39
Total	361	398	90	104

Refer to [Note 7](#) *Borrowings* for information about lease liabilities.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

13 Intangible assets

At a glance

This note provides information on the Group's intangible assets which include goodwill, brands and software assets. Movements during the year are also summarised within this note.

The results of impairment testing of goodwill and indefinite life brands is set out in [Note 3 Impairments](#).

The significant intangible assets recognised by the Group are goodwill, brands and software assets.

Goodwill

Goodwill represents the premium paid by the Group over the fair value of the Group's share of the net identifiable assets of an acquired business at the date of acquisition. Goodwill is initially recognised at cost and subsequently measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually and is not amortised.

Brands

Brands that are purchased by the Group are initially recognised at cost, or at their fair value if acquired as part of a business combination, and subsequently measured at cost less any impairment losses. A brand is determined to have an indefinite life where there is an intention to maintain and support the brand for an indefinite period.

Indefinite life brands are tested for impairment annually and are not amortised.

Indefinite life brands that have been impaired are reviewed for possible reversal of impairment annually. A reversal of an impairment loss shall not exceed the carrying amount that would have been recognised had no impairment loss occurred in prior years.

Software assets

Software assets, both purchased and internally developed, are capitalised provided there is an identifiable asset that will generate future economic benefits through cost savings or supporting revenue generation. Subsequent costs are capitalised if they extend the useful life or enhance the functionality of the asset.

Software assets are amortised on a straight-line basis over their estimated useful lives (31 July 2023: 3 to 10 years, 31 July 2022: 2 to 13 years). Software assets are tested for impairment when an indicator of impairment exists.

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

	BRANDS	GOODWILL	SOFTWARE	SOFTWARE WIP	OTHER	TOTAL INTANGIBLES
Net book value						
As at 1 August 2022	1,248	533	283	74	15	2,153
Additions	–	–	–	79	–	79
Transferred from work in progress	–	–	71	(71)	–	–
Amortisation	–	–	(92)	–	(2)	(94)
Impairment (refer to Note 3 Impairments)	(101)	(121)	–	–	–	(222)
Transferred to assets held for sale	(20)	(95)	(1)	–	–	(116)
Other	34	(1)	(9)	–	–	24
As at 31 July 2023	1,161	316	252	82	13	1,824
Represented by:						
Cost	1,437	653	1,498	82	34	3,704
Accumulated amortisation and impairment	(276)	(337)	(1,246)	–	(21)	(1,880)
Net book value						
As at 1 August 2021	1,224	529	302	80	107	2,242
Reclassification to inventories	–	–	–	–	(97)	(97)
As at 1 August 2021	1,224	529	302	80	10	2,145
Additions	–	–	–	63	8	71
Transferred from work in progress	–	–	69	(69)	–	–
Amortisation	–	–	(89)	–	(3)	(92)
Impairment (refer to Note 3 Impairments)	(34)	–	–	–	–	(34)
Other	58	4	1	–	–	63
As at 31 July 2022	1,248	533	283	74	15	2,153
Represented by:						
Cost	1,419	749	1,497	74	36	3,775
Accumulated amortisation and impairment	(171)	(216)	(1,214)	–	(21)	(1,622)

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

14 Other assets

At a glance

This note provides a summary of other asset balances aggregated in the Statement of Financial Position.

A breakdown of other assets is presented in the following table.

	2023	2022
Current		
Tax receivable	49	64
Other	100	107
Total other current assets	149	171
Non-current		
Equity accounted investments	116	113
Long-term advances	155	154
Other	107	119
Total other non-current assets	378	386

15 Other liabilities

At a glance

This note provides a summary of other liability balances aggregated in the Statement of Financial Position.

A breakdown of other liabilities is presented in the following table.

	2023	2022
Current		
Tax payable	118	107
Provisions	55	70
Other	76	71
Total other current liabilities	249	248
Non-current		
Provisions	63	79
Deferred tax liabilities (refer to Note 17 Taxation)	36	50
Other	11	15
Total other non-current liabilities	110	144

a) Provisions and contingent liabilities

Provisions are recognised in the Statement of Financial Position only where the Group has a present legal or constructive obligation. This obligation must be the result of a past event, when it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Estimates and assumptions are made in determining the likelihood, amount and timing of cash outflows when the outcome is uncertain. Legal counsel or other experts are consulted on matters that may give rise to a provision or a contingent liability.

In the normal course of business, the Group is exposed to claims and legal proceedings that may in some cases result in costs.

Provisions relate to employee benefits (defined benefit scheme obligations, other obligations that fall due on termination of employment, and long-term employee benefits), and other provisions (customs and duties, legal matters, product quality claims and other claims arising in the normal course of business). The timing and amount of settlement is uncertain as it depends on the outcome of judicial proceedings or commercial negotiations relating to each individual claim. A breakdown of provisions is presented in the following table.

	2023
As at 1 August 2022	149
Additional provisions	69
Unused amounts reversed	(19)
Utilised during the year	(58)
Other	(23)
As at 31 July 2023	118

Notes to the Financial Statements CONTINUED

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Other

This section contains notes and disclosures that aid in understanding the Group's position and performance, and outlines the key risk management activities undertaken to manage the Group's exposure to financial risk.

16 Net movement in working capital and other operating activities

A breakdown of the decrease/(increase) in working capital and other operating activities from the Statement of Cash Flows is presented in the following table.

	2023	2022
Trade and other receivables	(31)	(821)
Inventories	663	(1,222)
Trade and other payables	302	494
Other movements	(63)	(49)
Total decrease/(increase) in working capital and other operating activities	871	(1,598)

17 Taxation

At a glance

This note provides information on income tax that has been recognised in the Statement of Profit or Loss and Other Comprehensive Income and the effective tax rate, together with information on the deferred tax asset and liability in the Statement of Financial Position and movements during the year.

Tax expense comprises current and deferred tax. Tax expense, including the tax consequences of distributions to farmer shareholders, is recognised in the Statement of Profit or Loss and Other Comprehensive Income. The tax consequences of distributions to farmer shareholders are recognised in the year to which the distribution relates. Other than distributions to farmer shareholders, tax consequences of items recognised directly in equity are also recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance date, and any adjustment to tax payable or receivable in respect of previous years.

Deferred tax arises due to certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those for taxation purposes. Deferred tax is measured at the tax rate that is expected to apply to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted at balance date.

Deferred tax is not recognised on the following temporary differences:

- the initial recognition of goodwill;
- the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and
- differences relating to investments in subsidiaries and equity accounted investees to the extent that the timing of the reversal is controlled by the Group and it is probable that they will not reverse in the foreseeable future.

In determining the probability of reversal, consideration is taken of whether the related assets are held for sale, future expectations of exiting, and if applicable, the impact any exit would have on the crystallisation of the deferred tax.

Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the temporary differences can be utilised.

a) Taxation – Statement of Profit or Loss and Other Comprehensive Income

The total tax expense in the Statement of Profit or Loss and Other Comprehensive Income is summarised in the following table.

	2023	2022
Current tax expense	98	80
Prior period adjustments to current tax	(3)	(9)
Deferred tax movements: Origination and reversal of temporary differences	208	60
Tax expense	303	131

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

17 Taxation CONTINUED

a) Taxation – Statement of Profit or Loss and Other Comprehensive Income CONTINUED

The taxation charge that would arise at the standard rate of corporation tax in New Zealand is reconciled to the tax expense as follows:

	2023	2022
Profit before tax from continuing operations	1,544	752
Prima facie tax expense at 28%	432	211
Tax effect of distributions to farmer shareholders	(189)	(79)
Add/(less): Tax effect of other items	60	(1)
Tax expense from continuing operations	303	131
Effective tax rate	19.6%	17.4%

The Group does not have significant operations in foreign jurisdictions with tax rates below 15%, and does not expect to be significantly impacted by Pillar II tax reforms and the move towards global minimum tax rates of 15%.

b) Taxation – Statement of Financial Position

The deferred tax assets and deferred tax liabilities in the Statement of Financial Position, along with the net deferred tax, are presented in the following table.

	2023			2022		
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	NET DEFERRED TAX	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	NET DEFERRED TAX
Property, plant and equipment	1,678	(1,744)	(66)	1,730	(1,767)	(37)
Intangible assets	–	(358)	(358)	–	(380)	(380)
Derivative financial instruments	–	(18)	(18)	131	–	131
Inventories	175	–	175	79	–	79
New Zealand tax losses	33	–	33	348	–	348
Offshore tax losses	192	–	192	187	–	187
Other	188	–	188	194	(21)	173
Total before offsetting	2,266	(2,120)	146	2,669	(2,168)	501
Offset adjustment	(2,084)	2,084	–	(2,118)	2,118	–
Total	182	(36)	146	551	(50)	501

	2023	2022
Movements for the year		
Opening balance	501	435
Recognised in profit after tax	(208)	(60)
Recognised in other comprehensive income	(147)	124
Foreign currency translation	–	2
Closing balance	146	501

Deferred tax liabilities

Earnings made by foreign subsidiaries could be subject to withholding and other taxes on remittance. Deferred tax liabilities are not recognised in respect of unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries.

As at 31 July 2023, unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries amount to \$171 million (31 July 2022: \$185 million). The Group has made a judgement not to recognise deferred tax liabilities in respect of these amounts because it can control the timing and the manner in which the associated temporary difference will reverse. This includes controlling the timing of dividends, and in the event of divestments made because of the strategic review, the manner in which divestment proceeds are remitted, and therefore the associated tax consequences.

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Notes to the Financial Statements CONTINUED

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(\$ MILLION)

18 Related party transactions

At a glance

This note provides details on transactions, balances and commitments with persons or entities that are related to the Group, including key management personnel and equity accounted investees.

a) Key management personnel

Key management personnel comprise members of the Board and members of the FMT.

A number of Board Directors are also farmer shareholders.

Transactions with key management personnel are on normal trade terms and no balances are secured.

	2023	2022
<i>Transactions with key management personnel</i>		
Short-term employee benefits	23	21
Long-term employee benefits	1	5
Share-based payments	1	–
Directors' remuneration	3	3
Total key management personnel remuneration	28	29
Purchases of goods, primarily milk supplied by farmer shareholder Directors	138	157
Sale of goods, primarily sales through Farm Source™ retail stores	8	8
Dividends paid to farmer shareholder Directors	4	3
<i>Balances with key management personnel</i>		
Total payables and provisions arising from remuneration	19	22
Total capital return payable to farmer shareholder Directors	8	–
Total payables arising from the purchase of goods or services	20	24

During the year Fonterra issued Alignment Rights to FMT under a new long-term incentive plan. The value on issuance of these Alignment Rights is split equally between:

- “Co-op Units”, where the participant receives distributions during the period of the arrangement and a cash payment equal to the number of rights times the 12-month volume weighted average price of a Co-operative Share. This is a cash-settled share-based payment as the payment is linked to share prices, and is presented as a share-based payment above; and
- “Farm Units”, where the participant receives a cash payment equal to the number of rights times the 3-year average owner operator Dairy Operating Profit per hectare, sourced from the Dairy NZ Economic Survey. This is presented as a long-term employee benefit above.

The cost is spread over the 3-year service period, and paid between 4 to 6 years from the date of issue.

b) Equity accounted investees

Transactions with equity accounted investees are on normal trade terms and no balances are secured.

	2023	2022
<i>Transactions with equity accounted investees</i>		
Revenue from the sale of goods and services, primarily for commodity products sold	41	86
Other income, primarily dividends and royalties	21	6
Purchases of goods, primarily commodity products	87	81
Purchases of services, primarily freight services	218	167
Contributions paid	21	–
<i>Balances with equity accounted investees</i>		
Total receivables arising from the sale of goods or services	3	19
Total payables arising from the purchase of goods or services	14	14

The Group has prospective commitments with related parties including contracts with equity accounted investees for the sale, supply and purchase of dairy products, energy and the provision of various management services.

The Group has committed to provide funding of up to \$50 million to the AgriZero^{NZ} joint venture, of which \$12 million has been contributed during the year ended 31 July 2023.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

19 Fair value measurement

At a glance

This note provides a summary of assets and liabilities measured at fair value and categorises these into a hierarchy that indicates the extent to which fair value is based on observable information. This note also includes information about the fair value of financial assets and financial liabilities not measured at fair value.

The fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

The fair values of financial assets and liabilities are calculated by reference to quoted market prices where that is possible. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If quoted market prices are not available, the methodology used to calculate the fair values of financial assets and liabilities is to identify the expected cash flows under the terms of each specific contract and then discount these values back to the present value. These models use as their basis independently sourced market data where it is available and rely as little as possible on entity-specific estimates.

The calculation of the fair value of financial instruments reflects the impact of credit risk where applicable.

Specific valuation techniques used to value financial instruments include:

- the fair value of foreign exchange contracts is determined using observable currency exchange rates, option volatilities and interest rate yield curves;
- the fair value of interest rate contracts is calculated as the present value of the estimated future cash flows based on observable interest rate yield curves;
- the fair value of commodity contracts that are not exchange traded is determined by calculating the present value of estimated future cash flows based on observable quoted prices for similar instruments; and
- the fair value on the hedged risks of borrowings and long-term advances that are not exchange traded is calculated as the present value of the estimated future cash flows based on observable currency exchange rates and interest rate yield curves.

Fair value hierarchy

The fair value hierarchy described below is used to provide an indication of the level of estimation or judgement required in determining fair value:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

The fair value hierarchy for assets and liabilities measured at fair value are presented in the following table.

	LEVEL 1		LEVEL 2		LEVEL 3	
	2023	2022	2023	2022	2023	2022
Measured at fair value on a recurring basis						
Derivative assets	34	211	535	453	–	–
Derivative liabilities	(190)	(40)	(331)	(1,006)	–	–
Other	55	63	13	18	38	36
Measured at fair value on a non-recurring basis						
Net liabilities held for sale	–	–	–	–	(21)	(155)
Fair value	(101)	234	217	(535)	17	(119)

The fair value of financial assets and liabilities not measured at fair value approximates carrying value, except in respect of medium-term notes. The medium-term notes have a carrying value of \$3,399 million (31 July 2022: \$3,436 million), and their fair value is \$3,470 million (31 July 2022: \$3,511 million) at level 2 of the fair value hierarchy.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

20 Re-presentations

At a glance

This note provides a summary of the effect of excluding the Chilean Soprole business from continuing operations and presenting it as a discontinued operation in the comparative period Statement of Profit or Loss and Other Comprehensive Income, for consistency with the current year treatment.

The following table shows the financial effect on the Group's Statement of Profit or Loss and Other Comprehensive Income from the re-presentation of the Chilean Soprole business from continuing operations into discontinued operations.

Discontinued operations presented below incorporates both the performance of the Chilean Soprole business (excluding intercompany interest) and revaluation of derivatives relating to the sale transaction.

	2022 CONTINUING OPERATIONS	TRANSFERRED TO DISCONTINUED OPERATIONS	2022 CONTINUING OPERATIONS RE-PRESENTED
Revenue from sale of goods	22,953	1,052	21,901
Cost of goods sold	(19,737)	(745)	(18,992)
Gross profit	3,216	307	2,909
Expenses and other items including finance costs	(2,386)	(229)	(2,157)
Profit before tax	830	78	752
Tax expense	(169)	(38)	(131)
Profit after tax	661	40	621
Total comprehensive income from continuing operations	461	(17)	478

21 Financial risk management

At a glance

This note provides information on the Group's financial risks. The Group has exposure to market risk (which includes volatility in foreign exchange, interest rates, and commodity prices), liquidity risk, and credit risk. These risks are managed in accordance with established Group policies and procedures.

The Group has exposure to the following financial risks:

- market risk;
- liquidity risk; and
- credit risk.

The Group's overall financial risk management programme focuses primarily on maintaining a financial risk profile that provides flexibility to implement the Group's strategies, while optimising return on assets. Financial risk management is centralised, which supports compliance with the financial risk management policies and procedures set by the Board.

The Group uses derivatives, such as forwards, futures, options and swaps to manage its exposure to certain risks as described in this section. Derivatives are measured at fair value.

Measurement differences between derivatives and the associated item being hedged can present volatility in the Statement of Profit or Loss and Other Comprehensive Income. To reduce this volatility the Group applies hedge accounting. Refer to [Note 22 Hedge accounting](#) for further information.

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Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

21 Financial risk management CONTINUED

Market Risk

a) Foreign exchange risk

Nature and exposure of risk

Foreign exchange risk is the risk that changes in foreign exchange rates will affect the Group's future cash flows or fair value of financial instruments.

The Group is exposed to movements in foreign exchange rates through transactions and balances denominated in foreign currencies. The Group's exposure to foreign currency before applying risk management strategies are as follows:

- Forecast foreign currency transactions, which predominantly includes the Group's forecast sales transactions which are mainly denominated in United States Dollars.
- Net investments in foreign operations of \$3,678 million (31 July 2022: \$4,067 million). This amount includes foreign currency receivables and payables, and excludes net investments in foreign operations held for sale and borrowings held by the Group in the same currency as the investment.
- Borrowings denominated in foreign currency of \$3,464 million (31 July 2022: \$3,506 million).
- Foreign currency receivables of \$1,788 million (31 July 2022: \$2,089 million) and payables of \$918 million (31 July 2022: \$1,075 million).

The concentration of borrowings by currency is presented in the following table.

	2023	2022
United States Dollar	1,374	1,441
Australian Dollar	709	745
European Euro	640	592
New Zealand Dollar	477	1,750
British Pound	468	447
Chinese Renminbi	193	197
Other	80	84
Total borrowings	3,941	5,256

How foreign exchange risk is managed

Forecast foreign currency transactions

The Group enters into foreign currency forward contracts and foreign currency options to manage foreign exchange risk on the following forecast foreign currency transactions:

- forecast cash receipts from foreign currency sales for a period of up to 18 months within decreasing limits approved by the Board; and
- up to 100% of other forecast foreign currency transactions.

Foreign operations

The Group also has discretion to use foreign currency denominated borrowings and foreign currency swaps to manage foreign exchange risk on net investments in foreign operations.

Foreign currency denominated borrowings

To the extent the Group has monetary assets in the same foreign currency as the borrowing, the Group has a reduced exposure to foreign exchange risk. Foreign currency gains and losses relating to these balances are offset in the Statement of Profit or Loss and Other Comprehensive Income.

The Group uses cross-currency interest rate swaps (CCIRS) to manage residual foreign exchange and interest rate risk on foreign currency denominated borrowings. CCIRS exchange fixed rate foreign currency borrowings and interest payments into equivalent New Zealand Dollar denominated amounts of principal with floating interest rates. The Group's policy is to maintain its net exposure to a foreign currency within Board approved predefined limits.

Receivables and payables denominated in foreign currency

In accordance with Board approved policy, the Group enters into foreign currency forward contracts and foreign currency options for 100% of its net foreign currency receivables and payables which generate foreign exchange risk within the Statement of Profit or Loss and Other Comprehensive Income.

Derivatives used to hedge the changes in the value of foreign currency receivables and payables are not hedge accounted. Changes in the fair value of these derivatives provide an offset to the changes in the value of foreign currency receivables and payables recognised in the Statement of Profit or Loss and Other Comprehensive Income. These are recognised within operating expenses in the Statement of Profit or Loss and Other Comprehensive Income.

Sensitivity analysis

The following table presents the Group's post-tax sensitivity of financial instruments and net assets held in foreign operations at reporting date, after taking into consideration the impact of hedge accounting, to a reasonably possible strengthening or weakening NZD against foreign currencies. Hedged forecast transactions would offset the equity impacts shown below when incurred.

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Notes to the Financial Statements CONTINUED

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(\$ MILLION)

21 Financial risk management CONTINUED

a) Foreign exchange risk CONTINUED

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

	2023		2022	
	EQUITY	PROFIT	EQUITY	PROFIT
10% strengthening of the NZD	352	(9)	513	10
10% weakening of the NZD	(389)	9	(617)	(13)

b) Interest rate risk

Nature and exposure of risk

Interest rate risk is the risk that changes in interest rates will affect the Group's future cash flows or fair value of financial instruments.

Changes in interest rates expose the Group to changes in the fair value of borrowings subject to fixed interest rates (fair value risk), and changes in future interest payments on borrowings subject to floating interest rates (cash flow risk).

The Group is exposed to movements in interest rates on its interest-bearing borrowings. The Group's exposure before applying risk management strategies is \$2,066 million (31 July 2022: \$4,845 million).

How interest rate risk is managed

The Group issues fixed and floating rate debt and uses interest rate swaps (IRS) to manage interest rate exposure on its borrowings within a Board approved target ratio of fixed and floating rate exposure.

Sensitivity analysis

The following table presents the Group's post-tax sensitivity of floating rate financial instruments and of the fair value of fixed rate financial assets and liabilities held at reporting date to a reasonably possible change in interest rates. This analysis assumes that the amount and mix of fixed and floating rate debt remains unchanged from that in place at reporting date, and that the change in interest rates is effective from the beginning of the year.

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

	2023		2022	
	EQUITY	PROFIT	EQUITY	PROFIT
100 basis point increase	44	2	48	3
100 basis point decrease	(46)	(2)	(50)	(3)

c) Commodity price risk

Nature and exposure of risk

Commodity price risk is the risk that changes in commodity prices will affect the Group's future cash flows or fair value of financial instruments.

The Group is exposed to dairy commodity price risk through changes in selling prices and the cost of milk. In addition, the Group is a large purchaser of electricity, diesel and emissions units and is exposed to changes in the cost of these commodities.

How commodity price risk is managed

Dairy commodity price risk

The Group manages its exposure to dairy commodity price risk by:

- determining the most appropriate mix of products to manufacture based on expected milk supply and global demand for dairy products;
- governing the length and terms of sales contracts, so that sales revenue is reflective of current market prices and is, where possible, linked to Global Dairy Trade prices; and
- using dairy commodity derivative contracts to obtain a certain price for future sales, or the cost of milk, to manage margin risk. The markets for dairy commodity derivatives are relatively limited, which reduces the ability to manage earnings volatility. As markets for these derivatives grow, the use of dairy commodity derivatives to manage dairy commodity price risk may increase.

Other commodity price risk

The Group manages its exposure to other commodity price risk through the use of derivative contracts to hedge the cost of electricity and diesel and the pre-purchase of emissions units to hedge the cost of emissions units. These are transacted at Board approved levels.

Sensitivity analysis

The following table presents the Group's post-tax sensitivity on its commodity derivatives, after taking into consideration the impact of hedge accounting, from a reasonably possible increase or decrease in commodity prices, with all other variables held constant. Commodity price sensitivity arises from the revaluation of derivative assets and liabilities in the Statement of Financial Position at balance date. Hedged forecast transactions would offset the equity impacts shown below when incurred.

	2023		2022	
	EQUITY	PROFIT	EQUITY	PROFIT
10% increase in commodity prices	38	16	76	35
10% decrease in commodity prices	(39)	(18)	(77)	(35)

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21 Financial risk management CONTINUED

Liquidity Risk

Nature and exposure of risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The following table sets out the contractual, undiscounted cash flows for the Group's financial instruments.

	2023					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	3 MONTHS OR LESS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS
Non-derivative financial liabilities						
Borrowings						
– Bank loans	(50)	(50)	(16)	(34)	–	–
– Lease liabilities	(392)	(445)	(23)	(65)	(209)	(148)
– NZX-listed bonds	(100)	(110)	–	(4)	(106)	–
– Medium-term notes	(3,399)	(3,993)	(25)	(780)	(2,384)	(804)
Bank overdraft	(102)	(102)	(102)	–	–	–
Trade and other payables (excluding employee entitlements)	(4,026)	(4,026)	(3,943)	(83)	–	–
Capital return payable	(804)	(804)	(804)	–	–	–
Other	(65)	(65)	(15)	(6)	(44)	–
Total non-derivative financial liabilities	(8,938)	(9,595)	(4,928)	(972)	(2,743)	(952)
Derivative financial instruments						
Gross settled derivatives						
Inflow		25,128	12,241	8,628	3,455	804
Outflow		(25,014)	(12,229)	(8,834)	(3,292)	(659)
Total gross settled derivative financial instruments	105	114	12	(206)	163	145
Net settled derivatives	(57)	(18)	(105)	95	(8)	–
Total financial liabilities and derivatives	(8,890)	(9,499)	(5,021)	(1,083)	(2,588)	(807)

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21 Financial risk management CONTINUED

	2022					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	3 MONTHS OR LESS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS
Non-derivative financial liabilities						
Borrowings						
– Bank loans	(999)	(1,119)	(17)	(33)	(1,069)	–
– Commercial paper	(98)	(100)	–	(100)	–	–
– Lease liabilities	(438)	(443)	(26)	(70)	(210)	(137)
– Capital notes	(35)	(41)	–	(1)	(5)	(35)
– NZX-listed bonds	(250)	(270)	(3)	(157)	(110)	–
– Medium-term notes	(3,436)	(4,031)	(25)	(117)	(2,450)	(1,439)
Bank overdraft	(31)	(31)	(31)	–	–	–
Trade and other payables (excluding employee entitlements)	(4,154)	(4,154)	(4,053)	(101)	–	–
Other	(32)	(33)	(18)	–	(15)	–
Total non-derivative financial liabilities	(9,473)	(10,222)	(4,173)	(579)	(3,859)	(1,611)
Derivative financial instruments						
Gross settled derivatives						
Inflow		22,840	7,871	10,153	3,589	1,227
Outflow		(23,476)	(8,098)	(10,605)	(3,721)	(1,052)
Total gross settled derivative financial instruments	(639)	(636)	(227)	(452)	(132)	175
Net settled derivatives	257	274	109	70	97	(2)
Total financial liabilities and derivatives	(9,855)	(10,584)	(4,291)	(961)	(3,894)	(1,438)

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21 Financial risk management CONTINUED

How liquidity risk is managed

The Group's approach to managing liquidity risk is to ensure that it will always have sufficient funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group has a Board approved policy in place to ensure that it has sufficient cash or facilities on demand to meet expected operational expenses for a period of at least 80 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In such situations back-up funding lines are maintained and as set out in Fonterra's Constitution, the Group can defer payments to farmer shareholders if necessary.

The Group manages its liquidity by retaining cash and marketable securities, and the availability of funding from an adequate amount of committed credit facilities. The Group would also be able to close out market positions if necessary. The Group's funding facilities are reviewed at least annually, which is one of the key financial risk management activities undertaken to ensure an appropriate maturity profile given the nature of the Group's business. At balance date the Group had undrawn lines of committed credit totalling \$2,830 million (31 July 2022: \$2,345 million).

Liquidity and refinancing risks are also managed by ensuring that the Group can maintain access to funding markets throughout the world. To that end, the Group maintains debt issuance programmes in a number of key markets and manages relationships with international investors.

Credit Risk

Nature and exposure of risk

Credit risk is the risk of loss to the Group due to customer or counterparty default on the Group's receivable balances. The Group's maximum exposure to credit risk is represented by the carrying amounts of cash and cash equivalents, trade and other receivables, long-term advances and derivative assets.

The Group has no significant concentrations of credit risk.

How credit risk is managed

The Group sets minimum credit quality requirements, credit limits and uses other credit mitigation tools to manage its credit risk. The Group's Board approved policy is to actively manage its exposure to credit risk through the following actions.

Derivative contracts, cash and cash equivalents and other balances

- Use of financial counterparties that have a credit rating of at least 'A-' from S&P Global Ratings (or equivalent);
- Use of commodity counterparties that have a credit rating of at least 'BBB-' from S&P Global Ratings (or equivalent) for commodity derivative contracts; and
- Posting or receiving margin in respect of derivative contracts transacted on exchanges.

As at 31 July 2023 the Group posted \$257 million (31 July 2022: received \$54 million) of margin as collateral for derivative financial instruments. This collateral is included in other receivables within Trade and other receivables in the Statement of Financial Position (31 July 2022: \$65 million was included in Trade and other payables and \$11 million was included in Trade and other receivables).

The Group further manages its credit risk through the following.

Trade and other receivables

- Application of credit limits, and credit mitigation tools, such as letters of credit.

Long-term advances

- Counterparty creditworthiness is assessed before the commencement of any long-term advances. Depending on the nature and amount of the advance, they are subject to Board approval. The collectability of long-term advances is monitored on a regular basis.

Expected credit losses on trade receivables

The Group recognises an allowance for expected credit losses based on the lifetime expected credit losses at balance date for trade receivables, and for other receivables if the credit risk has increased significantly since initial recognition. The allowance for expected credit losses for other amounts receivable is based on expected credit losses during the next 12-months.

The Group's Trade and other receivables (excluding prepayments) of \$2,371 million (31 July 2022: \$2,412 million) are largely current or less than one month past due (31 July 2023: \$2,268 million, 31 July 2022: \$2,330 million). Expected credit losses of \$23 million have been recognised (31 July 2022: \$12 million) on a trade receivables balance of \$2,094 million (31 July 2022: \$2,355 million).

Trade and other receivables includes other receivables of \$297 million (31 July 2022: \$50 million) and prepayments of \$102 million (31 July 2022: \$70 million).

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

22 Hedge accounting

At a glance

This note provides information on the Group's risk and hedging instruments, where hedge accounting has been applied. The Group utilises fair value hedges, cash flow hedges, and net investment hedges to manage foreign exchange, interest rate, and commodity price risk. The hedge accounting impacts are presented within this note.

Derivatives are measured at fair value. Refer to [Note 19 Fair value measurement](#) for information on how fair value is determined.

The resulting gain or loss on re-measurement is recognised immediately in the profit or loss, unless the derivative is designated into an effective hedge relationship as a hedging instrument, in which case the timing of recognition in the profit or loss depends on the nature of the designated hedge relationship.

The Group may designate derivatives as:

- fair value hedges (where the derivative is used to manage the variability in the fair value of recognised assets and liabilities);
- cash flow hedges (where the derivative is used to manage the variability in cash flows relating to recognised liabilities or forecast transactions); or
- net investment hedges (where borrowings or derivatives are used to manage the risk of fluctuation in the translated value of its foreign operations).

Hedge accounting is discontinued when the hedging instrument expires, is terminated, is exercised, or no longer qualifies for hedge accounting.

Fair value hedges

For fair value hedges the following are recognised in the profit or loss:

- the change in fair value of the hedging instruments; and
- the change in the fair value of the underlying hedged item attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued. The fair value adjustment to the carrying amount of the hedged item upon discontinuance is amortised and recognised in the profit or loss over the remaining term of the original hedge. If the hedged item is sold or extinguished any unamortised fair value adjustment is immediately recognised in the profit or loss.

Cash flow hedges

The effective portion of changes in the fair value of the hedging instruments are recognised in other comprehensive income in the Statement of Profit or Loss and Other Comprehensive Income and accumulated in a separate reserve in equity. Subsequently the cumulative amount is transferred to the profit or loss when the underlying transactions are recognised in the profit or loss.

The ineffective portion of changes in the fair value of the hedging instruments are recognised immediately in the profit or loss.

If the hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued. The cumulative gain or loss recognised in other comprehensive income remains in the hedge reserve until the forecast transaction occurs, or it is immediately recognised in the profit or loss if the transaction is no longer expected to occur.

Net investment hedges

The effective portion of changes in the fair value of the hedging instruments are recognised in other comprehensive income and transferred to the profit or loss when the foreign operation is disposed of or sold.

The ineffective portion of changes in the fair value of the hedging instruments are recognised immediately in the profit or loss.

Costs of hedging

The change in fair value of a hedging instrument relating to the time-value of foreign currency options, and the foreign currency basis component of cross-currency interest rate swaps are recognised in other comprehensive income and accumulated within hedge reserves in the Statement of Financial Position. Subsequently, the cumulative amount is transferred to the profit or loss at the same time as the hedged item impacts the profit or loss.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

22 Hedge accounting CONTINUED

The Group's risk management activities described in 21 *Financial risk management* result in volatility to the Statement of Profit or Loss and Other Comprehensive Income caused by timing and measurement differences between hedging instruments and the associated item being hedged. Where a hedge relationship between a hedged item and the hedging instrument (e.g. a derivative) qualifies for hedge accounting, and the Group applies hedge accounting, the volatility in the Statement of Profit or Loss and Other Comprehensive Income caused by the timing and measurement differences between hedging instruments and the associated hedged item is reduced. The Group applies the following hedge accounting activities.

Foreign exchange risk

Forecast foreign currency transactions

The Group applies cash flow hedge accounting where derivatives are used to manage foreign exchange risk on forecast foreign currency transactions. The amount and maturity of the derivative and the forecast transaction is aligned to ensure that the hedge relationship remains effective, with any undesignated costs of hedging accounted for separately.

Hedge ineffectiveness arises if the amount of the forecast transactions falls below the amount of the designated hedging instruments.

The Statement of Profit or Loss and Other Comprehensive Income impact of hedge accounting effectiveness and ineffectiveness is recognised in revenue from sale of goods.

Foreign operations

The Group's net investments are designated in hedge relationships to the extent borrowings denominated in the same foreign currency and foreign currency swaps are directly attributed to the net investment.

Hedge ineffectiveness arises if the carrying amount of the net investment falls below the amount of the designated hedging instruments.

The Statement of Profit or Loss and Other Comprehensive Income impact of hedge accounting effectiveness and ineffectiveness is recognised in operating expenses.

Foreign currency denominated borrowings

The Group applies hedge accounting to foreign currency denominated borrowings that are managed by CCIRS. The amount and maturity of the CCIRS and the hedged debt is aligned to ensure that the hedge relationship remains effective, with any undesignated costs of hedging accounted for separately.

The hedge relationship may be designated into separate cash flow hedges and fair value hedges to manage the different components of foreign currency and interest rate risk:

- Fair value hedge relationship where CCIRS are used to manage the interest rate and foreign currency risk in relation to foreign currency denominated borrowings with fixed interest rates.

- Cash flow hedge relationship where CCIRS are used to manage the variability in cash flows arising from interest rate movements on floating interest rate payments and foreign exchange movements on payments of principal and interest.

Hedge ineffectiveness arises in relation to CCIRS that have been designated in hedge relationships after their initial recognition, or from changes in counterparty credit risk and cross currency basis spreads.

The Statement of Profit or Loss and Other Comprehensive Income impact of hedge accounting effectiveness and ineffectiveness is recognised in net finance costs and operating expenses.

Interest rate risk

The Group applies hedge accounting to the borrowings and the associated IRS, for movements in benchmark market interest rates (i.e. excluding any margin component).

Hedge ineffectiveness arises in relation to IRS that have been designated to hedge relationships after their initial recognition or from changes in counterparty credit risk.

In specific situations, where changes in the fair value of fixed to floating IRS provide an offset to the changes in the fair value of other associated floating-to-fixed IRS, hedge accounting is not applied. The changes in fair values of these IRS offset each other and are recognised within net finance costs in the Statement of Profit or Loss and Other Comprehensive Income.

The Statement of Profit or Loss and Other Comprehensive Income impact of hedge accounting effectiveness and ineffectiveness is recognised in net finance costs.

Commodity price risk

The Group applies cash flow hedge accounting where derivatives are used to manage commodity price risk on certain forecast transactions. The amount and maturity of the derivative and the forecast transaction is aligned to ensure that the hedge relationship remains effective.

Hedge ineffectiveness arises if the amount of the forecast transactions falls below the amount of the designated hedging instruments.

The Statement of Profit or Loss and Other Comprehensive Income impact of hedge accounting effectiveness and ineffectiveness is recognised in cost of goods sold and operating expenses.

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Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

22 Hedge accounting CONTINUED

a) Impact to reserves in equity

A breakdown of reserves is presented in the following table.

	2023	2022
Hedge reserves	43	(346)
Foreign currency translation reserve	7	(253)
Other	9	30
Total	59	(569)

HEDGE RESERVES	2023	2022
Opening balance	(346)	(26)
<i>Movements attributable to cash flow hedges</i>		
Change in value of effective derivative hedging instruments	(56)	(726)
Reclassifications to the Statement of Profit or Loss and Other Comprehensive Income:		
– As hedged transactions occurred	563	308
Net change in the cost of hedging reserve	33	(26)
Tax (expense)/credit	(151)	124
Total movement	389	(320)
Closing balance	43	(346)

FOREIGN CURRENCY TRANSLATION RESERVE	2023	2022
Opening balance	(253)	(355)
<i>Movements attributable to net investments in foreign operations and net investment hedges</i>		
Net translation loss on:		
– Borrowings and derivative hedging instruments	15	76
– Net investments in foreign operations	47	27
Reclassifications to the Statement of Profit or Loss and Other Comprehensive Income:		
– Disposals of foreign operations	194	(1)
– Tax credit	4	–
Total movement	260	102
Closing balance	7	(253)

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Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

22 Hedge accounting CONTINUED

b) Hedging instruments designated in a hedge accounting relationship

Information about hedging instruments that the Group has designated in a hedge accounting relationship is presented in the following tables.

RISK AND HEDGING INSTRUMENTS	2023					
	MATURITY (MONTHS)	WEIGHTED AVERAGE RATE/PRICE	NOMINAL AMOUNT ¹	CARRYING AMOUNT IN THE STATEMENT OF FINANCIAL POSITION		
				DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	BORROWINGS
Foreign exchange risk – Forecast foreign currency transactions						
<i>Cash flow hedges</i>						
NZD:USD forwards and options (sales)	1-18	0.623	11,603	117	(114)	–
USD:CNY forwards and options (sales)	1-12	6.898	774	21	(2)	–
AUD:USD forwards (sales)	1-7	0.666	114	1	(1)	–
USD:AUD forwards (purchases)	1-18	0.704	43	3	(2)	–
Total			12,534	142	(119)	–
Foreign exchange risk – Foreign operations						
<i>Net investment hedges</i>						
AUD borrowings	52	–	87	–	–	(87)
EUR borrowings	16	–	173	–	–	(173)
Total			260	–	–	(260)
Foreign exchange risk and interest rate risk – Foreign currency denominated borrowings						
<i>Cash flow and fair value hedges</i>						
NZD:USD CCIRS	38-85	0.760/Floating	1,184	179	–	–
NZD:GBP CCIRS	5	0.361/Floating	623	–	(161)	–
NZD:EUR CCIRS	16	0.656/Floating	386	43	–	–
NZD:CNY CCIRS	24	4.669/Floating	171	11	–	–
Total			2,364	233	(161)	–

¹ Nominal amount is the face value converted into NZD using the exchange rate at year-end, except for CCIRS which are converted using the weighted average contracted foreign exchange rate.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

22 Hedge accounting CONTINUED

b) Hedging instruments designated in a hedge accounting relationship CONTINUED

RISK AND HEDGING INSTRUMENTS	2023					
	MATURITY (MONTHS)	WEIGHTED AVERAGE RATE/PRICE	NOMINAL AMOUNT ¹	CARRYING AMOUNT IN THE STATEMENT OF FINANCIAL POSITION		
				DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	BORROWINGS
Interest rate risk – Borrowings						
<i>Cash flow hedges</i>						
NZD IRS	1-60	2.57%	3,418	144	–	–
AUD IRS	11-13	3.34%	173	2	–	–
Total			3,591	146	–	–
<i>Fair value hedges</i>						
NZD IRS	28	Floating	100	–	(4)	–
AUD IRS	35-52	Floating	519	–	(30)	–
Total			619	–	(34)	–
Commodity price risk – Forecast transactions						
<i>Cash flow hedges²</i>						
Fuel futures	1-16	\$98.72	15	1	–	–
Milk Price futures and options	3-27	\$10.57	836	16	(174)	–
Electricity futures	1-42	\$140.42	262	3	(26)	–
Total			1,113	20	(200)	–

¹ Nominal amount is the face value converted into NZD using the exchange rate at year-end, except for CCIRS which are converted using the weighted average contracted foreign exchange rate.

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

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Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

22 Hedge accounting CONTINUED

b) Hedging instruments designated in a hedge accounting relationship CONTINUED

RISK AND HEDGING INSTRUMENTS	2022					
	MATURITY (MONTHS)	WEIGHTED AVERAGE RATE/PRICE	NOMINAL AMOUNT ¹	CARRYING AMOUNT IN THE STATEMENT OF FINANCIAL POSITION		
				DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	BORROWINGS
Foreign exchange risk – Forecast foreign currency transactions						
<i>Cash flow hedges</i>						
NZD:USD forwards and options (sales)	1-18	0.663	14,636	42	(610)	–
USD:CNY forwards and options (sales)	1-12	6.615	708	14	(2)	–
AUD:USD forwards (sales)	1-12	0.714	165	1	(4)	–
USD:AUD forwards (purchases)	1-30	0.714	125	4	(2)	–
AUD:AED forwards (sales)	1-9	2.573	46	–	–	–
Total			15,680	61	(618)	–
Foreign exchange risk – Foreign operations						
<i>Net investment hedges</i>						
AUD borrowings	64	–	89	–	–	(89)
EUR borrowings	28	–	157	–	–	(157)
NZD:CNY forwards	5	4.340	19	–	(1)	–
Total			265	–	(1)	(246)
Foreign exchange risk and interest rate risk – Foreign currency denominated borrowings						
<i>Cash flow and fair value hedges</i>						
NZD:USD CCIRS	50-97	0.760/Floating	1,184	239	–	–
NZD:GBP CCIRS	17	0.361/Floating	623	9	(206)	–
NZD:EUR CCIRS	28	0.656/Floating	386	10	–	–
NZD:CNY CCIRS	36	4.669/Floating	171	16	–	–
Total			2,364	274	(206)	–

¹ Nominal amount is the face value converted into NZD using the exchange rate at year-end, except for CCIRS which are converted using the weighted average contracted foreign exchange rate.

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Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

22 Hedge accounting CONTINUED

b) Hedging instruments designated in a hedge accounting relationship CONTINUED

RISK AND HEDGING INSTRUMENTS	2022					
	MATURITY (MONTHS)	WEIGHTED AVERAGE RATE/PRICE	NOMINAL AMOUNT ¹	CARRYING AMOUNT IN THE STATEMENT OF FINANCIAL POSITION		
				DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	BORROWINGS
Interest rate risk – Borrowings						
<i>Cash flow hedges</i>						
NZD IRS	1-60	2.43%	4,193	106	(12)	–
AUD IRS	23-25	3.34%	178	–	–	–
Total			4,371	106	(12)	–
<i>Fair value hedges</i>						
NZD IRS	8-40	Floating	250	–	(4)	–
AUD IRS	47-64	Floating	534	–	(19)	–
Total			784	–	(23)	–
Commodity price risk – Forecast transactions						
<i>Cash flow hedges²</i>						
Fuel futures	1-18	\$109.55	25	5	–	–
Milk Price futures and options	3-27	\$8.50	1,291	130	–	–
Electricity futures	1-45	\$119.81	138	28	–	–
Total			1,454	163	–	–

¹ Nominal amount is the face value converted into NZD using the exchange rate at year-end, except for CCIRS which are converted using the weighted average contracted foreign exchange rate.

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

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Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

22 Hedge accounting CONTINUED

c) Impact of hedge accounting

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

	2023				
	ACCUMULATED COST OF HEDGING	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS ¹	CHANGE IN VALUE OF HEDGING INSTRUMENT RECOGNISED IN OTHER COMPREHENSIVE INCOME	AMOUNTS RECLASSIFIED FROM HEDGING RESERVE TO PROFIT OR LOSS	FAIR VALUE HEDGE ADJUSTMENTS RECOGNISED IN PROFIT OR LOSS
RISK AND HEDGING INSTRUMENTS USED					
Foreign exchange risk – Forecast foreign currency transactions					
Cash flow hedges	(24)	10	80	475	–
Foreign exchange risk – Foreign operations					
Net investment hedges	–	(14)	(14)	–	–
Foreign exchange risk and interest rate risk – Foreign currency denominated borrowings					
Cash flow and fair value hedges	(7)	135	26	(7)	(61)
Interest rate risk – Borrowings					
Cash flow hedges	–	207	85	(48)	–
Fair value hedges	–	(33)	–	–	(12)
Commodity price risk – Forecast transactions					
Cash flow hedges	–	(177)	(247)	143	–
Total	(31)	N/A	(70)	563	(73)

¹ For those borrowings in a net investment hedge, the change in value to calculate hedge effectiveness is for the year ended 2023.

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Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

22 Hedge accounting CONTINUED

c) Impact of hedge accounting CONTINUED

RISK AND HEDGING INSTRUMENTS USED	2022				
	ACCUMULATED COST OF HEDGING	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS ¹	CHANGE IN VALUE OF HEDGING INSTRUMENT RECOGNISED IN OTHER COMPREHENSIVE INCOME	AMOUNTS RECLASSIFIED FROM HEDGING RESERVE TO PROFIT OR LOSS	FAIR VALUE HEDGE ADJUSTMENTS RECOGNISED IN PROFIT OR LOSS
Foreign exchange risk – Forecast foreign currency transactions					
Cash flow hedges	(56)	(545)	(973)	409	–
Foreign exchange risk – Foreign operations					
Net investment hedges	–	2	2	–	–
Foreign exchange risk and interest rate risk – Foreign currency denominated borrowings					
Cash flow and fair value hedges	(8)	145	14	5	(82)
Interest rate risk – Borrowings					
Cash flow hedges	–	168	106	42	–
Fair value hedges	–	(26)	–	–	(79)
Commodity price risk – Forecast transactions					
Cash flow hedges	–	158	127	(148)	–
Total	(64)	N/A	(724)	308	(161)

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

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Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

22 Hedge accounting CONTINUED

d) Statement of Profit or Loss and Other Comprehensive Income impact from derivatives not designated in a hedge relationship

In addition to derivatives that are designated and qualify for hedge accounting, the Group also holds certain derivatives as economic hedges of foreign currency, commodity and interest rate exposure.

The impact of derivatives not designated in a hedge relationship on the Statement of Profit or Loss and Other Comprehensive Income was a gain of \$27 million (31 July 2022: a loss of \$205 million), predominantly related to \$21 million favourable movements on foreign currency contracts hedging net receivables (31 July 2022: \$182 million loss). Hedges of net receivables are offset within operating expenses by the revaluation of net receivables balances.

Additional impacts of derivatives not designated in a hedge relationship in relation to divestment activities are set out in [Note 2 Divestments](#).

23 Offsetting of financial assets and liabilities

At a glance

This note provides a summary of financial assets and financial liabilities which have been presented net in Statement of Financial Position (and additional financial assets and financial liabilities with offset rights that are conditional, and have not been presented net).

Financial assets and liabilities are offset, and the net amount reported in the Statement of Financial Position where there currently is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Balances offset within the Statement of Financial Position include derivative transactions with certain counterparties and amounts owed by farmer shareholders which are offset against amounts owed to them by the Group.

The Group enters into various master netting arrangements or similar agreements that do not meet the criteria for offsetting in the Statement of Financial Position but still allow for the related amounts to be offset in certain circumstances. These principally relate to derivative transactions under ISDA (International Swaps and Derivatives Association) agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and other agreements are presented in the following table.

	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION				NET
	GROSS FINANCIAL ASSETS/ (LIABILITIES)	GROSS FINANCIAL ASSETS/ (LIABILITIES) SET OFF	NET FINANCIAL ASSETS/ (LIABILITIES) PRESENTED	AMOUNTS NOT OFFSET	
As at 31 July 2023					
Derivative financial assets	741	(172)	569	(197)	372
Trade and other receivables (excluding prepayments)	2,479	(108)	2,371	(160)	2,211
	3,220	(280)	2,940	(357)	2,583
Derivative financial liabilities	(693)	172	(521)	357	(164)
Total trade and other payables (excluding employee entitlements)	(4,134)	108	(4,026)	–	(4,026)
Borrowings	(3,941)	–	(3,941)	–	(3,941)
	(8,768)	280	(8,488)	357	(8,131)
As at 31 July 2022					
Derivative financial assets	944	(280)	664	(444)	220
Trade and other receivables (excluding prepayments)	2,523	(111)	2,412	–	2,412
	3,467	(391)	3,076	(444)	2,632
Derivative financial liabilities	(1,326)	280	(1,046)	363	(683)
Total trade and other payables (excluding employee entitlements)	(4,265)	111	(4,154)	66	(4,088)
Borrowings	(5,256)	–	(5,256)	15	(5,241)
	(10,847)	391	(10,456)	444	(10,012)

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

(\$ MILLION)

24 Subsidiaries

Subsidiaries are entities controlled by the Group. Subsidiaries are consolidated from the date the Group gains control until the date on which control ceases.

Non-controlling interests are allocated their share of profit after tax in the Statement of Profit or Loss and Other Comprehensive Income and are presented within equity in the Statement of Financial Position separately from equity attributable to equity holders of the Co-operative. The effect of all transactions with non-controlling interests that change the Group's ownership interest but do not result in a change in control are recorded in equity. Where control is lost, the remaining interest in the investment is remeasured to fair value and any surplus or deficit arising from that remeasurement is recognised in the Statement of Profit or Loss and Other Comprehensive Income.

The Group's subsidiaries are involved in the marketing, distribution, processing and financing of dairy products. All Group subsidiaries have a balance date of 31 July unless otherwise indicated. Subsidiaries with different balance dates from that of the Group are due to legislative requirements in the country the entities are domiciled.

In addition to the entities presented, the Group controls the Fonterra Shareholders' Fund and Fonterra Farmer Custodian Limited and consolidates these two entities. The trustees of the Fonterra Farmer Custodian Trust own the legal title to all of the shares of the Custodian. The Fund is a managed investment scheme with an independent trustee.

The significant subsidiaries of the Group are presented in the following table.

SUBSIDIARY NAME	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	OWNERSHIP INTERESTS (%)	
		2023	2022
New Zealand Milk (Australasia) Pty Limited	Australia	100	100
Fonterra Australia Pty Limited	Australia	100	100
Fonterra Brands (Australia) Pty Limited	Australia	100	100
Fonterra Investments Pty Ltd	Australia	100	100
Dairy Partners Americas Brasil Limitada ¹	Brazil	51	51
Soprole Inversiones S.A. ²	Chile	–	99.9
Comercial Santa Elena S.A. ²	Chile	–	99.9
Soprole S.A. ²	Chile	–	99.9
Prolesur S.A. ²	Chile	–	99.9
Fonterra Commercial Trading (Shanghai) Company Limited ¹	China	100	100
Tangshan Fonterra Dairy Farm Limited ³	China	–	100
Fonterra (Japan) Limited ⁴	Japan	50	50
Fonterra Brands Indonesia, PT	Indonesia	100	100
Fonterra Brands (Malaysia) Sdn Bhd	Malaysia	100	100
Fonterra (Europe) Coöperatie U.A.	Netherlands	100	100
Fonterra Europe Manufacturing B.V.	Netherlands	100	100
Fonterra (New Zealand) Limited	New Zealand	100	100
Fonterra Brands (New Zealand) Limited	New Zealand	100	100
Fonterra Dairy Solutions Limited	New Zealand	100	100
Fonterra Ingredients Limited	New Zealand	100	100
Fonterra Limited	New Zealand	100	100
New Zealand Milk Brands Limited	New Zealand	100	100
RD1 Limited	New Zealand	100	100
Kotahi Logistics LP	New Zealand	91	90
Fonterra Brands (Singapore) Pte Limited	Singapore	100	100
Fonterra Brands Lanka (Private) Limited	Sri Lanka	100	100
Fonterra Brands (Middle East) L.L.C. ⁴	UAE	49	49
Fonterra (USA) Inc.	United States	100	100

¹ Balance date 31 December.

² Balance date 31 December. These subsidiaries were disposed as part of the sale of the Chilean Soprole business. Refer to [Note 2 Divestments](#) for further information.

³ Balance date 31 December. This subsidiary was disposed as part of the sale of the Hangu China farm business. Refer to [Note 2 Divestments](#) for further information.

⁴ Consolidated on the basis that the Group controls through its exposure or rights to variable returns and the power to affect those returns.

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Fonterra Co-operative Group Limited – For the year ended 31 July 2023

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Fonterra Business Performance Report 2023

Pūrongo haumāiuii pakihī Te Mātāpuna



Tupaea & Neil,
Waikato

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COVER
Jamie-Lee,
Waikato



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[Business Performance Report 2023](#)
(Referenced as BP)

[Sustainability Report 2023](#)
(Referenced as SR)

[Governance & Statutory Disclosures 2023](#)
(Referenced as G&S)

[Modern Slavery Statement 2023](#)
(Referenced as MS)

[Farmgate Milk Price Statement 2023](#)
(Referenced as MP)

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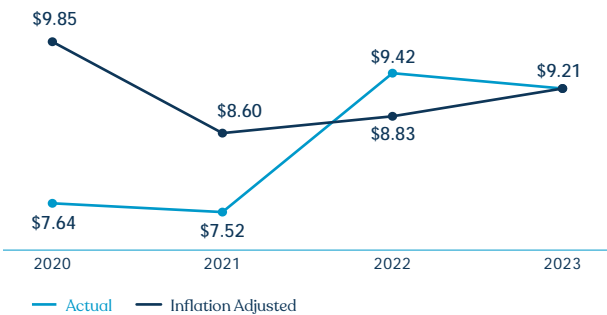


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Business Performance Dashboard



Gross profit from Core Operations per kgMS



Return on Capital

12.4%

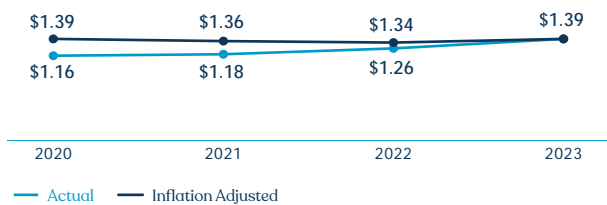
↑ from 6.8%

Profit after tax

\$1,577m

↑ from \$583m

Cash operating expenses per kgMS



Earnings per share

95c

↑ from 36c

\$9.22

Total Cash Return¹

\$0.50

Capital Return

\$0.50

Dividend

↑ from 20c

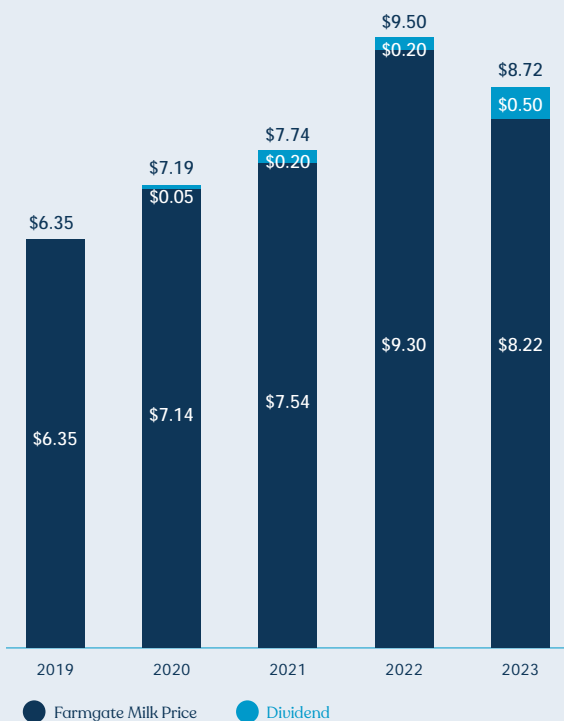
\$8.22

Farmgate Milk Price

↓ from \$9.30

1. Per share backed kgMS

Total Group Performance

Total Payout¹

1. Refer to the Glossary for definition.

We returned \$8.22 on average for every kilogram of milk solids our farmer owners supplied us. Combined with a dividend of 50 cents per share, this means a total payout of \$8.72 per kgMS.

In addition, the Co-operative returned 50 cents per share to shareholders and unit holders in August following the divestment of Soprole. This resulted in a total cash return of \$9.22 per share backed kg/MS for our farmer owners.

Commodity product prices that inform the Farmgate Milk Price (Reference Commodity Products) were down on average 14.2% compared to the prior season and the main reason for the \$1.08 per kgMS decline in the Farmgate Milk Price from \$9.30 per kgMS last season.

Our profit after tax increased \$994 million to \$1,577 million. Excluding non-controlling interests this is equivalent to 95 cents per share, up from 36 cents in the prior period.

Our profit after tax performance reflects a \$1.3 billion increase in gross profit to \$4.6 billion. The increase in gross profit was mainly due to favourable product margins in our Ingredients channel, in particular protein and cheese products, across multiple markets at a time of constrained supply.

Our Foodservice channel earnings have also improved as our in-market product prices adjust to reflect the higher cost of milk over recent years. However, our Consumer channel continues to experience challenging market conditions and earnings are down due to recognising impairments of our New Zealand consumer business and our Asia brands – Anlene™, Annum™ and Chesdale™.

Total Group operating expenses increased \$344 million to \$2.8 billion, mainly due to inflationary pressure and impairments of \$252 million.

Excluding the net gain on divestments, our normalised profit after tax is up \$738 million to \$1,329 million. Excluding non-controlling interests this is equivalent to 80 cents per share.

The Co-operative's operating environment continues to improve following the pandemic, and with the global supply chain network stabilising and slowly returning to normal, our inventory levels at year end have improved.

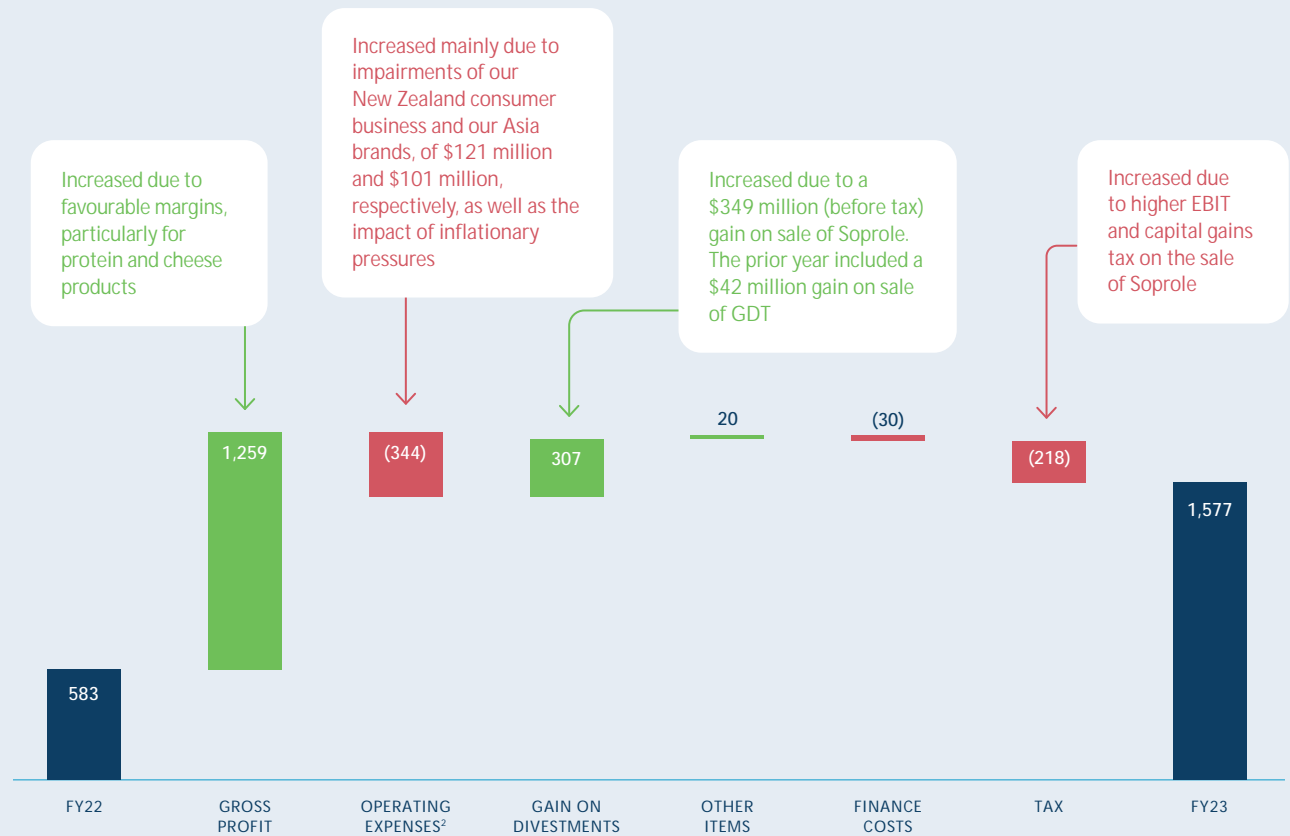
Our net debt is \$3.2 billion, \$2.1 billion lower due to the improved inventory levels, increased earnings and the sale of Soprole for aggregate proceeds of \$1.3 billion – of which \$804 million was returned to shareholders and unit holders on 18 August 2023.

Our increased earnings combined with the strength of our balance sheet has put us in a position to pay a full year dividend of 50 cents per share, comprising of 10 cents per share paid at interim and a final dividend of 40 cents per share.

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Our profit after tax increased 170%, or \$994 million, to \$1,577 million, driven by an increase in gross profit

Profit After Tax¹



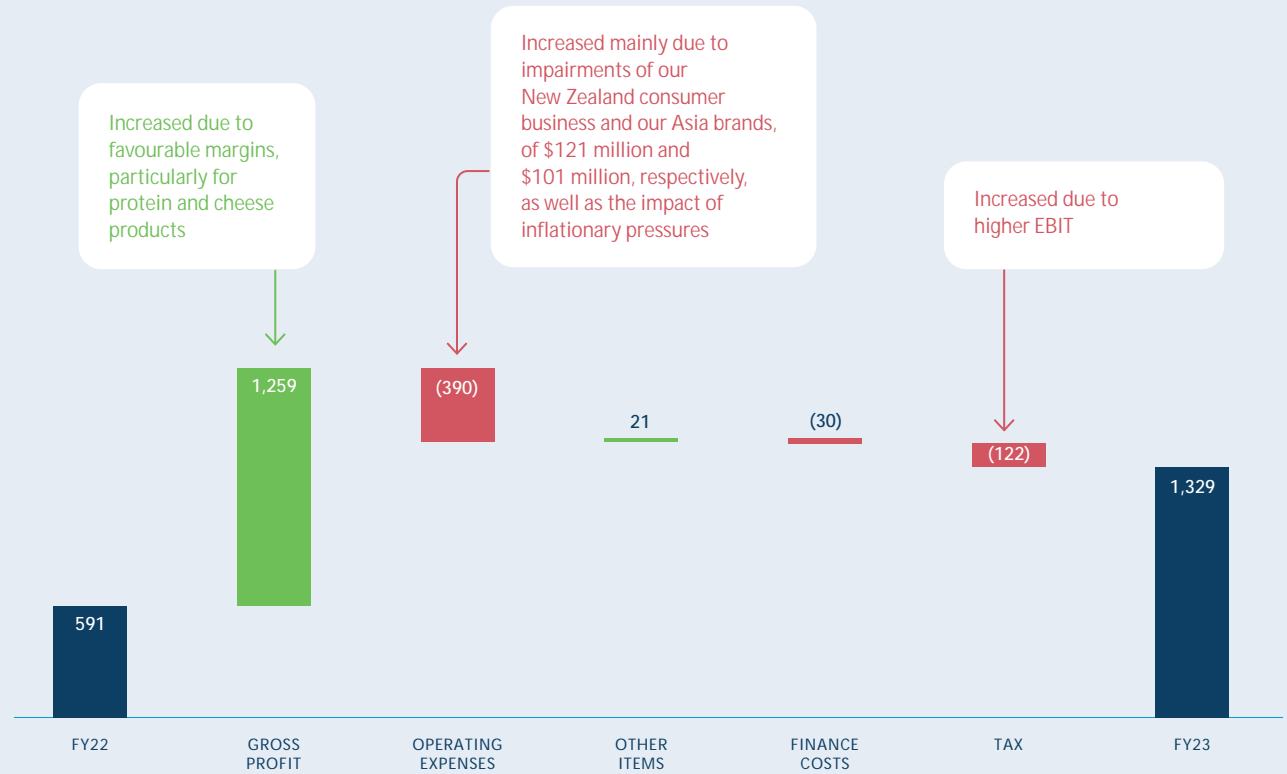
1. Includes amounts attributable to non-controlling interests.
 2. Operating expenses includes \$11 million net loss on sale related to Hangu China farm and the sale of GDT.

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Our normalised profit after tax increased 125%, or \$738 million, to \$1,329 million.

We have normalised \$260 million (after tax) related to the gain on sale from Soprole, and a \$12 million loss relating to the disposal of Hangu farm in China.

Normalised Profit After Tax¹



1. Includes amounts attributable to non-controlling interests.

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Overall, Fonterra milk collections on a milk solids basis are up on last year but down on a litre basis.

Our milk collections are dominated by our New Zealand-sourced milk.

Our New Zealand milk collections increased 2 million kgMS compared with the 2021/22 season due to higher collections in the latter half of the season as a result of more favourable weather which was conducive to stronger pasture growth.

There is a long-term trend of increasing milk solids per litre in New Zealand due to improvements in the national herd and on-farm practices. The 2022/23 season saw this improvement continue with Fonterra's average season milk composition lifting to 9.07% from 9.01% in the 2021/22 season. The increase in milk solids per litre explains why milk solids collected can be slightly up while litres are slightly down year-on-year.

Our market share of New Zealand milk decreased 0.1% to 79.0%, due to a small net loss of milk supply to competitors.

Over the past two years, Fonterra Australia's milk collection market share has continued to climb.

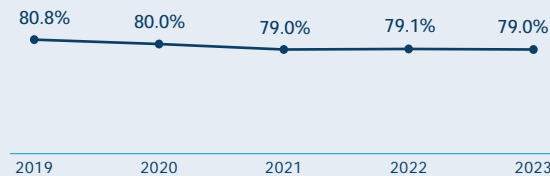
Fonterra Australia's Farm Source support model and competitive milk price saw increased levels of milk recruitment and strong farmer supplier retention. Fonterra's milk collections in Australia remained stable while the industry milk pool declined in 2023 because of spring flooding in Northern Victoria and reduced availability of quality fodder.

The rate of decline in industry milk production slowed in the second half of the year as cost of production eased, access to on-farm labour improved and competing land uses, such as beef, became less attractive.

New Zealand Milk Collections

Litres	Milk solids (kgMS)
16,317 million	1,480 million
down 0.5%	up 0.1%

New Zealand Market Share (kgMS)



Market share and collections are for the period 1 June – 31 May.

Australian Milk Collections

Litres	Milk solids (kgMS)
1,362 million	106 million
flat	flat

Australia Market Share (kgMS)



Market share and collections are for the period 1 July - 30 June.

Consistent with our strategy to focus on our New Zealand milk, we completed the divestment of our operations in Chile and China, and made progress divesting our operations in Brazil.

In November 2022, we announced the agreement to sell Soprole to Gloria Foods – JORB S.A – a consumer dairy market leader in Peru. The divestment was completed on 31 March 2023. The aggregate proceeds (including pre- settlement dividends) before tax, hedging and transaction costs were \$1.3 billion, of which \$804 million was returned to shareholders and unit holders on 18 August 2023.

In December 2022, Fonterra and Nestlé agreed the sale of DPA Brazil to French dairy company Lactalis for BRL 700 million. The proceeds at completion will be subject to closing transaction adjustments. Fonterra's 51% share of the DPA Brazil sale proceeds will be used to repay our share of debt held directly by DPA Brazil.

The sale is subject to several conditions including receipt of regulatory approvals from competition authorities. The Brazilian competition regulator released its first report on the proposed sale in late July 2023. The parties are engaging with authorities to understand and to address the matters raised in relation to limited parts of the business and expect the sale to be completed within one year of balance date.

We also finalised our exit of China Farms, following the sale of our Hangu China farm.

Our discontinued operations in 2023 comprised of Soprole, DPA Brazil and our Hangu China farm. Profit after tax from discontinued operations increased \$374 million to \$336 million, mainly due to the gain on sale of Soprole. The prior year's \$38 million loss was due to an impairment of \$50 million to the value of DPA Brazil. In the prior period, our discontinued operations comprised DPA Brazil and our Hangu China farm. To be consistent the comparative figures have been re-presented to include Soprole as a discontinued operation.

Breakdown of Total Group Performance

FOR THE YEAR ENDED NZD MILLION	31 JULY 2022		31 JULY 2023			
	CONTINUING OPERATIONS ¹	DISCONTINUED OPERATIONS ¹	TOTAL GROUP	CONTINUING OPERATIONS ¹	DISCONTINUED OPERATIONS ¹	TOTAL GROUP
Sales volume ('000 MT)	3,318	606	3,924	3,497	476	3,973
Revenue	21,901	1,524	23,425	24,580	1,466	26,046
Cost of goods sold	(18,992)	(1,093)	(20,085)	(20,399)	(1,048)	(21,447)
Gross profit	2,909	431	3,340	4,181	418	4,599
Gross margin (%)	13.3%	28.3%	14.3%	17.0%	28.5%	17.7%
Operating expenses	(2,065)	(390)	(2,455)	(2,496)	(303)	(2,799)
Other ²	102	(11)	91	70	348	418
EBIT	946	30	976	1,755	463	2,218
Net finance costs	(194)	(37)	(231)	(211)	(50)	(261)
Tax expense	(131)	(31)	(162)	(303)	(77)	(380)
Profit after tax	621	(38)	583	1,241	336	1,577

1. Refer to Note 1a and 2c of the FY23 Financial Statements. Comparative information has been re-presented for consistency with the current period.

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

Our Total Group sales volumes were up 1% on the prior year, with milk collections only up 0.1%. The increased sales volume was due to the sell down of additional inventory we held at 2022 year end, partially offset by lower sales volume out of Chile as a result of the Soprole sale concluding in March 2023.

Our Total Group gross profit increased \$1.3 billion relative to the prior year, due to favourable margins in our Ingredients channel, particularly cheese and proteins. Gross margin improved from 14.3% to 17.7%, driven by improved pricing in both the Ingredients and Foodservice channels.

New Zealand and Non-New Zealand Sourced Milk¹

FOR THE YEAR ENDED 31 JULY

NZD MILLION	TOTAL			NEW ZEALAND MILK			NON-NEW ZEALAND MILK		
	2022	2023	CHANGE ²	2022	2023	CHANGE ²	2022	2023	CHANGE ²
Sales volume ('000 MT)	3,318	3,497	5%	2,903	3,071	6%	415	426	3%
Revenue	21,901	24,580	12%	19,551	21,791	11%	2,350	2,789	19%
Cost of goods sold	(18,992)	(20,399)	(7)%	(16,986)	(17,941)	(6)%	(2,006)	(2,458)	(23)%
Gross profit	2,909	4,181	44%	2,565	3,850	50%	344	331	(4)%
Operating expenses	(2,065)	(2,496)	(21)%	(1,808)	(2,252)	(25)%	(257)	(244)	5%
Other ³	102	70	(31)%	95	69	(27)%	7	1	(86)%
EBIT	946	1,755	86%	852	1,667	96%	94	88	(6)%
Net finance costs	(194)	(211)	(9)%	–	–	–	–	–	–
Tax expense	(131)	(303)	(131)%	–	–	–	–	–	–
Profit after tax from continuing operations	621	1,241	100%	561	1,203	114%	60	38	(37)%
Profit after tax from discontinued operations	(38)	336	–	–	–	–	(38)	336	–
Gross margin ⁴	13.3%	17.0%		13.1%	17.7%		14.6%	11.9%	
EBIT margin ⁴	4.3%	7.1%		4.4%	7.6%		4.0%	3.2%	

1. New Zealand and Non-New Zealand sourced milk is prepared on a continuing operations basis. Comparative information has been re-presented for consistency with the current period.

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

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

4. Calculated on a continuing operations basis.

Our business is diversified across both regions and product channels, enabling us to capture the significantly favourable price relativities between Reference and Non-Reference Products by continuing to allocate milk into the products, such as cheese and proteins, that generated the best overall returns.

Profit after tax generated from our New Zealand milk, the value we were able to deliver over and above the Farmgate Milk Price, increased \$642 million to \$1,203 million, mainly due to the

favourable margins in our Ingredients channel. The performance of New Zealand milk in the Ingredients channel was partially offset by the losses made in the Consumer channel due to recognising impairments of our New Zealand consumer business and our Asia brands – Anlene™, Anmum™ and Chesdale™. Further detail on the value of New Zealand milk is provided in the Reportable Segment and Product Channel sections.

Non-New Zealand milk for our continuing operations is predominantly made up of our Australian business and products from our Heerenveen site. EBIT was down \$6 million, or 6%, mainly due to the impact of the increased cost of milk in Australia. Profit after tax generated by Non-New Zealand milk was \$38 million, down \$22 million from the prior year, due to higher interest rates impacting net financing costs.

Total Group operating expenses are \$2,799 million, up \$344 million on the prior period.

Of this increase, continuing operations increased \$431 million but was offset by discontinued operations' operating expenses reducing \$87 million due to the completion of the Soprole sale on 31 March 2023.

The \$431 million increase in continuing operations' operating expenses was due to:

- A \$204 million increase in impairments, mainly due to impairments of our New Zealand consumer business and of our Asia brands (Annum™, Anlene™ and Chesdale™), of \$121 million and \$101 million, respectively.
- A \$103 million increase in employee benefits expenses, due to inflationary pressures, and the prior year benefiting from the release of a provision held at Group following a final judicial interpretation on the application of the Holidays Act 2003 in New Zealand to certain discretionary incentive payments.
- Other increased \$71 million, in part due to higher travel and entertainment costs reflecting COVID-19 related restrictions easing, and an increase in doubtful debts.
- Professional and management fees increased \$18 million, in part due to the successful implementation of the new Flexible Shareholding capital structure, and capital return to shareholders and unit holders.

Operating expenses¹ (by nature)

FOR THE YEAR ENDED 31 JULY

NZD MILLION	2022	2023
Employee benefits expense	860	963
Storage and distribution	241	263
Advertising and promotion	227	219
Information technology	191	205
Professional and management fees	149	167
Depreciation and amortisation	173	180
Impairment	44	248
Other	180	251
Operating expenses from continuing operations ²	2,065	2,496
Operating expenses from discontinued operations	390	303
Total Group operating expenses	2,455	2,799

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

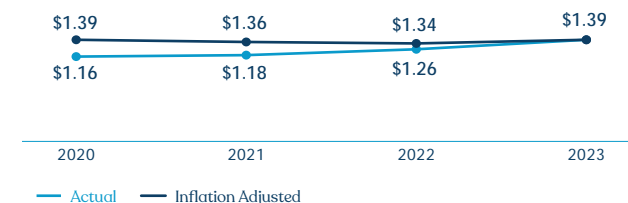
2. Operating expenses for continuing operations are reported on the same basis as in Note 1a of the FY23 Financial Statements.

To support our long-term discipline and focus on reducing our operating expenses from continuing operations to around \$2 billion we have introduced a new efficiency metric of cash operating expenses per kgMS.

The metric monitors the actual cash cost base having regard to changing milk volumes, and adjusts for inflation so underlying efficiency gains/losses are transparent.

After removing the impact of inflation and non-cash costs, our operating expenses on a per kgMS basis increased from \$1.34 to \$1.39 per kgMS. The increase mainly reflects increased staff costs and storage and distribution costs.

Cash Operating Expenses per kgMS



In addition to the \$963 million of employee benefits expenses included in our operating expenses, \$1,267 million of employee benefits expenses is included in our cost of goods sold. Our total continuing operations employee benefits are \$2,230 million, \$196 million or 10% up on the prior year.

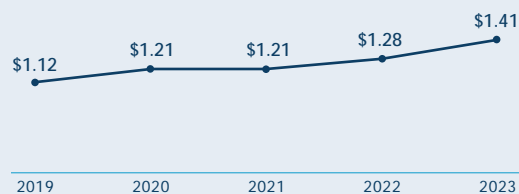
Continuing operations employee benefits expense is made up of all people related costs including the use of contractors. During 2023, on average we had 692 Fixed term workers globally and 257 in our New Zealand Core Operations manufacturing business.

The graph below shows an increase in employee benefits expenses per milk solid since emerging from COVID.

From 2020 through to 2022 we had record low employee turnover due to COVID restrictions and as a result less remuneration pressure, fewer in-person conferences and training, no travel, and few redundancies. In 2023, with COVID restrictions removed, there was a significant increase in employee turnover, translating in higher salary expectations to secure and retain talent and to return to normal business activities. In addition, inflation impacted salary and wage remuneration globally.

The 2022 figure of \$1.28 per kgMS benefited from the release of a provision held at Group following a final judicial interpretation on the application of the Holidays Act 2003 in New Zealand.

Continuing operations employee benefits expense per global milk solids collected



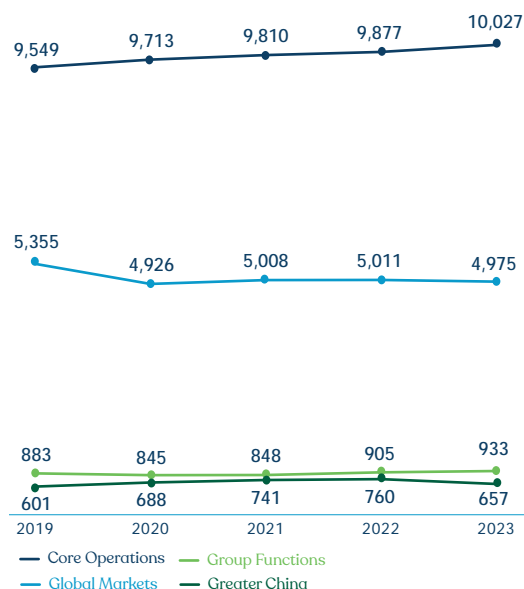
Continuing operations employee benefits expense

FOR THE YEAR ENDED 31 JULY

NZD MILLION	2019	2020	2021	2022	2023
Employee benefits expense in cost of goods sold	1,029	1,062	1,117	1,174	1,267
Employee benefits expense in operating expenses	814	901	880	860	963
Total	1,843	1,963	1,997	2,034	2,230
Global milk solids collected (million kgMS)	1,644	1,624	1,645	1,584	1,586

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

Continuing operations full time employees



Our workforce fluctuates during the year as we hire seasonal workers to support production through the milk peak period, cover short-term projects and long-term leave cover. During and after COVID-19 it became a challenge to source the quality and quantity of temporary workers required to efficiently operate our New Zealand and Australia manufacturing sites.

Therefore, over the past couple of years we increased the permanent manufacturing and supply chain full-time equivalent employees (FTE), across several sites in New Zealand and Australia. This can be seen in the increase in Core Operations FTE numbers. We will use natural turnover to smooth required workforce numbers during the off season.

The Co-operative's remuneration framework is designed to attract and retain talent, and both motivates and recognises the role our people play in the success of Fonterra.

Fonterra's remuneration framework for salaried staff is based on a 'total remuneration' approach, which is consistent with best practice globally. This includes base salary, benefits (KiwiSaver, superannuation and insurance where applicable), and variable remuneration (incentives).

Fonterra's remuneration packages are benchmarked against comparable companies in relevant markets, using information obtained from independent remuneration consultants. For more information on the Co-operative's remuneration framework please refer to the Remuneration Report within the Governance & Statutory Disclosures.

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Research and Development Costs¹

FOR THE YEAR ENDED 31 JULY

NZD MILLION	2022	2023
Operating expenditure	86	108
Cost of goods sold	10	11
Total Group research and development costs	96	119

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

Other¹

FOR THE YEAR ENDED 31 JULY

NZD MILLION	2022			2023		
	CONTINUING OPERATIONS ²	DISCONTINUED OPERATIONS ²	TOTAL	CONTINUING OPERATIONS ²	DISCONTINUED OPERATIONS ²	TOTAL
Other	102	(11)	91	70	348	418

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

2. Refer to Note 1a and 2c of the FY23 Financial Statements. Comparative information has been re-presented for consistency with current period

The 'Other' line item, which includes other operating income, net foreign exchange movements, and share of profit or loss of equity accounted investees, increased \$327 million, mainly due to the sale of Soprole, with a gain on sale (before tax) of \$349 million recognised in other operating income.

Globally we incurred costs of \$119 million in research and development this year, up from \$96 million in the prior year. \$108 million is reported in our operating expenses, with the remaining \$11 million in our cost of goods sold.

Our Co-operative has a long and proud heritage of dairy innovation, pioneering many world firsts from instant whole milk powder to spreadable butter.

Our innovation hub, the Fonterra Research and Development Centre (FRDC) based in Palmerston North, focuses on ground-breaking technologies and dairy science, aligned to our strategic choices; focus on New Zealand milk, be a leader in sustainability and be a leader in dairy innovation and science.

Key research and development projects this year include:

- in Foodservice, we are developing a new cost-effective, high-moisture mozzarella, to better serve our value focused customers and attract new customers.
- in Sustainability, we partnered with MIT to trial process heat alternatives to help assist us to continue to drive energy efficiency in our manufacturing.
- we continue our research programme on Kowbucha™, a probiotics derived from Fonterra's large bacterial culture collection that are designed to reduce the methane produced by cows. Kowbucha™ has produced promising results with some trials showing up to a 20% reduction in methane without compromising productivity, but further work is needed to validate these effects.

Total Group EBIT to Normalised Profit After Tax Reconciliation¹

FOR THE YEAR ENDED 31 JULY

NZD MILLION	2022	2023	CHANGE ²
EBIT	976	2,218	127%
Net finance costs	(231)	(261)	(13)%
Tax expenses	(162)	(380)	(135)%
Reported profit after tax	583	1,577	170%
Normalisation adjustments ³	15	(337)	–
Add: Tax on normalisation adjustments	(7)	89	–
Normalised profit after tax	591	1,329	125%
(Profit)/loss attributable to non-controlling interests	1	(40)	–
Less: Normalisation adjustments attributable to non-controlling interests	(24)	–	–
Normalised profit after tax attributable to equity holders of the Co-operative	568	1,289	127%
Normalised earnings per share (cents)	35	80	129%
Full year dividend per share (cents)	20	50	150%

1. Includes continuing and discontinued operations.

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

3. Refer to the Non-GAAP Measures section in the Annual Review 2023.

Our Total Group net finance costs increased \$30 million, or 13%, reflecting increases in global rates on interest accrued and paid, but partially offset by the Group having lower average borrowings during the year. In addition, the 2023 financial year had a lower net favourable impact from fair value changes of derivatives used to manage interest rate risk and the associated borrowings.

Our Total Group tax expense increased \$218 million, due to the higher taxable earnings generated in the 2023 financial year relative to 2022 and capital gains tax on the sale of Soprole.

Dividend

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Stronger balance sheet supports increased dividend payment

Fonterra's dividend policy is a payout ratio of 40% to 60% of reported profit after tax attributable to equity holders of the Co-operative, excluding abnormal gains. Distributions of any abnormal gains are considered separately. Dividend payments should not require Fonterra to take on more debt and should not reduce our ability to service existing debt.

For the year ended 31 July 2023 abnormal gains included the \$260 million from selling Soprole.

The total dividend of 50 cents per share is equivalent to a payout ratio of 63% of reported profit after tax attributable to equity holders of the Co-operative, excluding abnormal gains. The decision to payout slightly above the upper end of the guidance range was mainly due to the strengthened balance sheet and our leverage metrics being well within target levels.

Dividend Calculation

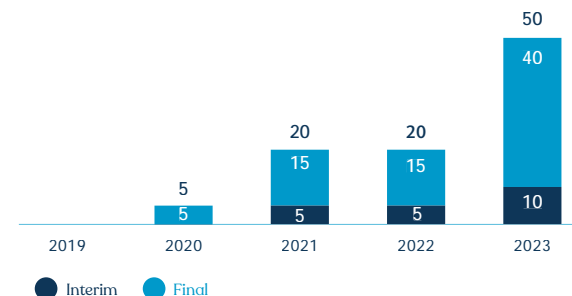
FOR THE YEAR ENDED 31 JULY

NZD CENTS PER SHARE	2022	2023
Reported earnings ¹	36	95
Less: Abnormal gains	(2)	(16)
Net earnings for dividend payment ²	34	79
Dividend payment percentage (%)	59%	63%
Total dividend	20	50
Interim dividend	5	10
Final dividend	15	40

1. Attributable to equity holders of the Co-operative, excludes non-controlling interests.
 2. Represents net earnings as specified in the Dividend Policy and is calculated as reported profit after tax less abnormal gains.



Dividend per share (cents)



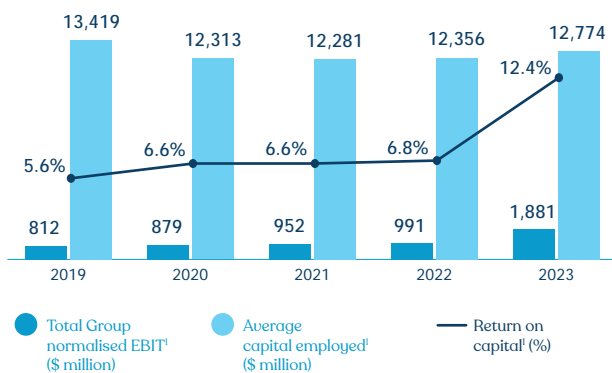
Return on Capital

Total Group Return on Capital improved from 6.8% to 12.4%

Our improved return on capital was due to the increase in our normalised EBIT. We have normalised \$349 million related to the gain on sale from Soprole, as well as normalising a \$12 million loss related to the disposal of Hangu China farm. The impairments of \$248 million, mainly recognised in our Consumer channel, have not been normalised.

The impact of the improved EBIT was partially offset by higher average levels of capital employed compared to the prior year. This was mainly driven by higher average working capital levels, including the impact of the additional inventory carried forward from the prior year.

Return on Capital¹



1. Refer to the Glossary.

Return on Capital by Product Channel

Ingredients

16.4% ↑
from 9.0%

Foodservice

15.7% ↑
from 5.5%

Consumer

(4.6)% ↓
from (0.4)%

Return on Capital

FOR THE YEAR ENDED 31 JULY

NZD MILLION

	2022	2023
Total Group normalised EBIT	991	1,881
Finance income on long-term advances	7	11
Notional tax charge	(161)	(305)
Total Group normalised EBIT plus finance income on long term advances less notional tax charge	837	1,587
Capital employed at year end	12,179	11,121
Impact of seasonal capital employed	177	1,653
Average capital employed	12,356	12,774
Return on Capital (%)	6.8%	12.4%

Cash Flow and Working Capital

Net cash flows from operating activities increased \$3.3 billion to \$3.2 billion due to the higher operating earnings and a reduction in working capital during the year, and after deducting interest and tax payments of \$0.4 billion.

Our working capital requirements decreased by \$0.9 billion reflecting both a reduction in inventory volume on hand during the year and a lower value of inventory on hand per metric tonne.

Our net cash flows from investing activities of \$0.1 billion include divestments, which largely reflects the sale of Soprole for aggregate proceeds of \$1.3 billion less costs and the pre-settlement dividend, partly offset by other investing cash flows, predominantly capital expenditure, of \$0.7 billion. Combined with net cash flows from operating activities, this delivered a free cash flow of \$3.3 billion for the year.

We have funded dividends of \$0.4 billion (including 15 cents from last year's final dividend and this year's interim dividend of 10 cents).

Our net debt has decreased \$2.1 billion reflecting the strong earnings, reduction in working capital and divestment proceeds. This, combined with our strong balance sheet enables us to pay a final dividend of 40 cents resulting in a total dividend of 50 cents per share.

Cash Flow and Change in Net debt

FOR THE YEAR ENDED 31 JULY

NZD MILLION	2022	2023
Cash generated from operations ¹	1,494	2,311
Net change in working capital and other operating activities	(1,598)	871
A. Net cash flows from operating activities	(104)	3,182
Cash flows from investing activities		
Divestments and asset sales	26	846
Capital expenditure and other	(543)	(714)
B. Net cash flows from investing activities	(517)	132
Free cash flow (A+B)	(621)	3,314
Dividends paid to equity holders of the Co-operative	(323)	(403)
Other financing cashflows	(18)	63
Capital return payable	–	(804)
Other non-cash changes in net debt	(52)	(38)
Decrease/(increase) in net debt ²	(1,014)	2,132

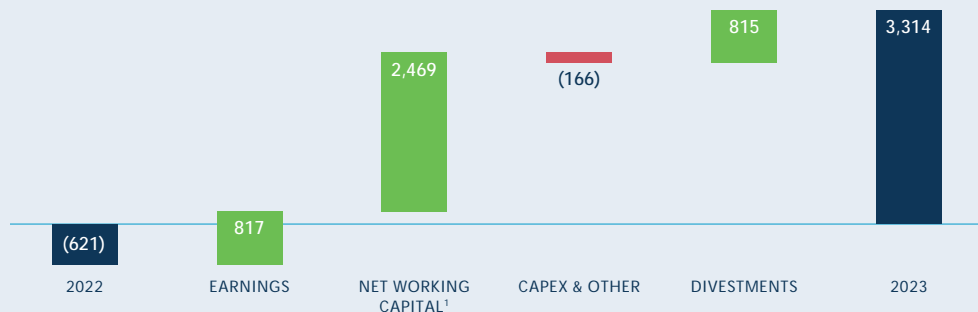
Note: Comparative information has been re-presented for consistency with the current period.

1. Includes profit after tax and non-cash and non-operating adjustments to profit after tax to determine cash generated from operations.

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

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Movements in Free Cash Flow (\$ million)



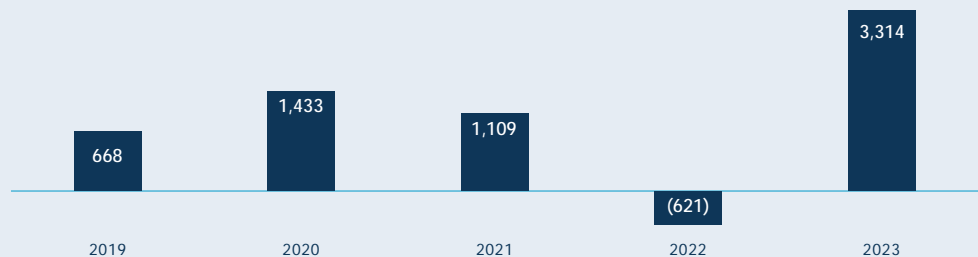
Note: Comparative information has been re-presented for consistency with the current period.
 1. Includes amounts owing to suppliers.

Our Total Group free cash flow was \$3.9 billion higher than last year at \$3.3 billion, and is before the \$804 million capital return payment to shareholders and unit holders. The increase reflects:

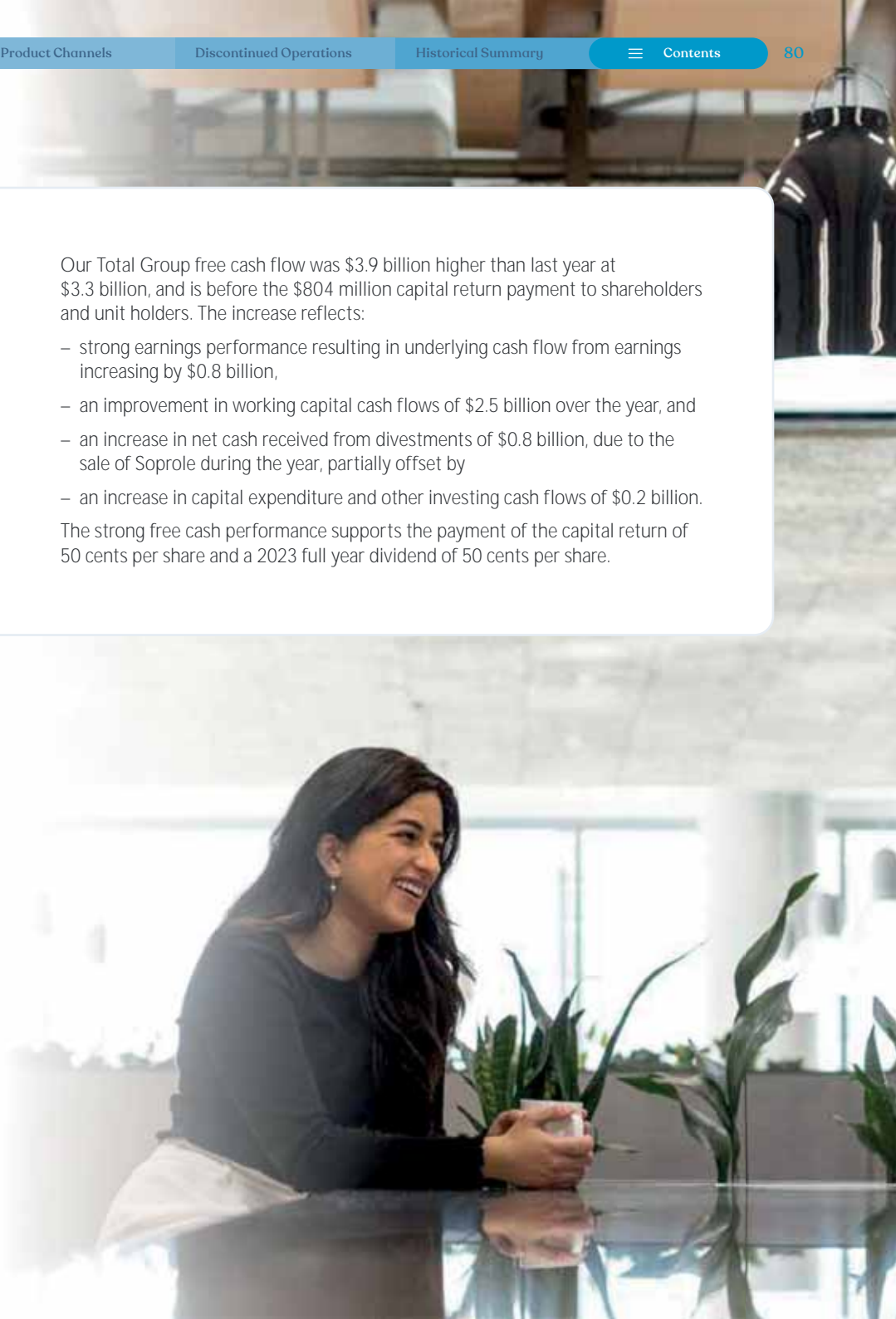
- strong earnings performance resulting in underlying cash flow from earnings increasing by \$0.8 billion,
- an improvement in working capital cash flows of \$2.5 billion over the year, and
- an increase in net cash received from divestments of \$0.8 billion, due to the sale of Soprole during the year, partially offset by
- an increase in capital expenditure and other investing cash flows of \$0.2 billion.

The strong free cash performance supports the payment of the capital return of 50 cents per share and a 2023 full year dividend of 50 cents per share.

Free Cash Flow¹ (\$ million)



Note: Comparative information has been re-presented for consistency with the current period.
 1. Refer to the Glossary for definition.



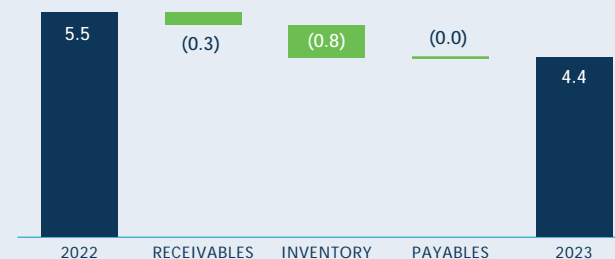
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As at 31 July 2023, our trade working capital decreased \$1.1 billion from the prior year end, reflecting:

- a \$0.2 billion reduction due to the divestment of Soprole;
- lower inventory volume on hand of 61,000 metric tonnes; and
- a lower milk price resulting in a lower carrying value per metric tonne of inventory on hand.

These figures are before taking into account amounts owing to farmer suppliers, which were \$2.0 billion as at 31 July 2023, resulting in net working capital of \$2.4 billion.

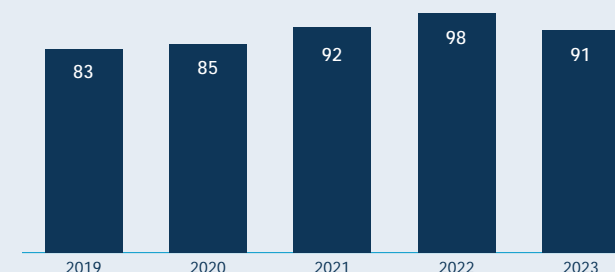
Trade Working Capital (\$ billion)



Note: Includes amounts attributable to disposal groups held for sale. Comparative information has been re-presented for consistency with the current period.

Working capital days have decreased by seven days relative to the prior year, mainly reflecting the higher value of sales, which were driven by Non-Reference Products.

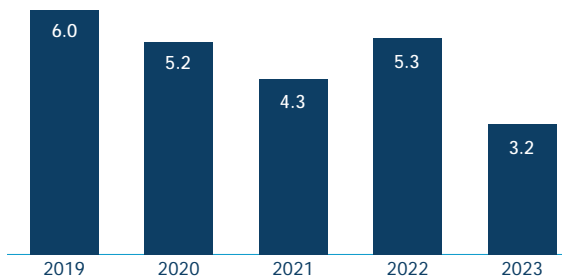
Working Capital Days¹



¹ Refer to the Glossary for definition. Comparative information has been re-presented for consistency with the current period.

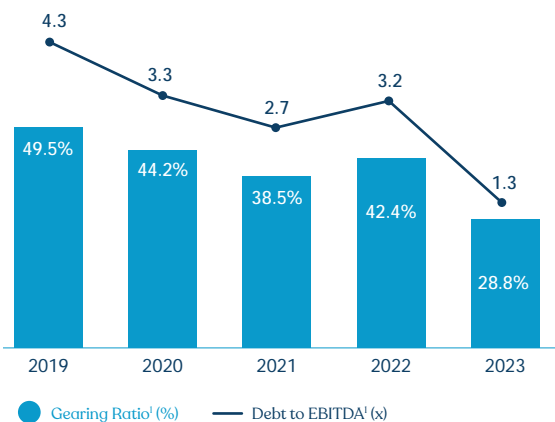
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Net Debt¹ (\$ billion)



¹ Refer to the Glossary for definition.

Leverage Metrics



¹ Refer to the Glossary for definition.

Balance Sheet

Net debt has decreased by \$2.1 billion reflecting higher earnings, a reduction in working capital and the divestment of Soprole. This enabled an increase in cash dividends paid during the year and the capital return paid in August 2023.

The improvement in the Gearing Ratio from 42.4% to 28.8% reflects the lower level of debt together with higher equity from higher earnings.

Debt to EBITDA has improved from 3.2x to 1.3x as a result of lower net debt combined with higher earnings for the year.



Stephanie, Teagan & Keeley, Waiuku

Capital Invested

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Total capital invested was \$747 million for the 2023 financial year, the sum of capital expenditure of \$668 million and other capital invested of \$79 million.

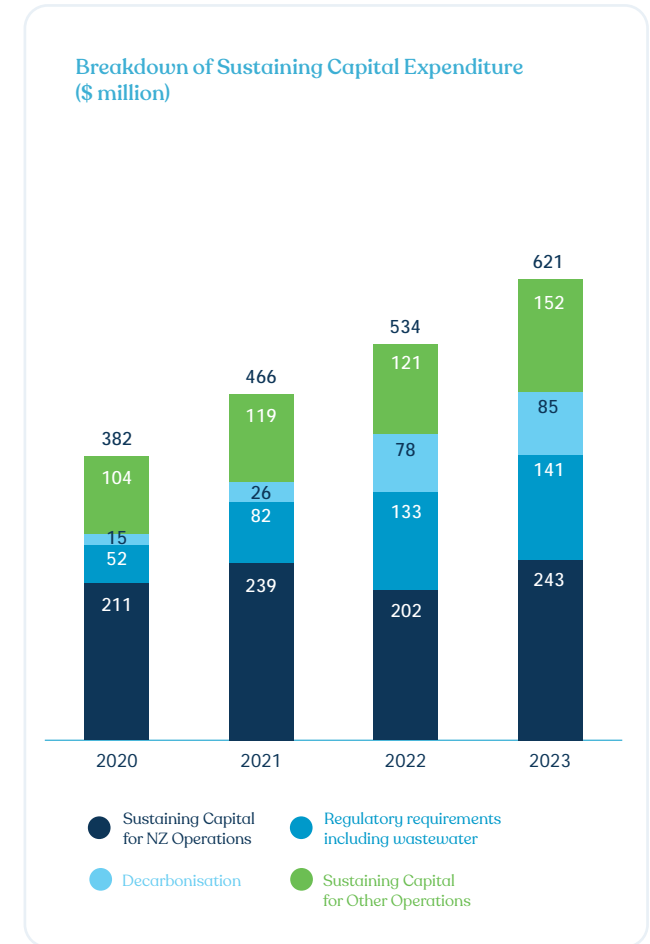
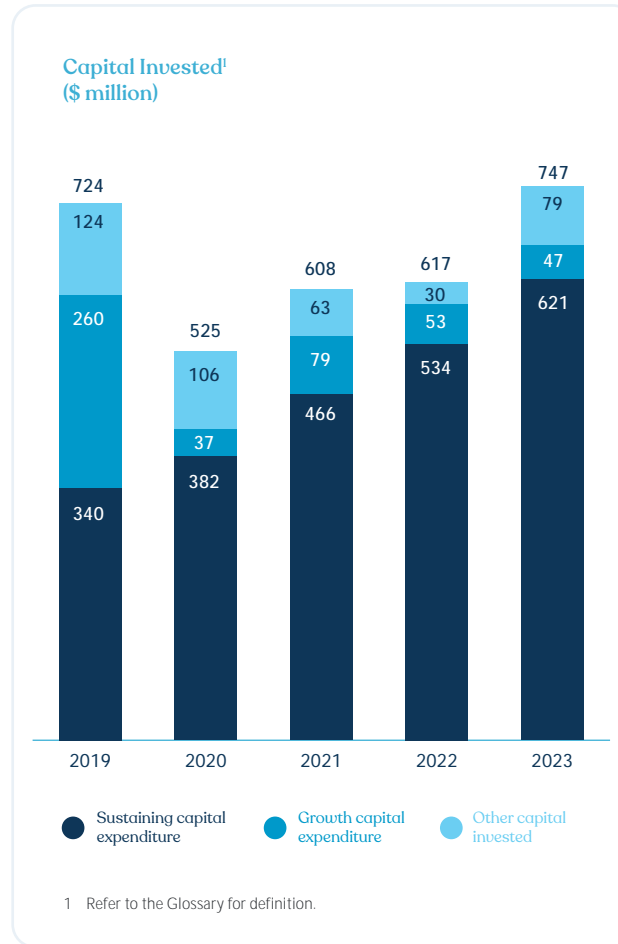
The capital expenditure of \$668 million comprised \$621 million for capital projects to maintain and improve existing assets, referred to as sustaining capital expenditure, and \$47 million for projects to drive future growth. The \$79 million of other investments were mainly for right-of-use assets and equity investments.

Our total capital expenditure has increased \$81 million, with increased investment in capital projects such as decarbonisation, to meet our public commitments and to more sustainably collect and process milk across our network of assets.

We are continuously working through our capital expenditure programme to keep our processing sites fit for purpose. Key projects included installation of a biomass boiler to remove the use of coal at our Waitoa site, improved refrigerant technology at our Whareroa site and Te Rapa site utilities upgrades.

Across New Zealand, we continue to progress our annual truck and trailer replacement programme and on-farm milk vat replacement programme to drive operating efficiencies.

Growth capital expenditure included an upgrade to our probiotic's capacity in Palmerston North and an expansion to string cheese processing capacity in Malaysia for Global Foodservice customers.



Key Capital Expenditure Projects Across New Zealand

Central North Island

Waitoa

- Invested in biomass boiler to replace coal
- Improving power quality to increase plant stability
- Increasing capacity of organic UHT milks for our Greater China Consumer channel

Tirau

- Upgraded infrastructure to better manage wastewater

Te Rapa

- Acquisition of assets to continue to supply steam to process milk

Hautapu

- Changed from R22 based refrigeration to a sustainable alternative

Te Awamutu

- Upgraded infrastructure to better manage wastewater
- Change from R22 based refrigeration to a sustainable alternative

Lichfield

- Invested in brine storage and filtration capability to mitigate food safety and quality risk when processing cheese

Lower North Island

Whareroa

- Changed refrigeration to heat pump technology
- Improved powder dryer building integrity to manage product quality risk

Palmerston North

- Invested in ability to supply probiotics strains for a growing segment aligned to our Active Living category

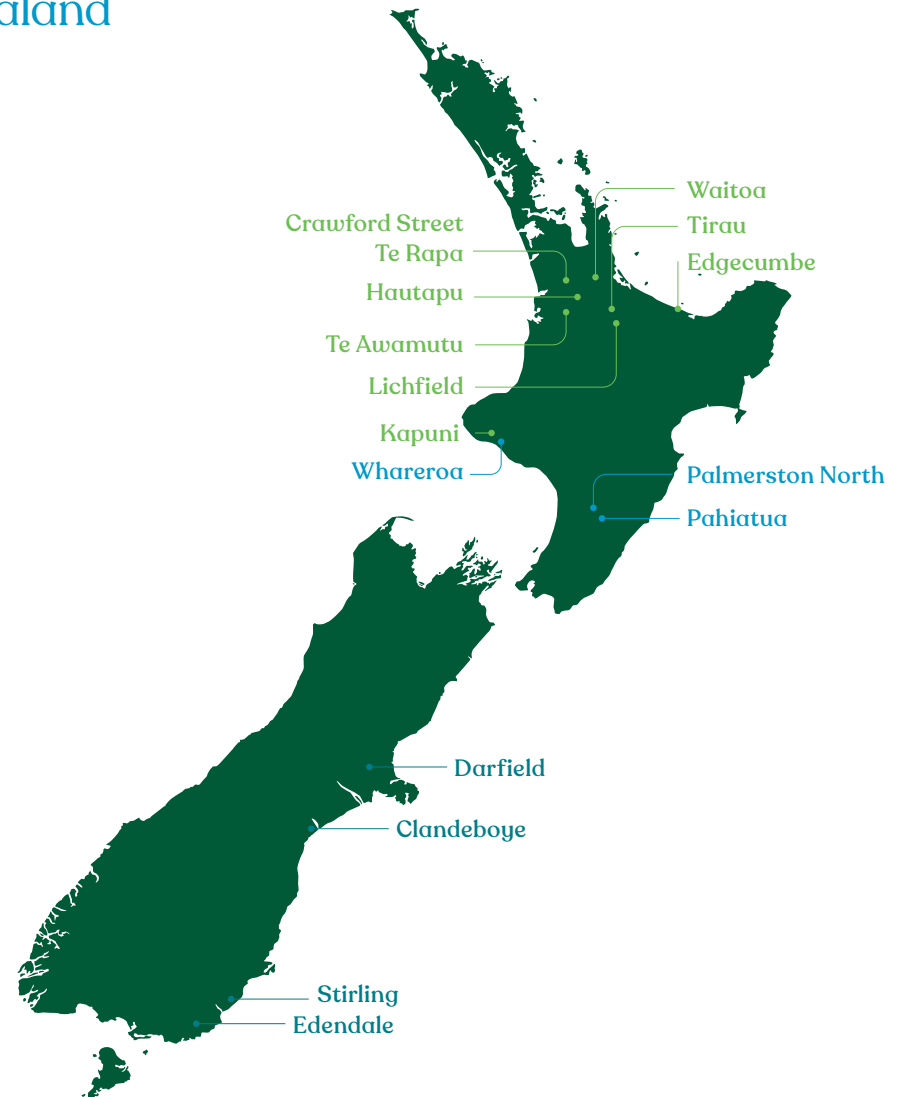
South Island

Stirling

- Invested in biomass boiler to replace coal

Clandeboye

- Treat wastewater using biological treatment plant
- Investment to improve reliability of generation and distribution of hygienic compressed air
- Installed a heat recovery system for the Lactose plant to reduce energy requirements



Sites displayed are not a full representation of all Fonterra factories

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Blair, Hawkes Bay

On-farm

We believe having a strong and resilient dairy co-operative makes a real difference to our farmer owners, and to New Zealand. Our scale and diversification allow us to move our farmer owners' milk into the most valuable products and markets and achieve scale advantages in processing, innovation and supply chain. This helps mitigate some of the risk for farmers that can occur when demand for certain products or markets soften.

Our New Zealand Supplier Base and Owners

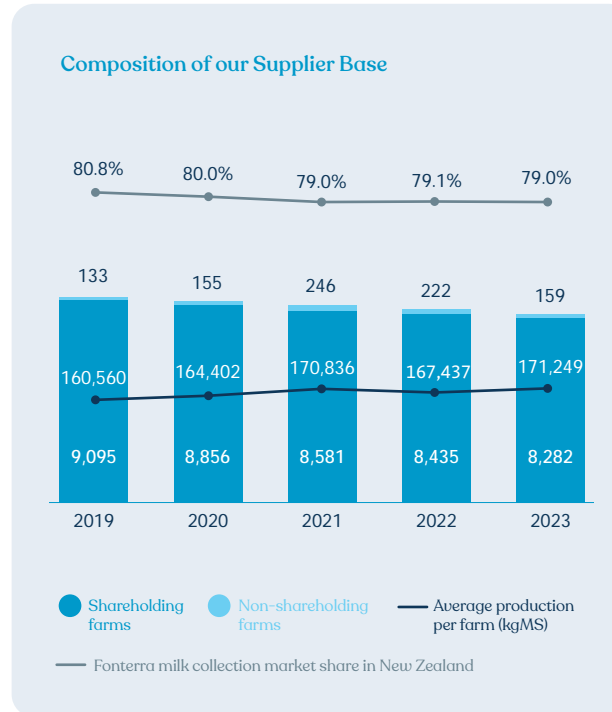
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As at 31 July 2023 the Co-operative collected milk from 8,282 shareholding farms and 159 non-shareholding supplying farms around New Zealand. The decline in supplying farms is primarily due to farm conversions to other land uses and increased competitor activity.

Our supply from non-shareholding farms is largely made up of farms supplying MyMilk. At the end of the 2022/23 season, 23 of the 25 farms that had completed their permitted maximum number of seasons with MyMilk switched to supplying the Co-operative as a supplying shareholder. In addition, prior to the end of the 2022/23 season an additional 26 farms shifted from MyMilk to join the Co-operative as a supplying shareholder having completed less than their permitted maximum number of seasons with MyMilk.

Under the Flexible Shareholding capital structure, the Co-operative no longer accepts new applications for supply under MyMilk. Therefore, over the next four years the non-shareholding farms will steadily decline as MyMilk suppliers reach the permitted maximum five seasons.

Average production per farm this season is up on the prior 2021/22 season, primarily due to more favourable on-farm conditions with the prior year impacted by weather that was less conducive to pasture growth. In addition, while the trend in declining cow numbers over recent years has continued, productivity per cow continues to improve as farmers continue to focus on cow quality over quantity.



Blair, Hawkes Bay

Share Capital

Flexible Shareholding came into effect on 28 March 2023, and more information on the Co-operative's capital structure can be found [here](#).

Under Fonterra's Flexible Shareholding capital structure, Fonterra is required to report information on the alignment between milk supply and ownership of the Co-operative, and the distribution of ownership of the Co-operative.

When considering these Flexible Shareholding metrics, it's important to note share compliance was put on hold during the two-year capital structure consultation period and this is reflected in the metrics. Furthermore, the level of shares held by Ceased Shareholders is not necessarily a reflection of lost supply to the Co-operative.

- The number of shares linked to Ceased Shareholders reflects the number of shares linked to farm sales within a year. Typically, the majority of farms that are sold continue to supply the Co-operative under the new owner. Therefore, the milk solids linked to Ceased Shareholders are not necessarily lost to the Co-operative, but the shares become uncoupled from the original supplying farm.
- Historically around 60 – 90 million shares shift from being linked to a Supplying Shareholder to a Ceased Shareholder at the end of each season. Therefore, the current 149 million shares held by Ceased Shareholders and Permitted Transferees as of 1 September 2023 is in line with annual historical levels given it captures the 2020/21 and 2021/22 seasons where share compliance was put on hold as well as the recently ended 2022/23 season.
- Under the Flexible Shareholding capital structure, new shareholders have up to six seasons to reach their minimum holding of shares, while shareholders at the time of the capital structure vote have up to 15 seasons to share down after they cease to supply the Co-operative. Given the change in the minimum shareholding requirement, it is possible to see a proportion of shares held by non-supplying shareholders for a longer period.

Flexible Shareholding Metrics

METRIC	AS AT 31 JULY 2023	THRESHOLD
Total shares on issue above/(below) the aggregate Share Standard	12.22%	+/-15.00%
Shares held by Ceased Shareholders and Permitted Transferees	9.23%	≤ 25.00%
Shares held for the Fonterra Shareholders' Fund (*Overall Limit*)	6.67%	≤ 10.00%

As of 31 July 2023, the Co-operative was within the specified thresholds for all three Flexible Shareholding metrics:

- **Total shares on issue above the aggregate Share Standard** – measures the percentage of Co-operative Shares on issue above/(below) the aggregate Share Standard for all Shareholders.
- **Shares held by Ceased Shareholders or Permitted Transferees** – measures the proportion of shares held by shareholders who have ceased supplying milk to the Co-operative, and/or transferred their shares to a non-supplying person or entity in accordance with the permitted transferee rules.
- **Shares held for the Fonterra Shareholders' Fund** – under the Flexible Shareholding capital structure, the size of the Fonterra Shareholders' Fund has been capped at 10% of shares on issue to protect farmer ownership and control of the Co-operative.

Additional information

To provide further transparency on the distribution of Co-operative ownership, Fonterra is providing information on the proportion of shares held by different shareholder types and the number of shares to be bought and sold by the compliance date.

Shareholder Distribution

SHAREHOLDER	# OF SHARES HELD AS AT 31/07/2023	% OF TOTAL SHARES
Supplying Shareholders	1,347,783,820	83.75%
Secondary Shareholders	3,154,635	0.20%
Associated Shareholders	595,530	0.04%
Ceased Shareholders	138,675,995	8.62%
Permitted Transferees	9,840,123	0.61%
Custodian, on behalf of the Fund	107,410,984	6.67%
Custodian, on behalf of the Market Makers	1,783,582	0.11%
Total shares on issue	1,609,244,669	100%

Share Compliance Requirements

# OF SHARES:	SEASON							
	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	
Bought by	11,332,112	4,100,521	4,276,688	4,081,149	3,149,308	2,257,560	–	
Sold by	9,234,420	–	–	22,818	–	–	–	
SEASON (continued)								
# OF SHARES	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	TOTAL
Bought by	–	–	–	–	–	–	–	29,197,338
Sold by	–	–	–	–	–	–	140,050,972	149,308,210

Shareholdings Relative to Share Standard

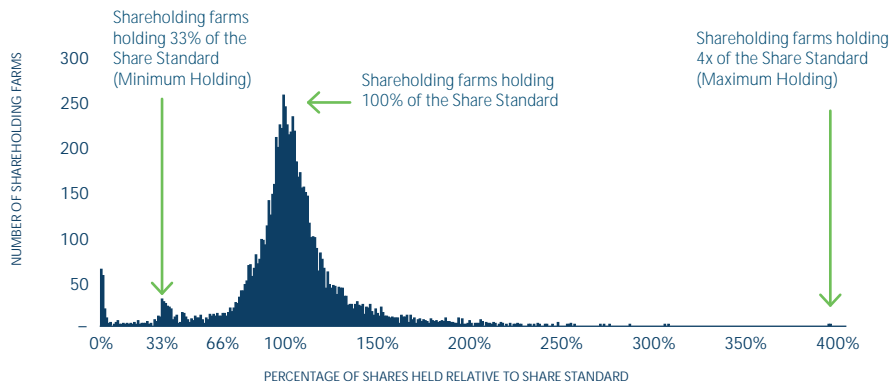
	<33%	33% – 79%	80% – 120%	>120%	TOTAL
# of shareholding farms	245	694	5,671	1,276	7,886
Milk Supply ¹ (kgMS)	40,437,712	80,827,953	1,035,205,269	228,994,216	1,385,465,150

Note: Shareholding farms presented exclude farms where the owning entity is in the process of sharing up on a Share Up Over Time contract or six-year transition. It also excludes Ceased Shareholders, Permitted Transferees, Associated Shareholders and shareholding farms over 4 times the Share Standard.

1. Production is derived from the shareholding farm's Share Standard.

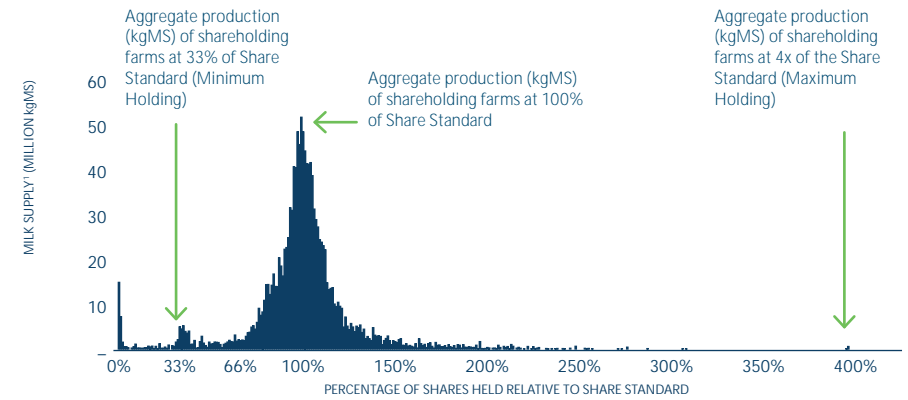
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Shareholdings by Shareholding Farms Relative to 1:1 Share Standard



Note: Shareholding farms presented exclude farms where the owning entity is in the process of sharing up on a Share Up Over Time contract or six-year transition. It also excludes Ceased Shareholders, Permitted Transferees, Associated Shareholders and shareholding farms over 4x the Share Standard.

Shareholding by Milk Supply Relative to 1:1 Share Standard



Note: Shareholding farms presented exclude farms where the owning entity is in the process of sharing up on a Share Up Over Time contract or six-year transition. It also excludes Ceased Shareholders, Permitted Transferees, Associated Shareholders and shareholding farms over 4 times the Share Standard.

1. Milk Supply is derived from the shareholding farm's Share Standard.

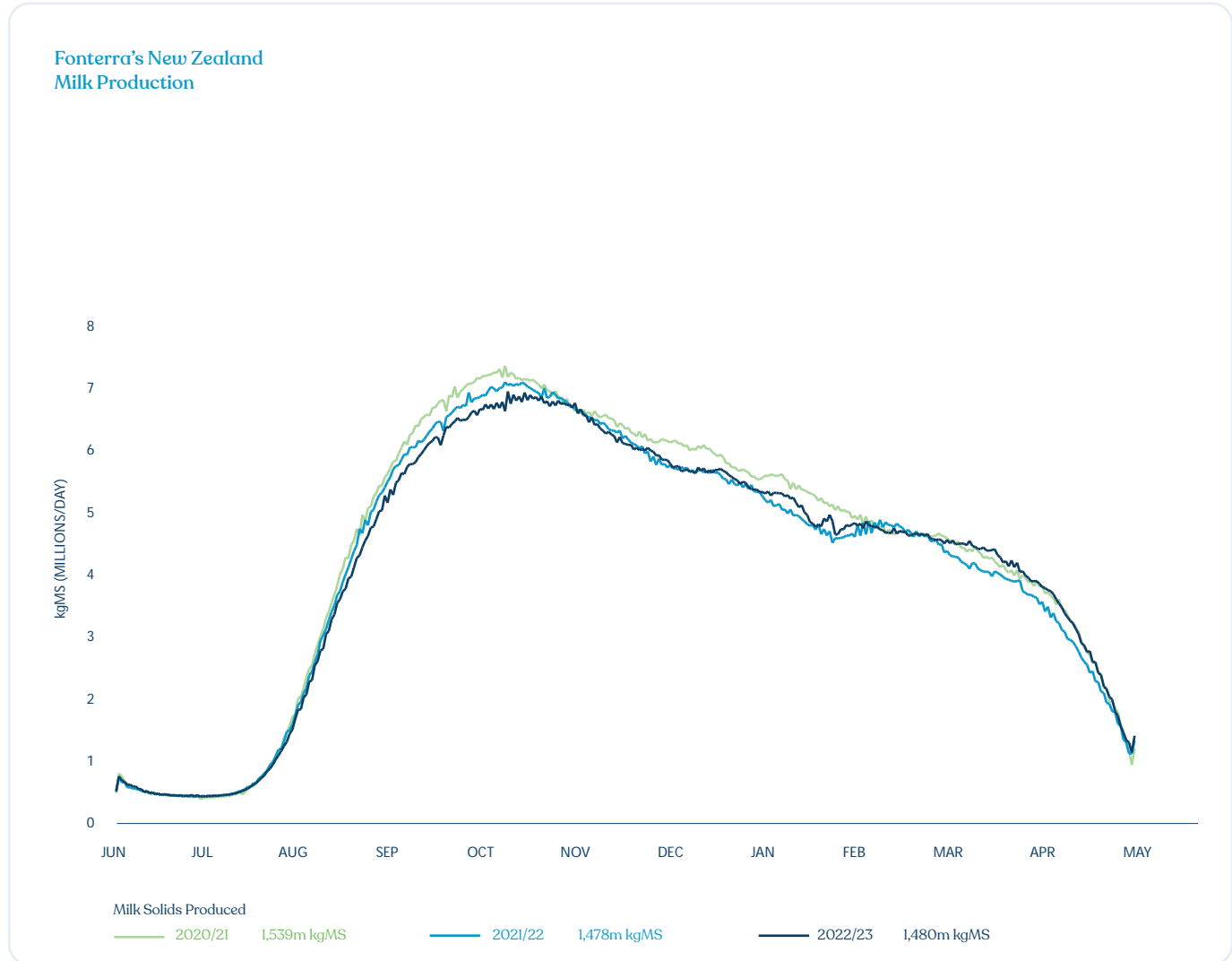
Fonterra's New Zealand Milk Production

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For the 2022/23 season, production from Fonterra farmers in New Zealand was 1,480 million kgMS, up 0.1% compared to the prior season.

The 2022/23 season had a challenging start, with wet weather conditions throughout the North Island, dry conditions in the South Island, and a reduction in the number of cows impacting peak production.

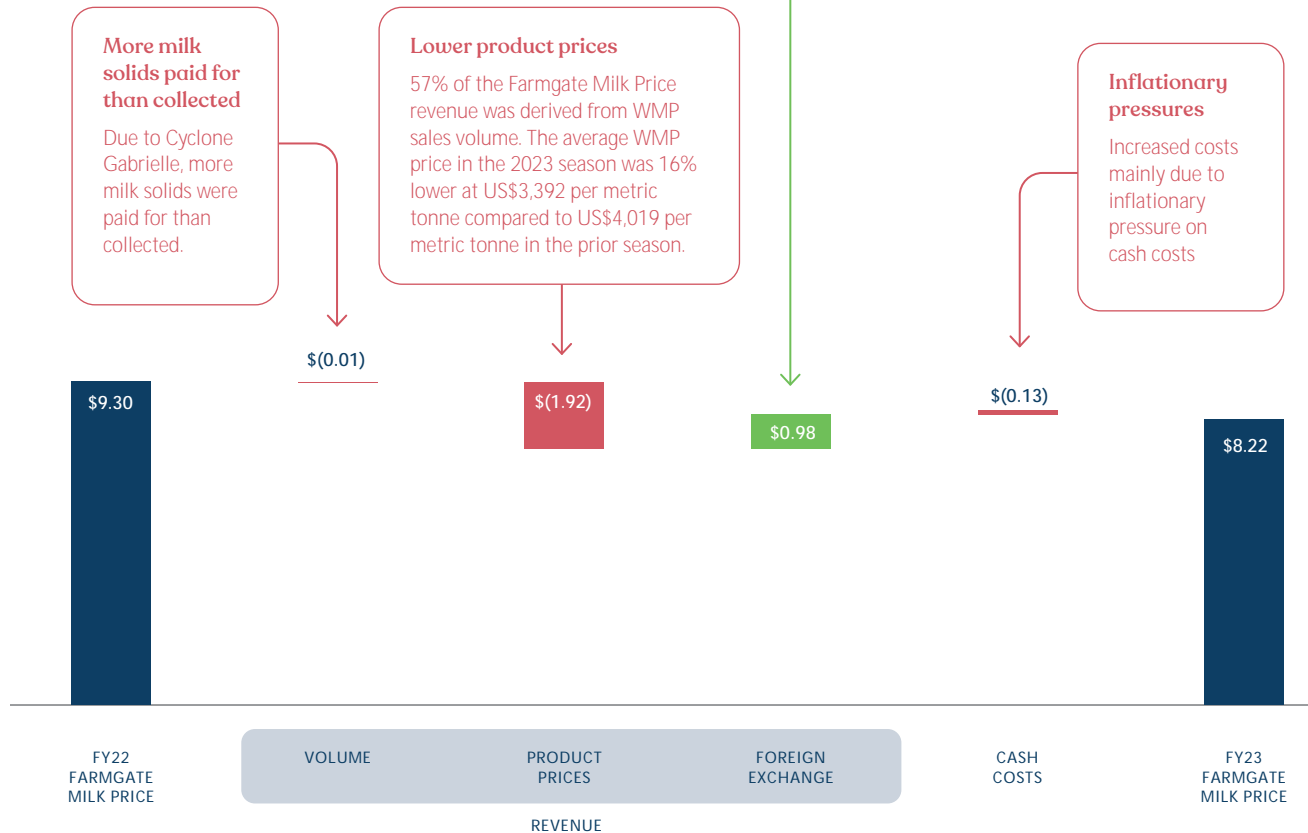
After the peak collection period the weather was more conducive to strong pasture growth, with intermittent rain and warmer temperatures resulting in strong milk supply towards the end of the season.



New Zealand Farmgate Milk Price (per kgMS)

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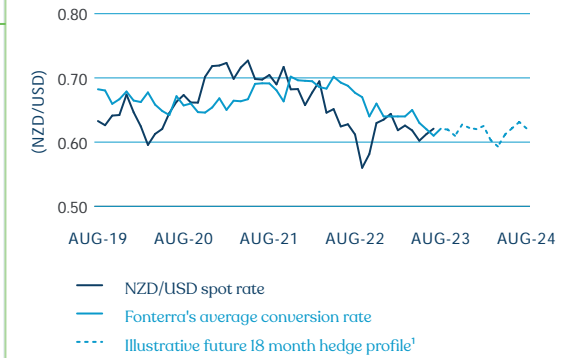
For more information, please see Farmgate Milk Price Statement 2023 – see [MP](#)



More milk solids paid for than collected
Due to Cyclone Gabrielle, more milk solids were paid for than collected.

Lower product prices
57% of the Farmgate Milk Price revenue was derived from WMP sales volume. The average WMP price in the 2023 season was 16% lower at US\$3,392 per metric tonne compared to US\$4,019 per metric tonne in the prior season.

Inflationary pressures
Increased costs mainly due to inflationary pressure on cash costs



The favourable foreign exchange (FX) season-on-season impact is because the hedge rate decreased as a result of the New Zealand dollar weakening over the two seasons. The average hedge rate decreased from NZD/USD 0.6884 last season to NZD/USD 0.6357 this season.

Fonterra hedges the FX risk progressively over an 18-month period, therefore the FX conversion rate for the Farmgate Milk Price for a specific season is largely based on the weighted average spot rate over the previous and current seasons.

The hedging approach means changes in the New Zealand dollar spot rate will still impact the Farmgate Milk Price, but it will impact at a later date and we can estimate with greater certainty what the impact of that change will be on the Farmgate Milk Price. As a result, hedging provides increased visibility and certainty on what the FX conversion rate for the season will be and means a narrower range on the Farmgate Milk Price relative to not hedging.

1. The future conversion rate is only an estimate because forecast USD receivables are only partially hedged over the forecast 18 month period and the hedges include options so the final conversion rate can vary.

Reportable Segments

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Fonterra's reportable segments are Core Operations and the two customer-facing regional business units, Global Markets and Greater China as presented to the right.

	Core Operations	Global Markets	Greater China	Total
External sales volume ('000 MT)		2,517 10% ↑	980 5% ↓	3,497 5% ↑
Profit after tax contribution from continuing operations				
Ingredients	\$602m \$459m ↑	\$429m \$114m ↑	\$133m \$13m ↑	\$1,164m \$586m ↑
Foodservice	\$(12)m \$72m ↑	\$50m \$53m ↑	\$203m \$46m ↑	\$241m \$171m ↑
Consumer	\$(18)m \$1m ↑	\$(94)m \$90m ↓	\$(52)m \$48m ↓	\$(164)m \$137m ↓
Total	\$572m \$532m ↑	\$385m \$77m ↑	\$284m \$11m ↑	\$1,241m \$620m ↑

Note: Figures are for the year ended 31 July 2023

Prepared on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period.

Financing Costs are allocated based on the average capital employed by each segment and channel. The notional tax rates applied are based on which country the entity, within a segment or channel, generates the income in.

Core Operations represents the business activities that collect and process New Zealand milk through to selling products to our customer-facing regional business units, Global Markets and Greater China. When products are sold from Core Operations to the regional business units, the internal transfer prices used are largely determined by market-based commodity reference prices (e.g., GDT and other external benchmarks) and include charges, where appropriate, to reflect the additional costs of producing non-commodity products.

The performance of Core Operations reflects the efficiency of our milk collection, manufacturing and supply chain operations, our ability to optimise our product mix, the impact of our price risk management tools as well as a significant portion of our business's volatility, including the impact of price relativities between Reference Products that inform the Farmgate Milk Price and Non-Reference Products.

Our Greater China business unit includes the Ingredients, Foodservice and Consumer channels in Greater China, and our Global Markets business unit includes our Ingredients, Foodservice and Consumer channels outside of Greater China.

The performance of the regional business units in the table on the next page reflects the in-market value added after purchasing the products from Core Operations at the transfer price.

During the year corporate costs were not included within the segments. From July 2023, corporate costs, including Co-operative Affairs and other Group Functions, are included within Global Markets, Greater China and Core Operations.

In addition, Segments and Product Channels are reported to profit after tax. Financing Costs are allocated based on the average capital employed by each segment and channel. The notional tax rates applied are based on which country the entity, within a segment or channel, generates the income in.



Reportable Segments¹

FOR THE YEAR ENDED 31 JULY

NZD MILLION	CORE OPERATIONS		GLOBAL MARKETS		GREATER CHINA		ELIMINATIONS		TOTAL	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
Sales volume ('000 MT) ²	2,554	2,784	2,344	2,575	1,028	978	(2,608)	(2,840)	3,318	3,497
Revenue	16,987	19,142	15,374	18,401	6,869	7,072	(17,329)	(20,035)	21,901	24,580
Cost of goods sold	(16,251)	(17,513)	(13,832)	(16,565)	(6,238)	(6,356)	17,329	20,035	(18,992)	(20,399)
Gross profit	736	1,629	1,542	1,836	631	716	–	–	2,909	4,181
Operating expenses	(691)	(840)	(1,081)	(1,310)	(293)	(346)	–	–	(2,065)	(2,496)
Other ³	110	17	(15)	53	7	–	–	–	102	70
EBIT	155	806	446	579	345	370	–	–	946	1,755
Net finance costs	–	–	–	–	–	–	–	–	(194)	(211)
Tax expenses	–	–	–	–	–	–	–	–	(131)	(303)
Profit after tax	40	572	308	385	273	284	–	–	621	1,241
Gross margin ⁴	4.3%	8.5%	10.0%	10.0%	9.2%	10.1%	–	–	13.3%	17.0%
EBIT margin ⁴	0.9%	4.2%	2.9%	3.1%	5.0%	5.2%	–	–	4.3%	7.1%

1. Performance is prepared on a continuing operations basis. Comparative information has been re-stated and re-presented for consistency with the current period.

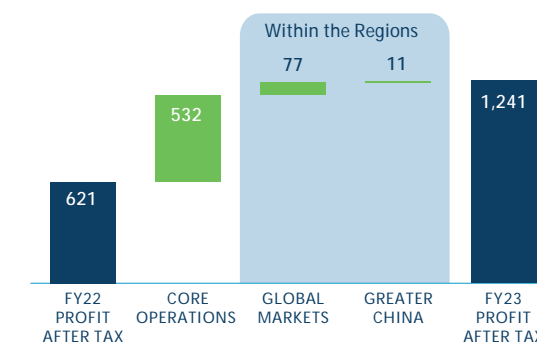
2. Includes sales to other segments.

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

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

Change in profit after tax contribution by segment between 2022 and 2023¹

Profit after tax (\$ million)



1. Prepared on a continuing operations basis. Comparative information has been re-stated and re-presented for consistency with the current period.

Our previous reportable segments were Asia Pacific; Africa, Middle East, Europe, North Asia and Americas (AMENA); and Greater China. The income statement of Group Operations (now Core Operations) was attributed between the three regional business units.

In June 2022, we announced changes to our organisational structure to better support our strategy, following the strategy refresh announced in September 2021. Effective from 1 October 2022, our Asia Pacific and AMENA business units were merged into a combined Global Markets business unit. The reportable segments have been updated to reflect the changes and include Core Operations as a reportable segment.

Additionally, from 31 October 2022, Soprole met the conditions to be classified as held for sale and the definition of a discontinued operation and is excluded from the reportable segment figures. The comparative information for previous years has been restated and re-presented to reflect the change in the Group's reportable segments.

The table to the right reflects the performance of our regional business units, Global Markets and Greater China, with Core Operations allocated to them to determine an end-to-end segmental result of the two customer-facing regional business units, consistent with how the segments were reported in the last two financial years.

The principle of the end-to-end attribution is to reflect the underlying transaction between Fonterra and the customer, where possible. If costs are not directly linked to transactions, such as overheads, attributions are activity based where appropriate e.g. Information Technology and Research and Development. If none of these principles applies, the attribution uses the share of product sold/manufactured in the region as the base of allocation.

End-to-End Regional Business Unit Performance¹

FOR THE YEAR ENDED 31 JULY

NZD MILLION	GLOBAL MARKETS		GREATER CHINA		TOTAL	
	2022	2023	2022	2023	2022	2023
Sales volume ('000 MT)	2,284	2,517	1,034	980	3,318	3,497
Revenue	15,201	17,926	6,700	6,654	21,901	24,580
Cost of goods sold	(13,154)	(14,911)	(5,838)	(5,488)	(18,992)	(20,399)
Gross profit	2,047	3,015	862	1,166	2,909	4,181
Operating expenses	(1,541)	(1,882)	(524)	(614)	(2,065)	(2,496)
Other ²	56	63	46	7	102	70
EBIT ³	562	1,196	384	559	946	1,755
Net finance costs	-	-	-	-	(194)	(211)
Tax expense	-	-	-	-	(131)	(303)
Profit after tax	342	830	279	411	621	1,241
Includes Core Operations attribution ⁴	34	445	6	127	40	572
Gross margin ⁵	13.5%	16.8%	12.9%	17.5%	13.3%	17.0%
EBIT margin ⁵	3.7%	6.7%	5.7%	8.4%	4.3%	7.1%

1. Performance is prepared on a continuing operations basis. Comparative information has been re-stated and re-presented for consistency with the current period.

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

3. Includes Core Operations attribution.

4. Core Operations attribution is an after tax amount that is included in the Global Markets and Greater China's profit after tax line.

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

Core Operations

Core Operations represents the business activities from collecting and processing New Zealand milk, through to selling products to our customer-facing regional business units, Global Markets and Greater China.

It is comprised of three functions

1 Chief Operating Office (COO), which includes New Zealand milk collection and processing operations, supply chain, Group IT, safety and food safety.

2 Strategy and Optimisation (S&O). This includes optimising the New Zealand milk pool, product pricing guidance, strategy & transformation, managing Fonterra's dairy and non-dairy price risk and providing price risk management tools to both our customers and farmer shareholders.

3 Fonterra Farm Source™ retail stores.



Milk Collection

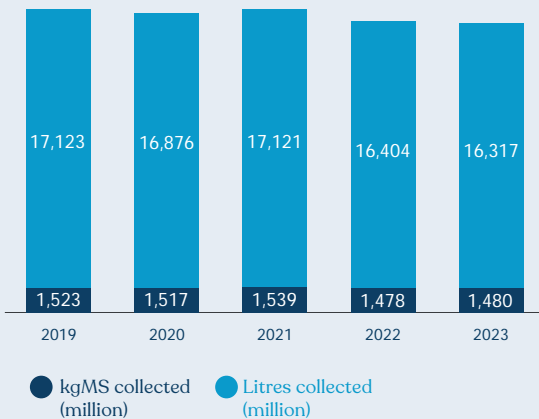
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The performance of our Core Operations during the 2023 financial year demonstrated resilience as 2023 was impacted by high inflationary pressures and, at times, significant weather events.

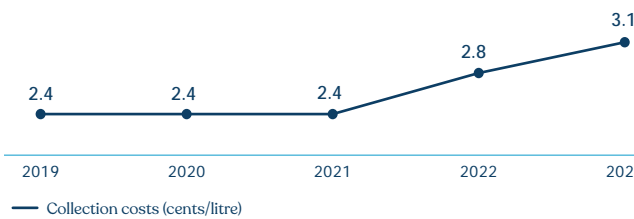
This year we collected 16,317 million litres of milk from the Co-operative's farmers which equated to 1,480 million kgMS.

Around 11 litres of milk produce 1kg of milk solids, or about 9% of milk collected is solids, and the rest is other components of milk and water.

Litres and milk solids collected

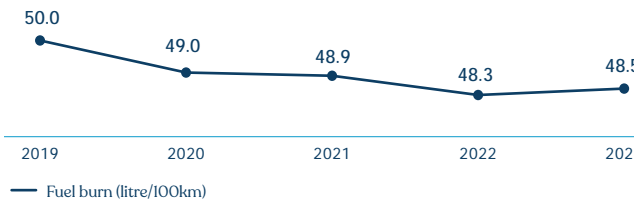


Cost of collecting milk¹



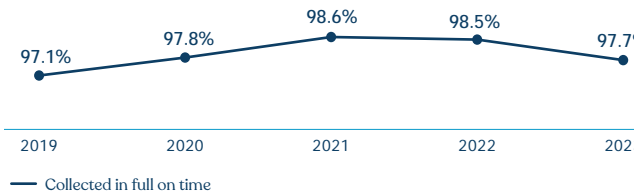
The Co-operative experienced significant increases in several input costs, including the cost of diesel increasing 30% which has impacted the cost of collecting milk. This has been partially offset by the government reducing Road User Charges for most of the year.

Fuel efficiency when collecting milk



To improve fuel efficiency, we use data analytics to provide a view of efficiency by tanker and driver, and through our annual truck and trailer replacement programme we manage the condition and age of our fleet. Fuel efficiency was relatively stable year-on-year.

Timeliness of collecting milk



“Collected in full on time” (CIFOT) is the measure of how well we have performed in collecting our farmer owners’ milk within our planned collection windows. This is important for farmer engagement and milk processing. Our performance this year was impacted by several weather events across the country.

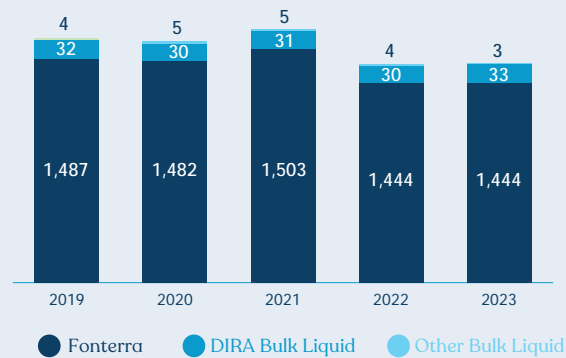
¹ Cost of collecting milk excludes milk and liquid product transfers between sites. Comparative information has been re-presented for consistency with the current period.

Milk solids available to process and where we allocated them

We process around 98% of the milk we collect in New Zealand.

In some instances, we choose to enter into commercial agreements to provide bulk liquids to other independent processors in New Zealand. Under the Dairy Industry Restructuring (Raw Milk) Regulations 2012 Fonterra is required to provide up to 600 million litres of milk each season to eligible independent third-party processors (including Goodman Fielder) at a regulated price. Under these regulations, Goodman Fielder is entitled to buy up to 350 million litres of the overall eligible independent processor entitlement. Under the regulations, the default regulated price for eligible processors (other than Goodman Fielder) is Fonterra's farm gate milk price plus the reasonable costs of transporting the milk to the processor. Certain independent processors may also qualify for fixed quarterly pricing. Under the regulations, the default regulated price for Goodman Fielder is Fonterra's farm gate milk price plus reasonable costs of transporting the milk to Goodman Fielder and, an additional charge of 10 cents per kgMS. The additional charge enables Fonterra to recover a contribution to the overall costs of milk sourcing and the costs of providing Goodman Fielder with a "flat supply curve" of milk across the season.

New Zealand milk solids processed and Bulk Liquid sales (million kgMS)



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Favourable long-term trend of shifting milk solids into higher value products

The Co-operative is focused on shifting our New Zealand milk into higher value products. This is a key driver of our strategy to deliver both a strong Farmgate Milk Price and earnings growth.

The graph to the right shows the favourable trend in allocating more milk solids to Non-Reference Products, which are typically higher value products relative to Reference Products.

Milk solids allocated to Reference Products have reduced from 72.7% in 2019 to 68.6% in 2023. Reference Products informing the Farmgate Milk Price include commodity specifications of whole milk powder (WMP) and skim milk powder (SMP), and their by-products which are butter milk powder (BMP), butter, and anhydrous milkfat (AMF).

The allocation of milk solids to Non-Reference Products, such as specialised protein products in our Ingredients channel and all products sold into our Foodservice and Consumer channels, have increased from 27.3% in 2019 to 31.4% in 2023. The allocation of milk solids to higher value products can fluctuate year-on-year as our optimisation team responds to supply and demand signals and makes decisions to help generate the best

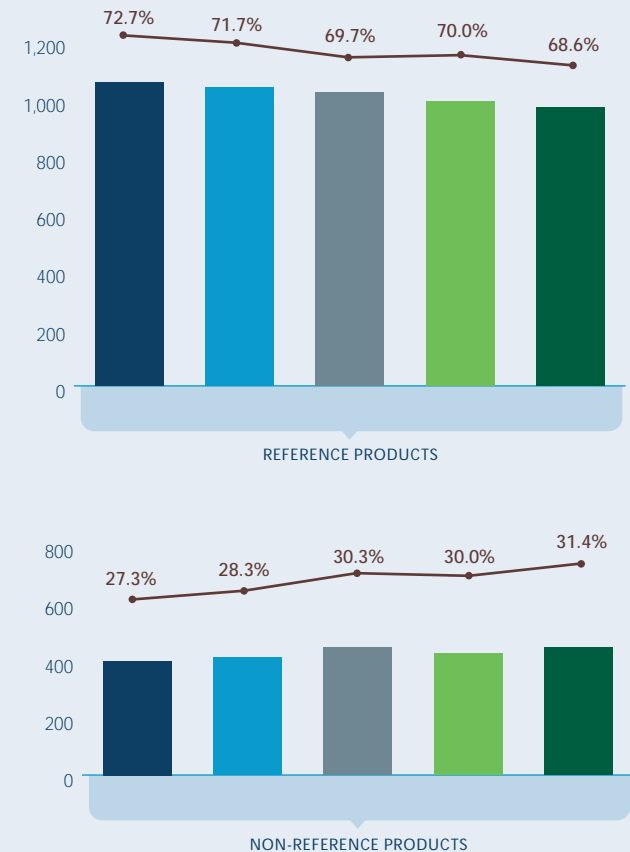
overall returns to Fonterra and our farmer owners within a season.

Our strategy to direct more milk solids, within a constrained milk environment, into Non-Reference Products focuses on:

- Ingredients channel – growing our higher-value ingredients and solutions targeting the areas of physical, patient, digestive and mental wellness plus immunity
- Foodservice channel – growing our global Foodservice presence across Greater China, Southeast Asia, and the USA
- Consumer channel – use our New Zealand provenance and sustainability credentials to differentiate our brands

In addition to increasing volume sold into the Non-Reference portfolio, another driver of the allocation change between Reference and Non-Reference Products is as total milk solids collected and processed have trended down over the past five years, the reduced collections have been removed from the allocation to Reference Products.

New Zealand milk solids allocated to Reference & Non-Reference Products

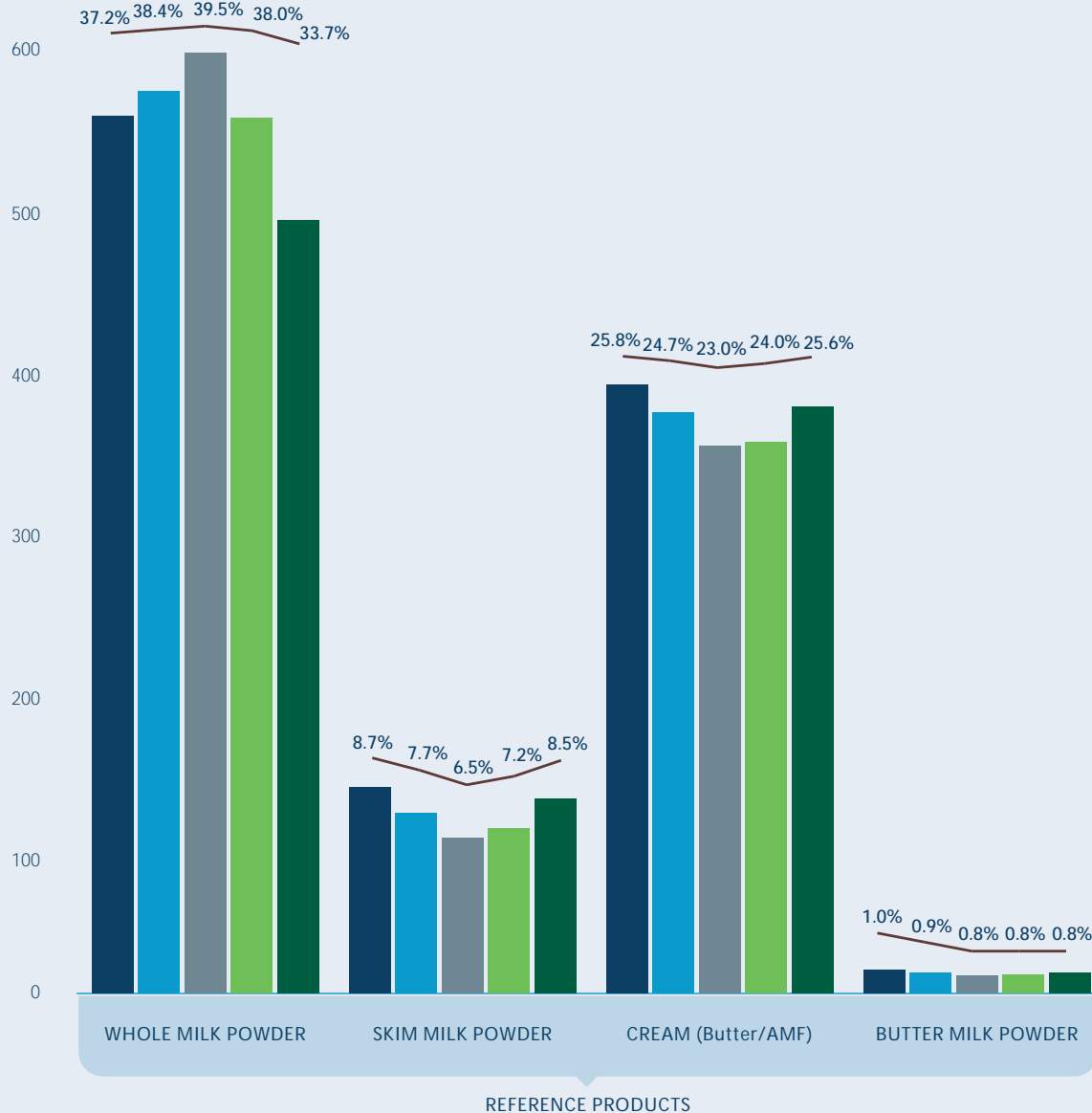


New Zealand milk solids manufactured (kgMS millions)

● FY19 ● FY20 ● FY21 ● FY22 ● FY23
— % milk solids manufactured

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Breakdown of milk solids allocated to manufacture of Reference & Non-Reference Products



Overall, the portion of milk solids allocated to Reference Products is a favourable trend downwards. However, as seen in the graph left the allocation between WMP and SMP year-on-year is more responsive to market signals and demand for the two products and their by-products, as our Optimisation team focuses on delivering the greatest value for the Farmgate Milk Price within a season.

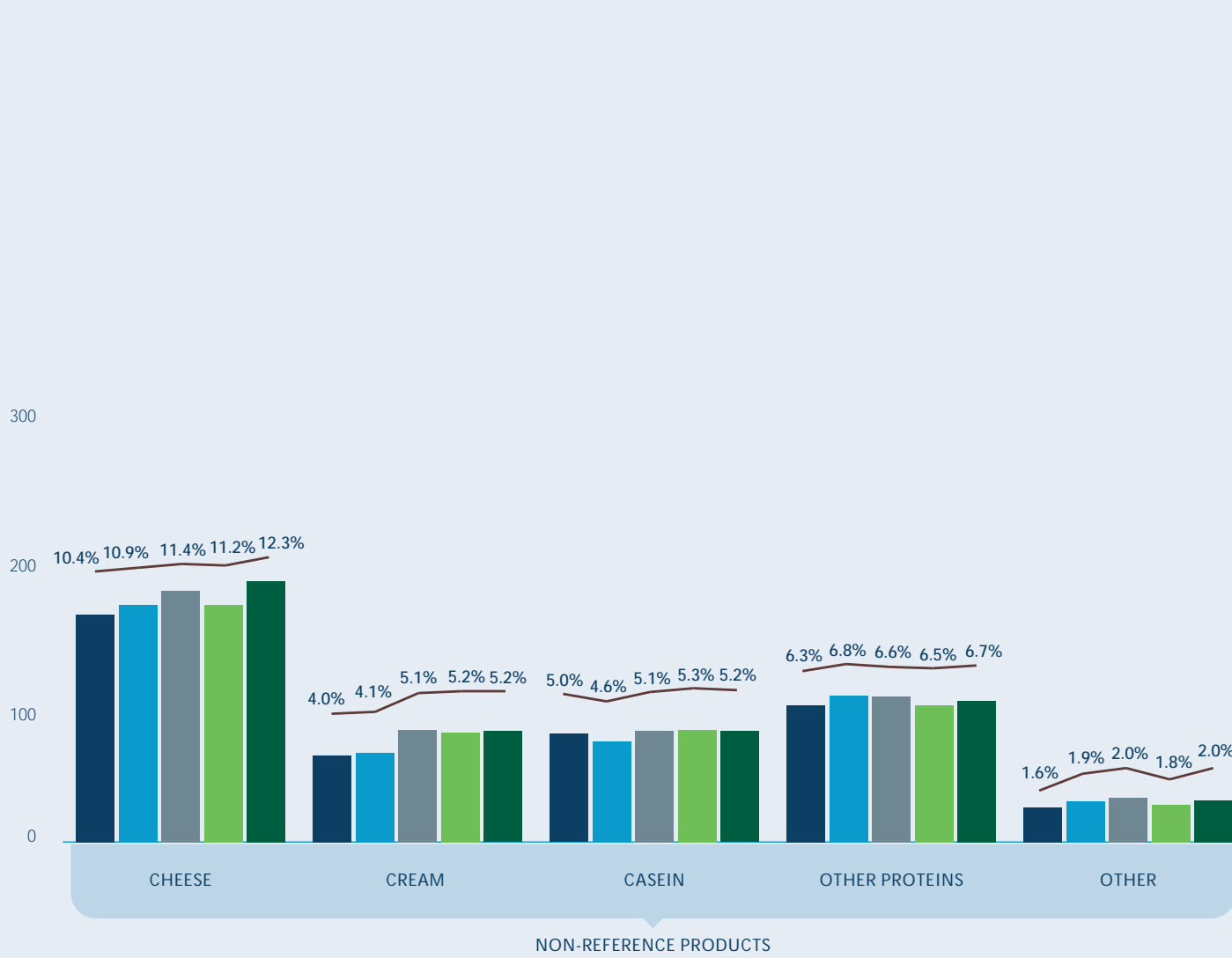
- Value derived from WMP for the past two years has remained relatively low compared to other products, in particular SMP and its by-products, due to the reduced demand for imported WMP from China.
- Value created from SMP and its cream by-products (AMF and butter) have improved year-on-year which supported the shift in allocation of solids from WMP to SMP to deliver the highest possible Farmgate Milk Price to the Co-operative's suppliers.
- The increased volume in cream Reference Products can be attributed mainly to butter, which has provided a better return relative to AMF over the past couple of years.

Milk solids manufactured (kgMS millions)

● FY19 ● FY20 ● FY21 ● FY22 ● FY23

— % milk solids manufactured

Breakdown of milk solids allocated to manufacture of Reference & Non-Reference Products



Relative to Reference Products, Non-Reference Products do not adjust year-on-year as much, as we balance maximising the value of milk within a year as well as our long-term strategy to generate sustainable volume growth of our higher margin products.

Our cheese portfolio has had good growth over the past five years mainly due to the growth in our Foodservice channel for mozzarella.

Our cream (Non-Reference) portfolio has had increased allocation of milk solids due to solid growth in our Foodservice channel particularly for UHT cream in our Greater China Foodservice business.

Our casein and caseinate portfolio allocation of milk solids has remained stable over the past five years due to constrained manufacturing capacity. However, as demand has grown over the past year gross margins have increased significantly, in particular for rennet casein – an ingredient used in processed cheese. Due to COVID-19 related regulations, the cost and complexity to import cheese into China increased, and customers in China shifted from imported processed cheese to locally manufactured processed cheese, driving up the demand for rennet casein.

Our other proteins portfolio (excluding casein and caseinates) is mainly made up of milk protein concentrates (MPC). The two most prominent MPCs are MPC70 and MPC85. MPC70 is a commodity specification product and over the past five years the trend has been for less milk solids allocated to it. Instead we have increased our allocation to MPC85 which is a specialised protein product sold within our sub-channel Active Living. Overall, the other proteins portfolio has remained stable.

Milk solids manufactured (kgMS millions)

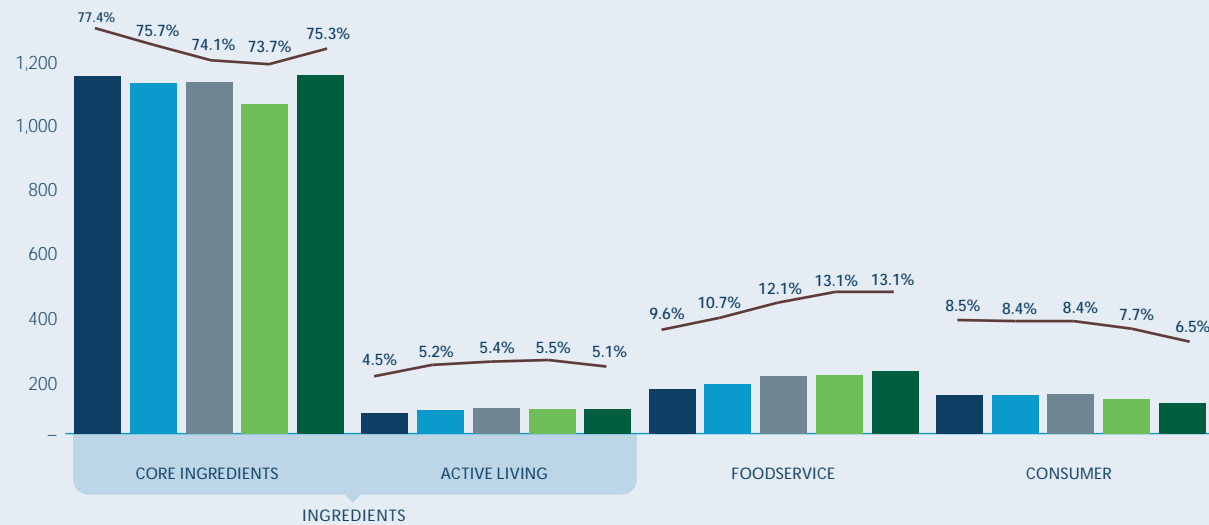
● FY19 ● FY20 ● FY21 ● FY22 ● FY23

— % milk solids manufactured

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Allocation of New Zealand milk solids sold by Product Channel¹



Milk solids sold (kgMS millions)

● FY19 ● FY20 ● FY21 ● FY22 ● FY23 — % milk solids sold

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

The kgMS of milk products that we produce each year differs to the kgMS of products that we sell within the financial year.

This year, due to the sell down of the additional 2022 financial year Core Ingredients inventory and in-market challenges, we are selling a higher proportion of our milk solids through our Core Ingredients channel and a lower proportion through our Active Living and Consumer channels.

Milk solids allocated to our Foodservice channel are in line with last year, with demand lifting across our major product categories

in the second half of the year as a result of COVID-19 related restrictions lifting, relative to the prior year.

Our Active Living portfolio was impacted due to high in-market inventory in some markets, and lower demand from the USA as a result of some customers' current manufacturing constraints.

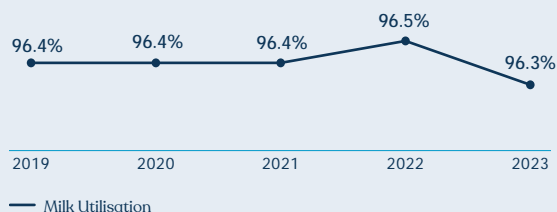
Our Consumer channel experienced lower sales volume, mainly due to economic challenges in Sri Lanka impacting the ability to access US dollars in the first half of the financial year.



Milk Processing Performance

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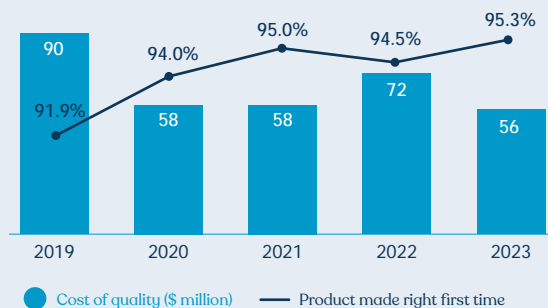
Portion of milk solids made into product



Within our New Zealand manufacturing operations, we have optimised our product mix by allocating a higher proportion of this season's milk solids to proteins (including skim milk powder) and cheese products, and less to whole milk powder.

Milk utilisation (the proportion of milk solids made into products) reduced from 96.5% to 96.3% due to the shift to a more complex product mix, which incur larger processing losses, but on a net basis provide greater earnings to the Co-operative and represent the greatest overall return for our milk solids. We are focused on improving manufacturing of more complex products. For example, at our Hautapu and Maungaturoto sites, we have worked on ensuring consistency of final product and improving product yield of rennet casein.

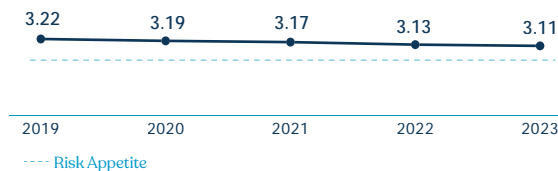
Product made right first time



Product made 'right first time' tracks the product that passes grading tests once the product is manufactured. Manufacturing more complex products increases the risk on quality and reliability, but despite this, we have achieved a record result in product made 'right first time' at 95.3%.

Cost of quality is one of our key measures of the effectiveness of our manufacturing activity and it improved this year, reducing to \$56 million. This is more in-line with historical levels seen during 2020 and 2021, rather than 2022, which was impacted by several one-off events.

Asset health



Asset health measures the condition and reliability of our manufacturing assets on a scale of one to five, with five indicating the asset is in the best condition possible. Fonterra's risk appetite range is from 3 to 3.5.

From 2016 to 2020, we under-invested in sustaining capital, leading to the downwards trend of asset health. Since 2021, capital has been allocated to regaining asset condition and risk mitigation particularly in food safety and health & safety. The Asset health score does not yet reflect the increase in spend as we catch up from prior underspend.

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Core Operations operating performance

Core Operations revenue is derived from selling products to our two in-market selling regions, Global Markets and Greater China.

Core Operations Performance by Channel¹

FOR THE YEAR ENDED 31 JULY

NZD MILLION	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER		
	2022	2023	CHANGE ²	2022	2023	CHANGE ²	2022	2023	CHANGE ²	2022	2023	CHANGE ²
Sales volume ('000 MT) ³	2,554	2,784	9%	2,011	2,191	9%	286	334	17%	257	259	1%
Revenue	16,987	19,142	13%	14,055	15,692	12%	1,569	1,994	27%	1,363	1,456	7%
Cost of goods sold	(16,251)	(17,513)	(8)%	(13,331)	(14,207)	(7)%	(1,588)	(1,908)	(20)%	(1,332)	(1,398)	(5)%
Gross profit	736	1,629	121%	724	1,485	105%	(19)	86	–	31	58	87%
Operating expenses	(691)	(840)	(22)%	(561)	(678)	(21)%	(77)	(89)	(16)%	(53)	(73)	(38)%
Other ⁴	110	17	(85)%	85	16	(81)%	14	–	–	11	1	(91)%
EBIT	155	806	420%	248	823	232%	(82)	(3)	96%	(11)	(14)	(27)%
Net finance costs and tax expense	(115)	(234)	(103)%	(105)	(221)	(110)%	(2)	(9)	(350)%	(8)	(4)	50%
Profit after tax	40	572	1,330%	143	602	321%	(84)	(12)	86%	(19)	(18)	5%
Gross margin	4.3%	8.5%		5.2%	9.5%		(1.2)%	4.3%		2.3%	4.0%	
EBIT margin	0.9%	4.2%		1.8%	5.2%		(5.2)%	(0.2)%		(0.8)%	(1.0)%	

1. Core Operations performance is prepared on a continuing operations basis. Comparative information has been restated for consistency with the current period.

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

3. Includes sales to other segments.

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

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When products are sold from Core Operations to our in-market regions, the internal transfer prices are largely determined by market-based reference prices (e.g. GDT and other external benchmarks) and include charges, where appropriate, to reflect the additional specification costs to make the product. The internal pricing is reviewed weekly for Ingredients products and either monthly or quarterly for Consumer and Foodservice products.

Core Operations profit after tax was \$572 million, an increase of \$532 million, on the prior comparable period.

A key driver of Core Operations profit after tax is the relative price difference between Reference Product prices and Non-Reference Product prices.

The graph to the right illustrates these prices relativities. Price relativities in the 2023 financial year were significantly more favourable than prior years, and these price relativities, particularly in our protein and cheese portfolios, have driven the improved gross margin from 4.3% to 8.5%.

The increase in gross profit has been partially offset by higher operating expenditure. Our supply chain costs have increased due to inflationary pressures, staff costs, and incurring additional storage costs due to the impact of holding higher inventory at the start of the 2023 financial year.

To support our long-term discipline on efficient New Zealand operations we have introduced a new efficiency metric of gross profit from Core Operations per kgMS.

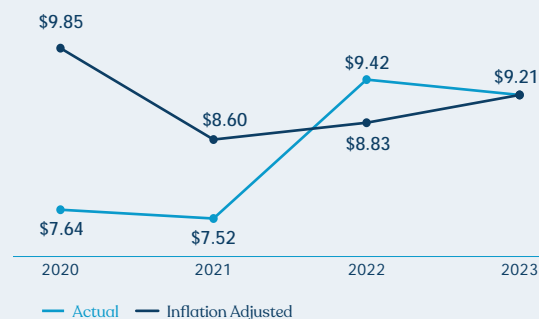
The metric monitors the cash cost base having regard to changing milk volumes, and adjusts for inflation so underlying efficiency gains/losses are transparent. The metric is calculated at a gross profit level to take into account the net result of maximising value generated from every milk solid, which can increase the cost base.

After removing the impact of inflation and non-cash costs, our gross profit from Core Operations on a kgMS basis increased from \$8.83 to \$9.21 per kgMS. The increase reflects higher revenue in New Zealand dollars.

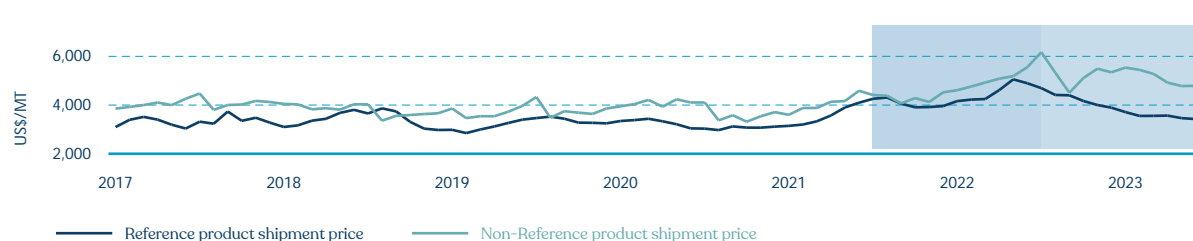
'Other' is down \$93 million, to \$17 million, reflecting foreign exchange movements in our net receivables due to timing differences between the processing and hedging of invoices. Last year's 'Other' also included a portion of the gain on sale of Global Dairy Trade.

Despite favourable price relativities improving gross profit in both the Foodservice and Consumer channels relative to the prior year, at an EBIT level these channels have continued to incur losses in Core Operations reflecting both higher operating costs and other gains not repeated in the 2023 financial year.

Gross profit from Core Operations per kgMS



Reference and Non-Reference Price Relativities



Regional performance

The performance of the regional business units reflects the in-market value added after purchasing the products from Core Operations at the transfer price.

Global Markets

Our Global Markets business covers our sales regions outside of the Greater China region, which includes Africa, Middle East, Europe, North Asia, Americas, New Zealand, Australia, Pacific Islands, Southeast Asia, and South Asia.

Global Markets' profit after tax increased \$77 million to \$385 million, mainly due to the Ingredients channel in-market profit after tax increasing by \$114 million due to improved pricing and higher sales volumes. Performance also improved in the Foodservice channel as in-market sales

teams were able to adjust sales prices for higher cost of goods. This was partially offset by impairments in Global Markets' Consumer channel of our New Zealand Consumer business and our Asia brands (Anmum™, Anlene™ and Chesdale™). See [page 59](#).

On an end-to-end basis (including Core Operations' attribution), Global Markets' profit after tax increased 143%, or \$488 million to \$830 million, driven by Core Operations attribution, reflecting favourable price relativities in the Ingredients channel, particularly in our protein and cheese portfolios.

Global Markets Performance by Channel¹

FOR THE YEAR ENDED 31 JULY

NZD MILLION	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER		
	2022	2023	CHANGE ²	2022	2023	CHANGE ²	2022	2023	CHANGE ²	2022	2023	CHANGE ²
Sales volume ('000 MT) ³	2,344	2,575	10%	1,498	1,732	16%	274	280	2%	572	563	(2)%
Revenue	15,374	18,401	20%	11,127	13,516	21%	1,543	1,845	20%	2,704	3,040	12%
Cost of goods sold	(13,832)	(16,565)	(20)%	(10,376)	(12,584)	(21)%	(1,349)	(1,582)	(17)%	(2,107)	(2,399)	(14)%
Gross profit	1,542	1,836	19%	751	932	24%	194	263	36%	597	641	7%
Operating expenses	(1,081)	(1,310)	(21)%	(386)	(381)	1%	(187)	(192)	(3)%	(508)	(737)	(45)%
Other ⁴	(15)	53	–	45	31	(31)%	(2)	3	–	(58)	19	–
EBIT	446	579	30%	410	582	42%	5	74	1,380%	31	(77)	–
Net finance costs and tax expense	(138)	(194)	(41)%	(95)	(153)	(61)%	(8)	(24)	(200)%	(35)	(17)	51%
Profit after tax	308	385	25%	315	429	36%	(3)	50	–	(4)	(94)	(2,250)%
Gross margin	10.0%	10.0%		6.7%	6.9%		12.6%	14.3%		22.1%	21.1%	
EBIT margin	2.9%	3.1%		3.7%	4.3%		0.3%	4.0%		1.1%	(2.5)%	

1. Global Markets performance is prepared on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period.

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

3. Includes sales to other segments.

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

Global Markets End-to-End Performance by Channel¹

FOR THE YEAR ENDED 31 JULY

NZD MILLION	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER		
	2022	2023	CHANGE ²	2022	2023	CHANGE ²	2022	2023	CHANGE ²	2022	2023	CHANGE ²
Sales volume ('000 MT)	2,284	2,517	10%	1,453	1,686	16%	264	272	3%	567	559	(1)%
Revenue	15,201	17,926	18%	11,038	13,218	20%	1,458	1,758	21%	2,705	2,950	9%
Cost of goods sold	(13,154)	(14,911)	(13)%	(9,797)	(11,176)	(14)%	(1,277)	(1,486)	(16)%	(2,080)	(2,249)	(8)%
Gross profit	2,047	3,015	47%	1,241	2,042	65%	181	272	50%	625	701	12%
Operating expenses	(1,541)	(1,882)	(22)%	(786)	(882)	(12)%	(204)	(212)	(4)%	(551)	(788)	(43)%
Other ³	56	63	13%	103	40	(61)%	1	3	200%	(48)	20	-
EBIT	562	1,196	113%	558	1,200	115%	(22)	63	-	26	(67)	-
Net finance costs and tax expense	(220)	(366)	(66)%	(169)	(316)	(87)%	(8)	(25)	(213)%	(43)	(25)	42%
Profit after tax ⁴	342	830	143%	389	884	127%	(30)	38	-	(17)	(92)	441%
Profit after tax attribution from Core Operations ⁵	34	445	1,209%	74	455	515%	(27)	(12)	56%	(13)	2	-
Gross margin	13.5%	16.8%		11.2%	15.4%		12.4%	15.5%		23.1%	23.8%	
EBIT margin	3.7%	6.7%		5.1%	9.1%		(1.5)%	3.6%		1.0%	(2.3)%	

1. Global Markets performance is prepared on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period.

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

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

4. Includes Core Operations attribution.

5. This is included in Global Markets profit after tax.

Global Markets

Australia – Our Australia business is part of the Global Markets region.

Australia Performance¹

FOR THE YEAR ENDED 31 JULY

NZD MILLION	2022	2023	CHANGE ²
Milk collections (million kgMS)	106	106	–
Sales volume ('000 MT) ³	365	379	4%
Revenue	2,094	2,531	21%
Cost of goods sold	(1,811)	(2,237)	(24)%
Gross profit	283	294	4%
Operating expenses	(178)	(219)	(23)%
Other ³	1	–	–
EBIT	106	75	(29)%
Net finance costs and tax expense	(41)	(52)	(27)%
Profit after tax	65	23	(65)%
Gross margin	13.5%	11.6%	
EBIT margin	5.1%	3.0%	

1. Australia's performance is prepared on a continuing operations basis.

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

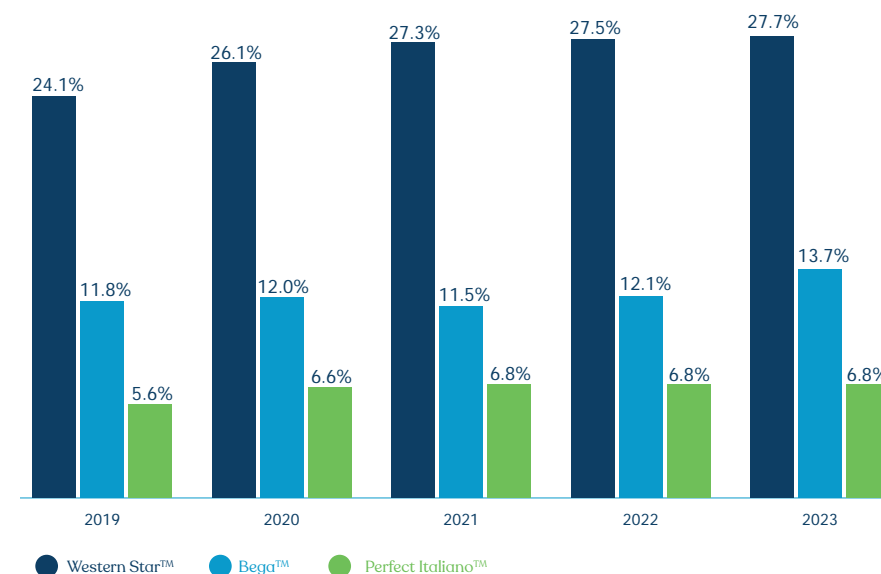
3. Consists of other operating income and net foreign exchange gains/(losses).

The Australian business continued to demonstrate milk share growth, as well as sales volume and revenue growth, despite a decline in the overall Australian milk pool. Effective portfolio management in the Ingredients business, leveraging high global commodity prices combined with effective price management in Consumer and Foodservice, has helped offset significant inflationary pressures across the business.

Fonterra Australia Value Market share by brand

MAT Aug-19 to MAT Aug-23, percentage share of category

Source: Nielsen RMS, Total AU grocery scan



Our Consumer brands continued to grow in market share as shown in the graph above.

Operating expenses were impacted by one off costs of \$27 million (before tax) relating to the class action settlement agreement with Fonterra Australia milk suppliers in relation to milk price during the 2015/2016 season. In the prior year a provision was held at a Group level, while the settlement outcome was pending.

The higher net finance costs and tax expense was drive by rate increases on borrowings.

This reduced profit after tax in the current financial year by 65%, or \$42 million, to \$23 million.

Greater China

The Greater China business covers our Greater China sales region.

Greater China Performance by Channel¹

FOR THE YEAR ENDED 31 JULY

NZD MILLION	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER		
	2022	2023	CHANGE ²	2022	2023	CHANGE ²	2022	2023	CHANGE ²	2022	2023	CHANGE ²
Sales volume ('000 MT)	1,028	978	(5)%	697	632	(9)%	259	274	6%	72	72	–
Revenue	6,869	7,072	3%	4,646	4,460	(4)%	1,855	2,236	21%	368	376	2%
Cost of goods sold	(6,238)	(6,356)	(2)%	(4,440)	(4,226)	5%	(1,535)	(1,836)	(20)%	(263)	(294)	(12)%
Gross profit	631	716	13%	206	234	14%	320	400	25%	105	82	(22)%
Operating expenses	(293)	(346)	(18)%	(55)	(62)	(13)%	(129)	(137)	(6)%	(109)	(147)	(35)%
Other ³	7	–	–	4	–	–	3	–	–	–	–	–
EBIT	345	370	7%	155	172	11%	194	263	36%	(4)	(65)	(1,525)%
Net finance costs and tax expense	(72)	(86)	(19)%	(35)	(39)	(11)%	(37)	(60)	(62)%	–	13	–
Profit after tax	273	284	4%	120	133	11%	157	203	29%	(4)	(52)	(1,200)%
Gross margin	9.2%	10.1%		4.4%	5.2%		17.3%	17.9%		28.5%	21.8%	
EBIT margin	5.0%	5.2%		3.3%	3.9%		10.5%	11.8%		(1.1)%	(17.3)%	

1. Greater China performance is prepared on a continuing operations basis. Comparative information has been re-stated for consistency with the current period.

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

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

Greater China profit after tax increased \$11 million to \$284 million, due to the Foodservice channel earnings having increasing by \$46 million and reflects higher prices that adjusted for the higher input costs. However, this was partially offset by an impairment in Greater China's Consumer channel of our Asia brands. See [page 60](#).

Greater China

On an end-to-end basis (including Core Operations attribution), Greater China's profit after tax increased 47%, or \$132 million to \$411 million, driven by Core Operations' attribution and reflecting favourable price relativities in both the Ingredients and Foodservice channel.

However, this was partially offset by an impairment in Greater China's Consumer channel of our Asia brands. See [page 60](#).

Greater China End-to-End Performance by Channel¹

FOR THE YEAR ENDED 31 JULY

NZD MILLION	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER		
	2022	2023	CHANGE ²	2022	2023	CHANGE ²	2022	2023	CHANGE ²	2022	2023	CHANGE ²
Sales volume ('000 MT)	1,034	980	(5)%	697	633	(9)%	264	274	4%	73	73	-
Revenue	6,700	6,654	(1)%	4,497	4,198	(7)%	1,844	2,107	14%	359	349	(3)%
Cost of goods sold	(5,838)	(5,488)	6%	(4,057)	(3,589)	12%	(1,530)	(1,630)	(7)%	(251)	(269)	(7)%
Gross profit	862	1,166	35%	440	609	38%	314	477	52%	108	80	(26)%
Operating expenses	(524)	(614)	(17)%	(216)	(239)	(11)%	(189)	(206)	(9)%	(119)	(169)	(42)%
Other ³	46	7	(85)%	31	7	(77)%	14	-	-	1	-	-
EBIT ⁴	384	559	46%	255	377	48%	139	271	95%	(10)	(89)	(790)%
Net finance costs and tax expense	(105)	(148)	(41)%	(66)	(97)	(47)%	(39)	(68)	(74)%	-	17	-
Profit after tax ⁴	279	411	47%	189	280	48%	100	203	103%	(10)	(72)	(620)%
Profit after tax attribution from Core Operations ⁵	6	127	2,017%	69	147	113%	(57)	-	-	(6)	(20)	(233)%
Gross margin	12.9%	17.5%		9.8%	14.5%		17.0%	22.6%		30.1%	22.9%	
EBIT margin	5.7%	8.4%		5.7%	9.0%		7.5%	12.9%		(2.8)%	(25.5)%	

1. Global Markets performance is prepared on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period.

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

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

4. Includes Core Operations attribution.

5. This is included in Greater China profit after tax.

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Product Channels



Ingredients

Our Ingredients channel's profit after tax increased \$586 million, or 101%, to \$1,164 million, due to continued favourable margins in our protein and cheese products, as well as higher sales volumes due to the sell down of additional inventory held at 2022 financial year-end.

Ingredients Performance¹

FOR THE YEAR ENDED 31 JULY

NZD MILLION	TOTAL			CORE OPERATIONS			GLOBAL MARKETS			GREATER CHINA			ELIMINATIONS	
	2022	2023	CHANGE ²	2022	2023	CHANGE ²	2022	2023	CHANGE ²	2022	2023	CHANGE ²	2022	2023
Sales volume ('000 MT) ³	2,150	2,319	8%	2,011	2,191	9%	1,498	1,732	16%	697	632	(9)%	(2,056)	(2,236)
Revenue	15,535	17,416	12%	14,055	15,692	12%	11,127	13,516	21%	4,646	4,460	(4)%	(14,293)	(16,252)
Cost of goods sold	(13,854)	(14,765)	(7)%	(13,331)	(14,207)	(7)%	(10,376)	(12,584)	(21)%	(4,440)	(4,226)	5%	14,293	16,252
Gross profit	1,681	2,651	58%	724	1,485	105%	751	932	24%	206	234	14%	-	-
Operating expenses	(1,002)	(1,121)	(12)%	(561)	(678)	(21)%	(386)	(381)	1%	(55)	(62)	(13)%	-	-
Other ⁴	134	47	(65)%	85	16	(81)%	45	31	(31)%	4	-	-	-	-
EBIT	813	1,577	94%	248	823	232%	410	582	42%	155	172	11%	-	-
Net finance costs and tax expense	(235)	(413)	(76)%	(105)	(221)	(110)%	(95)	(153)	(61)%	(35)	(39)	(11)%	-	-
Profit after tax	578	1,164	101%	143	602	321%	315	429	36%	120	133	11%	-	-
Gross margin	10.8%	15.2%		5.2%	9.5%		6.7%	6.9%		4.4%	5.2%			
EBIT margin	5.2%	9.1%		1.8%	5.2%		3.7%	4.3%		3.3%	3.9%			

1. Ingredients performance is prepared on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period.

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

3. Includes sales to other segments.

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

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Ingredients: Key Performance Drivers¹

Profit after tax (\$ million)



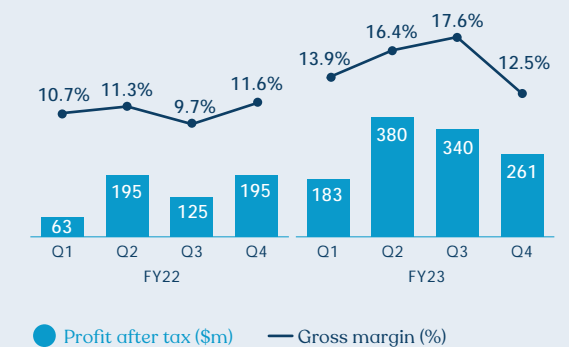
1. Ingredients performance is prepared on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period.

The Global Markets sales teams secured new contracts and tenders in both the Asia Pacific and Africa regions to support the sell down of additional inventory held at 2022 financial year-end and offset the softer demand for imported WMP in the Greater China region. Additionally, sales volumes in our cream portfolio to European customers increased as the price of New Zealand cream products traded below European cream products. Global Markets' Ingredients sales volumes increased 16% compared to the prior year.

Overall, consumption of dairy continues to increase in China following the lift of COVID-19 related restrictions. However, our sales volume in Greater China was impacted by local milk processors converting excess liquid milk into WMP, which reduced the demand for imported WMP.

Gross profit has increased in Core Operations and in both regions mainly due to favourable margins in our protein and cheese portfolios.

Ingredients profit after tax by quarter



Our Ingredients channel gross margin decreased in the fourth quarter due to the seasonal profile of the milk curve relative to our fixed costs. In the prior year, price relativities significantly improved in the fourth quarter which offset the adverse impact of the seasonal profile.

A key driver of the favourable margins in our protein and cheese portfolio is the relative price difference between product prices that inform the Farmgate Milk Price, referred to as Reference Products, and product prices that inform EBIT, referred to as Non-Reference Products.

Sales volumes of Ingredients are higher this year, despite similar collections, reflecting the sell down of the 2022 financial year closing inventory position and optimisation decisions made to produce the highest returning product mix.

A key driver of the favourable gross margins this year is the increase in the relative price difference between product prices for Reference Products, and Non-Reference Products. The relative price differences over the past 12 months have been historically high.

- The average Reference Product sale price per metric tonne has decreased 2% compared to the prior year, mainly due to lower WMP and AMF prices. In USD terms average pricing has fallen further, but a decrease in the average foreign exchange conversion rate in the 2023 financial year has mitigated some of the impact.
- The average Non-Reference Product sale price per metric tonne increased 16%, with significant price increases across most products compared to the prior year. Prices for casein, milk protein concentrate (MPC) and cheese all increased over 21%. The strong prices in the second half of the 2022 financial year carried through into the current year before softening in the latter half of the 2023 financial year.

The milk cost allocated to our products is derived from the fat and protein values within the Farmgate Milk Price. Within the Farmgate Milk Price, relative weakness in the value attributed to protein, compared to the value attributed to fat, has resulted in the protein-based dairy components getting a proportionally lower allocation of milk cost this year, relative to fat-based dairy components.

New Zealand-sourced Ingredients' product mix¹

FOR THE YEAR ENDED 31 JULY

	2022	2023	CHANGE ²
Sales Volume ('000 MT)			
Reference Products	1,629	1,782	9%
Non-Reference Products	822	883	7%
Revenue			
Reference Products (\$ billion)	10.4	11.1	7%
Non-Reference Products (\$ billion)	5.7	7.1	25%
Reference Products (\$ per MT)	6,361	6,257	(2)%
Non-Reference Products (\$ per MT)	6,951	8,089	16%
Cost of Milk			
Reference Products (\$ billion)	(8.3)	(8.4)	(1)%
Non-Reference Products (\$ billion)	(3.7)	(3.5)	5%
Reference Products (\$ per MT)	(5,077)	(4,696)	8%
Non-Reference Products (\$ per MT)	(4,494)	(3,974)	12%

1. Table includes Ingredients products that are on-sold to the Foodservice and Consumer channel and excludes bulk liquid milk. Bulk liquids for the year ended 31 July 2023 was 73,000 MT of kgMS equivalent (the year ended 31 July 2022 was 68,000 MT of kgMS equivalent). Figures represent Fonterra-sourced New Zealand milk only. Reference Products are products used in the calculation of the Farmgate Milk Price – WMP, SMP, BMP, Butter and AMF. Milk solids used in the products sold were 1,004 million kgMS in Reference Products and 442 million kgMS Non-Reference Products (previous comparative period 919 million kgMS Reference Products and 424 million kgMS Non-Reference Products).

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

Active Living¹

FOR THE YEAR ENDED 31 JULY

NZD MILLION	2022	2023	CHANGE ²
Sales volume ('000 MT)	113	110	(2)%
Revenue	1,760	1,876	7%
Gross profit	236	284	20%
Gross margin	13.4%	15.1%	

1. Active Living performance is prepared on a continuing operations basis and reflects the in-market value added after purchasing the products from Core Operations at the transfer price. Comparative information has been re-presented for consistency with the current period.
2. Percentages as shown in the table may not align to calculations of percentages based on numbers in the table due to rounding of figures.

Our casein portfolio gross margin growth has been supported by improved pricing in rennet casein – an ingredient used in processed cheese. Due to COVID-19 related regulations, the cost and complexity of importing cheese into China increased, and customers in China shifted from imported processed cheese to locally manufactured processed cheese, driving up the demand for rennet casein.

Our sales teams have also captured the improved margins of caseinate and its precursor acid casein by continuing to deliver sales volume growth for caseinate into beverages and non-dairy creamer applications (i.e. substitutes for milk or cream) where caseinate is a preferred choice as an emulsifier.

Greater China and to a lesser extent Southeast Asia have seen strong growth in the non-dairy creamer and beverage sector for use of caseinate in products such as milk tea and coconut juice.

Our cheese portfolio has also contributed to the improved earnings in our Ingredients channel. The price of cheese increased in the second half of the 2022 financial year in response to constrained European milk supply. As customers looked to secure volume due to the uncertainty of European supply, our sales teams were able to use long contracts to secure good pricing across additional volume. In the second half of 2023 financial year, supply and demand for cheese rebalanced and prices returned to more normal levels relative to Reference Product prices.

Our Active Living portfolio is part of our Ingredients channel and represents the ingredients and solutions sold to businesses that cater to consumers' health and wellness needs. It addresses three dimensions of wellbeing (Physical, Mental and Inner), to meet the nutritional needs of medical patients through to everyday people pursuing active lifestyles.

This portfolio includes proteins such as milk protein concentrates (MPC) and whey protein concentrates (WPC), specialty ingredients such as probiotics, lactoferrin and lipids, and patented formulations.

Overall, Active Living sales volumes are down due to high in-market inventory in some markets, and lower demand from the USA as some customers' experience manufacturing constraints.

However, several markets including Europe and China experienced increased demand and sales volume growth. In particular in China with continued strong growth post COVID-19 of our emerging probiotic portfolio, which contributed to the 20% increase in our Active Living portfolio's gross profit.

Foodservice

Our Foodservice channel's profit after tax increased \$171 million, or 244%, to \$241 million, due to improved gross margins combined with higher sales volumes.

Foodservice Performance¹

FOR THE YEAR ENDED 31 JULY

NZD MILLION	TOTAL			CORE OPERATIONS			GLOBAL MARKETS			GREATER CHINA			ELIMINATIONS	
	2022	2023	CHANGE ²	2022	2023	CHANGE ²	2022	2023	CHANGE ²	2022	2023	CHANGE ²	2022	2023
Sales volume ('000 MT) ³	528	546	3%	286	334	17%	274	280	2%	259	274	6%	(291)	(342)
Revenue	3,302	3,865	17%	1,569	1,994	27%	1,543	1,845	20%	1,855	2,236	21%	(1,665)	(2,210)
Cost of goods sold	(2,807)	(3,116)	(11)%	(1,588)	(1,908)	(20)%	(1,349)	(1,582)	(17)%	(1,535)	(1,836)	(20)%	1,665	2,210
Gross profit	495	749	51%	(19)	86	–	194	263	36%	320	400	25%	–	–
Operating expenses	(393)	(418)	(6)%	(77)	(89)	(16)%	(187)	(192)	(3)%	(129)	(137)	(6)%	–	–
Other ⁴	15	3	(80)%	14	–	–	(2)	3	–	3	–	–	–	–
EBIT	117	334	185%	(82)	(3)	96%	5	74	1,380%	194	263	36%	–	–
Net finance costs and tax expense	(47)	(93)	(98)%	(2)	(9)	(350)%	(8)	(24)	(200)%	(37)	(60)	(62)%	–	–
Profit after tax	70	241	244%	(84)	(12)	86%	(3)	50	–	157	203	29%	–	–
Gross margin	15.0%	19.4%		(1.2)%	4.3%		12.6%	14.3%		17.3%	17.9%			
EBIT margin	3.5%	8.6%		(5.0)%	(0.2)%		0.3%	4.0%		10.5%	11.8%			

1. Foodservice performance is prepared on a continuing operations basis. Comparative information has been re-stated and re-presented for consistency with the current period.

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

3. Includes sales to other segments.

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

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Foodservice channel gross profit improved \$254 million, or 51%, driven by both Core Operations and the regions.

Sales volume increased 3% relative to last year. This was driven by improved sales volume in Greater China as a result of increased demand across our major product categories in the second half of the year as COVID-19 restrictions eased. Our UHT cream portfolio has experienced strong organic growth this year, with products such as our newly innovated ambient UHT cream, driving incremental sales.

Core Operations gross profit improved due to the increase in Non-Reference Product prices relative to Reference Products that inform the cost of milk.

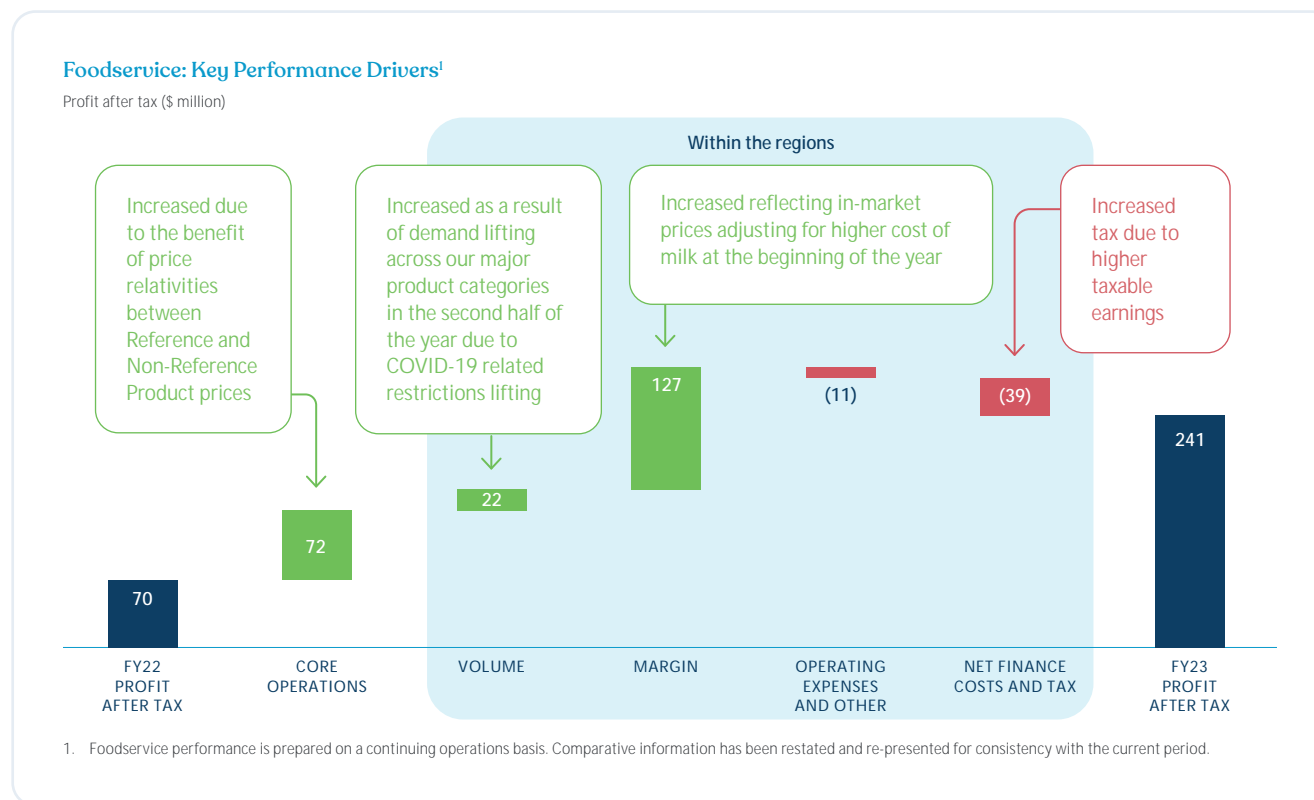
Gross profit in our Greater China and Global Markets regions improved relative to the prior year, particularly in the second half of the year. Our in-market product prices adjusted in the first quarter of the year for the higher cost of milk, benefiting our margins in the remaining three quarters of the year. The graph of monthly milk prices illustrates the decrease in the cost of milk over the course of the year, in contrast to the prior year which significantly increased over the course of the year.

Our Greater China region is the most significant contributor to our Foodservice channel, and we continue to grow our presence in the region. We now deliver our products to 490 cities, compared to 431 cities this time last year. We continue to lead in the bakery and beverage channels and have gained further penetration into low tier cities.

We successfully gained market share through new products and applications innovation, such as our Anchor™ Food Professionals Easy Topping Cream and Aerosol Cream, as well as improving margins through the execution of a new 'Route-to-Market' strategy, which focuses on digital visibility, in low tier cities.

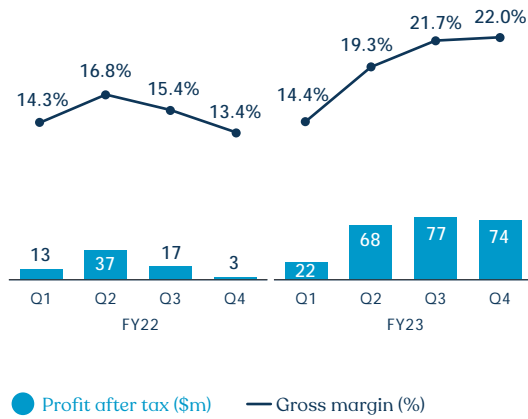
The Greater China region has also benefitted from the New Zealand-China Free Trade Agreement. Since 1 January 2022, products such as liquid milk and cream, butter, anhydrous milkfat, and cheeses have been entitled to duty free access to China without volume restrictions. From 1 January 2024, this will also be extended to WMP and SMP, at which point all dairy exports from New Zealand to China will be entitled to duty free access.

In our Global Markets region, the increase in gross profit has been mainly driven by improved pricing and sales volume growth and in our Australian business, which has benefited from an increase in out-of-home dining due to the lift of lockdown restrictions relative to last year. The Southeast Asia business has also benefited from the economic recovery post COVID-19 related restriction lifting.



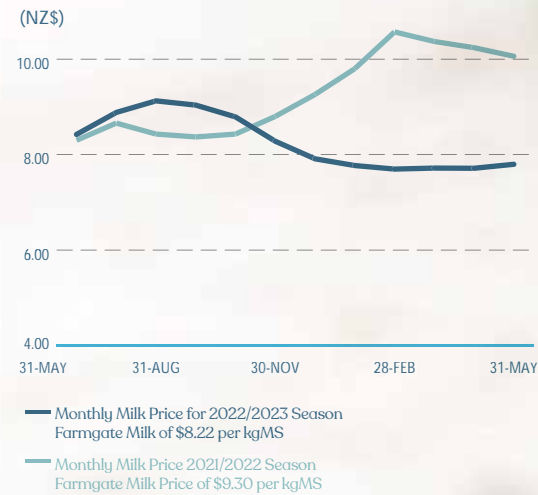
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Foodservice Profit After Tax by Quarter



Our Foodservice channel gross margin increased throughout the year as in-market product prices adjusted for the higher cost of milk at the beginning of the year, and as the year progressed the cost of milk declined.

Monthly Milk Prices¹



¹ The weighted average of the monthly milk prices are equivalent to \$9.30 and \$8.22 for 2021/22 and 2022/23 season, respectively.



Consumer

Our Consumer channel profit after tax decreased \$137 million to a loss of \$164 million, mainly due to impairments of our domestic New Zealand Consumer business and our Asia brands.

Consumer Performance¹

FOR THE YEAR ENDED 31 JULY

NZD MILLION	TOTAL			CORE OPERATIONS			GLOBAL MARKETS			GREATER CHINA			ELIMINATIONS	
	2022	2023	CHANGE ²	2022	2023	CHANGE ²	2022	2023	CHANGE ²	2022	2023	CHANGE ²	2022	2023
Sales volume ('000 MT) ³	640	632	(1)%	257	259	1%	572	563	(2)%	72	72	–	(261)	(262)
Revenue	3,064	3,299	8%	1,363	1,456	7%	2,704	3,040	12%	368	376	2%	(1,371)	(1,573)
Cost of goods sold	(2,331)	(2,518)	(8)%	(1,332)	(1,398)	(5)%	(2,107)	(2,399)	(14)%	(263)	(294)	(12)%	1,371	1,573
Gross profit	733	781	7%	31	58	87%	597	641	7%	105	82	(22)%	–	–
Operating expenses	(670)	(957)	(43)%	(53)	(73)	(38)%	(508)	(737)	(45)%	(109)	(147)	(35)%	–	–
Other ⁴	(47)	20	–	11	1	(91)%	(58)	19	–	–	–	–	–	–
EBIT	16	(156)	–	(11)	(14)	(27)%	31	(77)	–	(4)	(65)	(1,525)%	–	–
Net finance costs and tax expense	(43)	(8)	81%	(8)	(4)	50%	(35)	(17)	51%	–	13	–	–	–
Profit after tax	(27)	(164)	(507)%	(19)	(18)	5%	(4)	(94)	(2,250)%	(4)	(52)	(1,200)%	–	–
Gross margin	23.9%	23.7%		2.3%	4.0%		22.1%	21.1%		28.5%	21.8%			
EBIT margin	0.5%	(4.7)%		(0.8)%	(1.0)%		1.1%	(2.5)%		(1.1)%	(17.3)%			

1. Consumer performance is prepared on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period.

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

3. Includes sales to other segments.

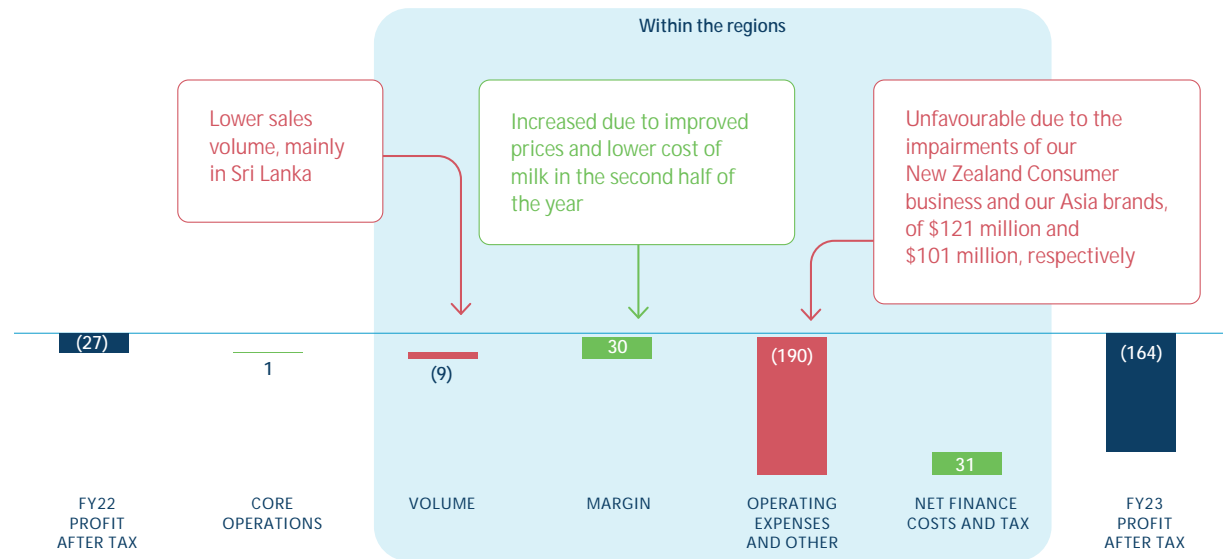
4. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss of equity accounted investees.

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Consumer: Key Performance Drivers¹

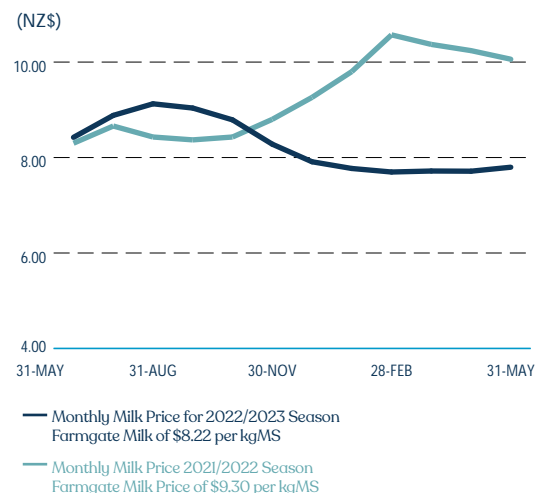
Profit after tax (\$ million)



1. Consumer performance is prepared on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period.

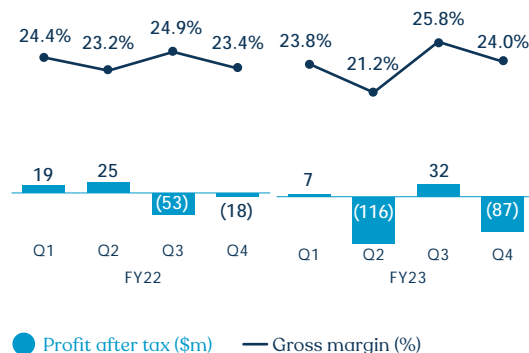
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Monthly Milk Prices¹



¹ The weighted average of the monthly milk prices are equivalent to \$9.30 and \$8.22 for 2021/22 and 2022/23 season, respectively.

Consumer Profit After Tax by Quarter



During the first half of the year our Consumer channel gross profit was impacted by higher input costs that increased through the second half of the prior year, and our in-market sales prices not increasing at the same rate to offset them.

As can be seen in the graph of monthly milk price to the left, the cost of milk has eased over the second half of the 2023 financial year, which has meant improved gross margins in Core Operations and our Global Markets segments.

The \$48 million, or 7%, improvement in gross profit was more than offset by a 43% increase in operating expenses, from \$670 million to \$957 million.

Operating expenses have increased due to inflation and the recognition of impairments to both our domestic New Zealand Consumer business and our Asia brands. The \$222 million of impairments were booked at the end of the second quarter (\$162 million) and final quarter (\$60 million), as seen in the Consumer profit after tax by quarter graph to the left.

Our New Zealand Consumer business has experienced challenging market conditions, including higher input costs and inflationary pressures. The New Zealand domestic dairy market is highly competitive, and this has impacted the sales team's ability to fully recover the higher input costs through product price increases. Additionally, rising interest rates have also put pressure on our New Zealand Consumer business. This has resulted in a \$121 million goodwill impairment of the business for the year ended 31 July 2023.

We also recognised an impairment of \$101 million on our Asia brands – Annum™ (\$51 million), Anlene™ (\$45 million) and Chesdale™ (\$5 million), due to a reduction in forecast sales growth for Annum™ and Anlene™, and changes in discount rates and foreign exchange rates to all three brands.

The impairments were recognised as operating expenses in both Global Markets (\$55 million) and Greater China (\$46 million).

Performance of our Middle East and Africa business improved on the prior period with additional volume in our manufacturing business for third-parties as the team recruited new customers. The team was also able to increase margins through proactively managing product pricing.

Our sales volume into Sri Lanka was down on last year due to the country's economic challenges impacting the ability to access US dollars in the first half of the financial year. Despite the challenging conditions, performance has improved year-on-year as a result of value growth and innovations.

Malaysia is one of our strongest consumer markets globally and our flagship brand in that market, Fernleaf™, is well known among local consumers for its New Zealand provenance.

Despite a challenging year for both our Consumer channel and Southeast Asia region, our Fernleaf™ brand continues to grow in Malaysia.

Fernleaf™ has over 50% market share in the growing-up milk (GUM) powder segment, offering quality and affordable nutrition to support children's growth.

Recently, Fernleaf™ expanded its health product offerings launching Protein+ and Probiotic+.

Fernleaf™ has since shown strong growth and has further cemented its position with its first win in Kantar's Brand Footprint Award 2023 as the Fastest Growing Dairy Brand in Malaysia.

Fernleaf™ Family Milk Powder Volume and Value Share¹



¹ Nielsen, MAT as at 31 July.

Discontinued Operations

Discontinued operations represent the financial effect of business units that are classified as held for sale and are a separate major line of business or geographical area of operations. They are presented separately to the Group's continuing operations in the Statement of Profit or Loss and Other Comprehensive Income and excluded from segment reporting within the Financial Statements.

Discontinued Operations Performance¹

FOR THE YEAR ENDED 31 JULY

NZD MILLION	TOTAL			HANGU CHINA FARM			DPA BRAZIL			SOPROLE		
	2022	2023	CHANGE ²	2022	2023	CHANGE ²	2022	2023	CHANGE ²	2022	2023	CHANGE ²
Sales volume ('000 MT)	606	476	(21)%	2	1	(50)%	216	224	4%	388	251	(35)%
Revenue	1,524	1,466	(4)%	27	15	(44)%	445	599	35%	1,052	852	(19)%
Cost of goods sold	(1,093)	(1,048)	4%	(31)	(27)	13%	(317)	(405)	(28)%	(745)	(616)	17%
Gross profit	431	418	(3)%	(4)	(12)	(200)%	128	194	52%	307	236	(23)%
Operating expenses	(390)	(303)	22%	(9)	(12)	(33)%	(161)	(137)	15%	(220)	(154)	30%
Other ³	(11)	348	–	(1)	(1)	–	(1)	–	–	(9)	349	–
EBIT ⁴	30	463	1,443%	(14)	(25)	(79)%	(34)	57	–	78	431	453%
Net finance costs	(37)	(50)	(35)%	–	–	–	–	–	–	–	–	–
Tax expense	(31)	(77)	(148)%	–	–	–	–	–	–	–	–	–
Profit after tax	(38)	336	–	(14)	(25)	(79)%	(64)	16	–	40	345	763%
Gross margin	28.3%	28.5%		(14.8)%	(80.0)%		28.8%	32.4%		29.2%	27.7%	
EBIT margin	2.0%	31.6%		(51.9)%	(166.7)%		(7.6)%	9.5%		7.4%	50.6%	

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

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

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

4. Depreciation is not recognised in discontinued operations from the date at which the operations become held for sale.

We completed the divestment of Soprole in March 2023, finalised the exit of China Farms following the sale of Hangu China farm in April 2023, and continue to progress the sale process of DPA Brazil.

The divestment of Soprole to Gloria Foods – JORB S.A., a consumer dairy market leader in Peru, was completed on 31 March 2023 and was comprised of two transactions with aggregate considerations of 591 billion Chilean Pesos (CLP). The aggregate proceeds (including pre-settlement dividends) before tax, hedging and transaction costs were \$1.3 billion, of which \$804 million was returned to shareholders and unit holders on 18 August 2023.

DPA Brazil

For the 2023 financial year, DPA Brazil's profit after tax increased \$80 million to a profit of \$16 million. The prior year losses included an impairment of \$50 million. Additionally, performance improved due to higher product prices and increased sales volume.

In December 2022, Fonterra and Nestlé agreed the sale of DPA Brazil to French dairy company Lactalis for BRL 700 million. The sale is subject to several conditions including receipt of regulatory approvals from competition authorities. The Brazilian competition regulator released its first report on the proposed sale in late July 2023. The parties are engaging with authorities to understand and to address the matters raised in relation to limited parts of the business and expect the sale to be completed within one year of balance date. The proceeds at completion will be subject to closing transaction adjustments.

Fonterra's 51% share of the DPA Brazil sale proceeds will be used to repay debt held directly by DPA Brazil.



Historical Summary

Market Statistics

	MAY 2019	MAY 2020	MAY 2021	MAY 2022	MAY 2023
 Fonterra Seasonal Statistics¹					
Total New Zealand milk collected (million litres)	17,123	16,876	17,121	16,404	16,317
Highest daily volume collected (million litres)	85.4	82.6	82.8	79.9	77.9
New Zealand shareholding farms milk solids collected (million kgMS)	1,495	1,486	1,505	1,432	1,440
New Zealand non-shareholding farms milk solids collected (million kgMS)	28	31	34	46	40
New Zealand milk solids collected (million kgMS)	1,523	1,517	1,539	1,478	1,480

	JULY 2019	JULY 2020	JULY 2021	JULY 2022	JULY 2023
 Fonterra Supply Base					
Total number of shareholding farms ²	9,095	8,856	8,581	8,435	8,282
Total number of non-shareholding farms ²	133	155	246	222	159
Total number of shares on issue (million)	1,612	1,612	1,613	1,613	1,609
 Shareholder Supplier Returns					
Farmgate Milk Price (per kgMS) ²	6.35	7.14	7.54	9.30	8.22
Dividend (per share)	–	0.05	0.20	0.20	0.50
Dividend yield (%) ²	–	1.3%	4.6%	6.9%	17.8%
Total pay-out ²	6.35	7.19	7.74	9.50	8.72
Retentions (per share) ²	–	0.38	0.16	0.16	0.45
Weighted average share price (\$ NZD)	4.63	3.79	4.32	2.88	2.81
 Weighted Average Commodity Prices (\$ USD per MT FOB)					
Whole milk powder ³	2,907	3,110	3,323	4,019	3,392
Skim milk powder ³	2,216	2,755	3,012	3,750	3,242
Butter ³	4,448	4,140	4,117	5,601	5,072
Cheese ⁴	3,772	4,011	4,060	5,261	4,825
 Fonterra's average NZD/USD conversion rate²					
	0.69	0.66	0.67	0.69	0.64
 Staff Employed					
Total staff employed (000's permanent full-time equivalents)	20.0	19.6	18.7	19.0	17.5
New Zealand	11.4	11.5	11.6	11.7	11.9
Overseas	8.6	8.1	7.1	7.3	5.6

Total Group Overview (continuing & discontinued operations)

	JULY 2019	JULY 2020	JULY 2021	JULY 2022	JULY 2023
Income Statement Measures					
Sales volumes ('000 MT)	4,152	4,069	4,102	3,924	3,973
Revenue (\$ million)	19,920	20,975	21,124	23,425	26,046
EBITDA (\$ million) ²	544	1,774	1,601	1,611	2,880
EBIT (\$ million)	(17)	1,147	959	976	2,218
Profit after tax (\$ million)	(610)	659	599	583	1,577
Normalised EBIT (\$ million)	812	879	952	991	1,881
Normalised profit after tax attributable to equity holders of the Co-operative (\$ million)	264	382	550	568	1,329
Earnings per share	(0.35)	0.43	0.36	0.36	0.95
Normalised earnings per share	0.16	0.24	0.34	0.35	0.80
Revenue Margin Analysis					
EBITDA margin (%) ²	2.7%	8.5%	7.6%	6.9%	11.1%
EBIT margin (%) ²	(0.1)%	5.5%	4.5%	4.2%	8.5%
Profit after tax margin (%) ²	(3.1)%	3.1%	2.8%	2.5%	6.1%
Cash Flow (\$ million)					
Operating cash flow	696	1,097	886	(104)	3,182
Free cash flow ²	668	1,433	1,109	(621)	3,314
Net working capital ²	3,159	3,469	3,789	5,595	4,790
Capital Measures					
Equity excluding hedge reserve (\$ million)	6,102	6,602	6,895	7,252	7,925
Net debt (\$ million) ²	6,001	5,238	4,325	5,339	3,207
Gearing ratio (%) ²	49.5%	44.2%	38.5%	42.4%	28.8%
Debt to EBITDA ratio ²	4.3x	3.3x	2.7x	3.2x	1.3x
Average capital employed (\$ million) ²	13,419	12,313	12,281	12,356	12,774
Capital expenditure (\$ million) ²	600	419	545	587	668
Capital invested (\$ million) ²	724	525	608	617	747
Return on capital (%) ²	5.6%	6.6%	6.6%	6.8%	12.4%

Core Operations^{5,6,7,8}

	JULY 2021	JULY 2022	JULY 2023
Ingredients			
Sales volume ('000 MT)	2,200	2,011	2,191
Revenue (\$ million)	12,381	14,055	15,692
Gross profit (\$ million)	334	724	1,485
Gross margin (%) ²	2.7%	5.2%	9.5%
EBIT (\$ million)	(160)	248	823
EBIT margin (%) ²	(1.3)%	1.8%	5.2%
Profit after tax (\$ million)	(220)	143	602
Profit after tax margin (%)	(1.8)%	1.0%	3.8%
Foodservice			
Sales volume ('000 MT)	361	286	334
Revenue (\$ million)	1,459	1,569	1,994
Gross profit (\$ million)	83	(19)	86
Gross margin (%) ²	5.7%	(1.2)%	4.3%
EBIT (\$ million)	9	(82)	(3)
EBIT margin (%) ²	0.6%	(5.0)%	(0.2)%
Profit after tax (\$ million)	(6)	(84)	(12)
Profit after tax margin (%)	(0.4)%	(5.2)%	(0.6)%
Consumer			
Sales volume ('000 MT)	272	257	259
Revenue (\$ million)	1,331	1,363	1,456
Gross profit (\$ million)	50	31	58
Gross margin (%) ²	3.8%	2.3%	4.0%
EBIT (\$ million)	(23)	(11)	(14)
EBIT margin (%) ²	(1.7)%	(0.8)%	(1.0)%
Profit after tax (\$ million)	(35)	(19)	(18)
Profit after tax margin (%)	(2.6)%	(1.5)%	(1.2)%

Core Operations (continued)

	JULY 2021	JULY 2022	JULY 2023
Total			
Sales volume ('000 MT)	2,833	2,554	2,784
Revenue (\$ million)	15,171	16,987	19,142
Gross profit (\$ million)	467	736	1,629
Gross margin (%) ²	3.1%	4.3%	8.5%
EBIT (\$ million)	(174)	155	806
EBIT margin (%) ²	(1.1)%	0.9%	4.2%
Profit after tax (\$ million)	(261)	40	572
Profit after tax margin (%)	(1.7)%	0.2%	3.0%

Global Markets^{5,6,7,8}

	JULY 2021	JULY 2022	JULY 2023
Ingredients			
Sales volume ('000 MT)	1,519	1,498	1,732
Revenue (\$ million)	8,843	11,127	13,516
Gross profit (\$ million)	630	751	932
Gross margin (%) ²	7.1%	6.7%	6.9%
EBIT (\$ million)	348	410	582
EBIT margin (%) ²	3.9%	3.7%	4.3%
Profit after tax (\$ million)	253	315	429
Profit after tax margin (%)	2.9%	2.8%	3.2%

Global Markets (continued)

	JULY 2021	JULY 2022	JULY 2023
Foodservice			
Sales volume ('000 MT)	262	274	280
Revenue (\$ million)	1,330	1,543	1,845
Gross profit (\$ million)	256	194	263
Gross margin (%) ²	19.2%	12.6%	14.3%
EBIT (\$ million)	89	5	74
EBIT margin (%) ²	6.7%	0.3%	4.0%
Profit after tax (\$ million)	69	(3)	50
Profit after tax margin (%)	5.2%	(0.2)%	2.7%
Consumer			
Sales volume ('000 MT)	589	572	563
Revenue (\$ million)	2,663	2,704	3,040
Gross profit (\$ million)	679	597	641
Gross margin (%) ²	25.5%	22.1%	21.1%
EBIT (\$ million)	177	31	(77)
EBIT margin (%) ²	6.6%	1.1%	(2.5)%
Profit after tax (\$ million)	110	(4)	(94)
Profit after tax margin (%)	4.1%	(0.1)%	(3.1)%
Total			
Sales volume ('000 MT)	2,370	2,344	2,575
Revenue (\$ million)	12,836	15,374	18,401
Gross profit (\$ million)	1,565	1,542	1,836
Gross margin (%) ²	12.2%	10.0%	10.0%
EBIT (\$ million)	614	446	579
EBIT margin (%) ²	4.8%	2.9%	3.2%
Profit after tax (\$ million)	432	308	385
Profit after tax margin (%)	3.4%	2.0%	2.1%

Global Market - Australia^{5,6}

	JULY 2021	JULY 2022	JULY 2023
Total			
Milk collection (millions kgMS)	106	106	106
Sales volume ('000 MT)	373	365	379
Revenue (\$ million)	1,953	2,094	2,531
Gross profit (\$ million)	243	283	294
Gross margin (%) ²	12.4%	13.5%	11.6%
EBIT (\$ million)	74	106	75
EBIT margin (%) ²	3.8%	5.1%	3.0%
Profit after tax (\$ million)	45	65	23
Profit after tax margin (%)	2.3%	3.1%	0.9%

Greater China^{5,6,7}

	JULY 2021	JULY 2022	JULY 2023
Ingredients			
Sales volume ('000 MT)	825	697	632
Revenue (\$ million)	4,150	4,646	4,460
Gross profit (\$ million)	180	206	234
Gross margin (%) ²	4.3%	4.4%	5.2%
EBIT (\$ million)	166	155	172
EBIT margin (%) ²	4.0%	3.3%	3.9%
Profit after tax (\$ million)	123	120	133
Profit after tax margin (%)	3.0%	2.6%	3.0%

Greater China (continued)

	JULY 2021	JULY 2022	JULY 2023
Foodservice			
Sales volume ('000 MT)	274	259	274
Revenue (\$ million)	1,668	1,855	2,236
Gross profit (\$ million)	368	320	400
Gross margin (%) ²	22.1%	17.3%	17.9%
EBIT (\$ million)	255	194	263
EBIT margin (%) ²	15.3%	10.5%	11.8%
Profit after tax (\$ million)	201	157	203
Profit after tax margin (%)	12.1%	8.5%	9.1%
Consumer			
Sales volume ('000 MT)	78	72	72
Revenue (\$ million)	360	368	376
Gross profit (\$ million)	121	105	82
Gross margin (%) ²	33.6%	28.5%	21.8%
EBIT (\$ million)	(45)	(4)	(65)
EBIT margin (%) ²	(12.5)%	(1.1)%	(17.3)%
Profit after tax (\$ million)	(37)	(4)	(52)
Profit after tax margin (%)	(10.3)%	(1.1)%	(13.8)%
Total			
Sales volume ('000 MT)	1,177	1,028	978
Revenue (\$ million)	6,178	6,869	7,072
Gross profit (\$ million)	669	631	716
Gross margin (%) ²	10.8%	9.2%	10.1%
EBIT (\$ million)	376	345	370
EBIT margin (%) ²	6.1%	5.0%	5.2%
Profit after tax (\$ million)	287	273	284
Profit after tax margin (%)	4.6%	4.0%	4.0%

Product Channels^{2,6}

	JULY 2021	JULY 2022	JULY 2023
Ingredients			
Sales volume ('000 MT)	2,296	2,150	2,319
Revenue (\$ million)	13,580	15,535	17,416
Gross profit (\$ million)	1,145	1,681	2,651
Gross margin (%) ²	8.4%	10.8%	15.2%
EBIT (\$ million)	347	813	1,577
EBIT margin (%) ²	2.6%	5.2%	9.1%
Profit after tax (\$ million)	152	578	1,164
Profit after tax margin (%)	1.1%	3.7%	6.7%
Foodservice			
Sales volume ('000 MT)	500	528	546
Revenue (\$ million)	2,906	3,302	3,865
Gross profit (\$ million)	670	495	749
Gross margin (%) ²	23.1%	15.0%	19.4%
EBIT (\$ million)	338	117	334
EBIT margin (%) ²	11.6%	3.5%	8.6%
Profit after tax (\$ million)	248	70	241
Profit after tax margin (%)	8.5%	2.1%	6.2%
Consumer			
Sales volume ('000 MT)	699	640	632
Revenue (\$ million)	3,141	3,064	3,299
Gross profit (\$ million)	886	733	781
Gross margin (%) ²	28.2%	23.9%	23.7%
EBIT (\$ million)	131	16	(156)
EBIT margin (%) ²	4.2%	0.5%	(4.7)%
Profit after tax (\$ million)	58	(27)	(164)
Profit after tax margin (%)	1.8%	(0.9)%	(5.0)%

New Zealand and Non-New Zealand Milk^{5,6}

	JULY 2021	JULY 2022	JULY 2023
New Zealand Milk			
Sales volume ('000 MT)	3,016	2,903	3,071
Revenue (\$ million)	17,331	19,551	21,791
Gross profit (\$ million)	2,487	2,565	3,850
Gross margin (%) ²	14.4%	13.1%	17.7%
EBIT (\$ million)	782	852	1,667
EBIT margin (%) ²	4.5%	4.4%	7.6%
Profit after tax (\$ million)	447	561	1,203
Profit after tax margin (%)	2.6%	2.9%	5.5%
Non-New Zealand Milk			
Sales volume ('000 MT)	479	415	426
Revenue (\$ million)	2,296	2,350	2,789
Gross profit (\$ million)	214	344	331
Gross margin (%) ²	9.3%	14.6%	11.9%
EBIT (\$ million)	34	94	88
EBIT margin (%) ²	1.5%	4.0%	3.2%
Profit after tax (\$ million)	11	60	38
Profit after tax margin (%)	0.5%	2.6%	1.4%
Total			
Sales volume ('000 MT)	3,495	3,318	3,497
Revenue (\$ million)	19,627	21,901	24,580
Gross profit (\$ million)	2,701	2,909	4,181
Gross margin (%) ²	13.8%	13.3%	17.0%
EBIT (\$ million)	816	946	1,755
EBIT margin (%) ²	4.2%	4.3%	7.1%
Profit after tax (\$ million)	458	621	1,241
Profit after tax margin (%)	2.3%	2.8%	5.0%

Discontinued Operations^{2,9}

	JULY 2021	JULY 2022	JULY 2023
China Farms			
Sales volume ('000 MT)	15	2	1
Revenue (\$ million)	195	27	15
Gross profit (\$ million)	53	(4)	(12)
Gross margin (%) ²	27.2%	(14.8)%	(80.0)%
EBIT (\$ million)	89	(14)	(25)
EBIT margin (%) ²	45.6%	(51.9)%	(166.7)%
Profit after tax (\$ million)	89	(14)	(25)
Profit after tax margin (%)	45.6%	(51.9)%	(166.7)%
DPA Brazil			
Sales volume ('000 MT)	213	216	224
Revenue (\$ million)	364	445	599
Gross profit (\$ million)	100	128	194
Gross margin (%) ²	27.5%	28.8%	32.4%
EBIT (\$ million)	(17)	(34)	57
EBIT margin (%) ²	(4.7)%	(7.6)%	9.5%
Profit after tax (\$ million)	(22)	(64)	16
Profit after tax margin (%)	(6.0)%	(14.4)%	2.7%
Soprole			
Sales volume ('000 MT)	379	388	251
Revenue (\$ million)	938	1,052	852
Gross profit (\$ million)	283	307	236
Gross margin (%) ²	30.2%	29.2%	27.7%
EBIT (\$ million)	71	78	431
EBIT margin (%) ²	7.6%	7.4%	50.6%
Profit after tax (\$ million)	74	40	345
Profit after tax margin (%)	7.9%	3.8%	40.5%

Notes to the Historical Summary

1. Fonterra Seasonal Statistics are based on the 12-month New Zealand milk season of 1 June – 31 May.
2. Refer to the Glossary for definition.
3. Source: Fonterra Farmgate Milk Price Statement representing the weighted-average United States Dollar contract prices of Reference Commodity Products.
4. Source: Oceania Export Series, Agricultural Marketing Service, US Department of Agriculture.
5. Percentages as shown in the table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
6. Prepared on a continuing operations basis.
7. Comparative information has been restated and re-presented for consistency with the current period.
8. Includes inter-segment transactions.
9. The China Farms business, DPA Brazil consumer and foodservice businesses and Soprole meet the definition of a discontinued operation. The Group's China Farms business comprises the Hangu China farm and the two farming hubs in Ying and Yutian. Performance of discontinued operations are recognised up to the date of sale.

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Glossary



Terms	Definitions
Active Living	represents ingredients and solutions sold to businesses who cater to consumers' health and wellness needs. It addresses three dimensions of wellbeing (Physical, Mental, Inner), extending to meet the nutrition needs of medical patients through to everyday people pursuing active lifestyles. This portfolio includes proteins, specialty ingredients such as probiotics, lactoferrin and lipids, and patented formulations.
Adjusted net debt	is calculated as total borrowings, plus bank overdraft, less cash and cash equivalents, plus a cash adjustment for 25% of cash and cash equivalents held by the Group's subsidiaries, adjusted for derivatives used to manage changes in hedged risks on debt instruments. Amounts relating to disposal groups held for sale are included in the calculation.
Associated Shareholder	is a Shareholder that is a Farm Lessor, Sharemilker or Contract Milker.
Attributable to equity holders of the Co-operative	is used to indicate that a measure or sub-total excludes amounts attributable to non-controlling interests.
Average capital employed	is a 13-month rolling average of capital employed.
Bulk liquids	means bulk raw milk that has not been processed and bulk separated cream.
Capital employed	is adjusted net debt less the cash adjustment (used in calculating adjusted net debt), plus cash and cash equivalents held by subsidiaries for working capital purposes, plus equity excluding hedge reserves and net deferred tax assets.
Capital expenditure	is purchases of property (less specific disposals where there is an obligation to repurchase), plant and equipment and intangible assets (excluding purchases of emissions units), net purchases of livestock, and includes amounts relating to disposal groups held for sale.
Capital invested	is capital expenditure plus right of use asset (e.g. leases) additions and business acquisitions, including equity contributions, long-term advances, and investments.
Cash operating expenses per kgMS	is continuing operations operating expenses, less non-cash costs (depreciation, amortisation, right of use asset costs, impairments). Shown by kilogram of New Zealand milk solids collected.
Ceased Shareholder	is a Shareholder that has given notice of ceasing supply, or is treated as having given such a notice, and whose cease notice has become effective.

Terms	Definitions
Consumer	is the channel of branded consumer products, such as powders, yoghurts, milk, butter and cheese.
Continuing operations	means operations of the Group that are not discontinued operations.
Core Operations	represents core operating functions including New Zealand milk collection and processing operations and assets, supply chain, Group IT and Sustainability; Fonterra Farm Source™ retail stores; and the Strategy and Optimisation function.
Custodian	means the Fonterra Farmer Custodian, which is the legal holder of the shares in respect of which economic rights are held for the Fund and any Market Makers.
Debt to EBITDA	is adjusted net debt divided by Total Group normalised earnings before interest, tax, depreciation and amortisation (Total Group normalised EBITDA) excluding share of profit/loss of equity accounted investees, net foreign exchange gains/losses and any normalised EBITDA relating to entities divested during the year.
DIRA	means the Dairy Industry Restructuring Act 2001, which authorised Fonterra's formation and regulates its activities, subsequent amendments to the Act, and the Dairy Industry Restructuring (Raw Milk) Regulations 2012.
Discontinued operations	means a component of the Group that is classified as held for sale (or has been sold) and represents, or is part of a single co-ordinated plan to dispose of, a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.
Dividend yield	is dividends (per share) divided by volume weighted average share price for the period 1 August to 31 July.
Earnings before interest and tax (EBIT)	is profit before net finance costs and tax.
Earnings before interest, tax, depreciation and amortisation (EBITDA)	is profit before net finance costs, tax, depreciation and amortisation.
Earnings per share (EPS)	is profit after tax attributable to equity holders of the Co-operative divided by the weighted average number of shares on issue for the period.
EBIT margin	is EBIT divided by revenue from sale of goods.
EBITDA margin	is EBITDA divided by revenue from sale of goods.

Terms	Definitions
Economic rights	means the rights to receive dividends and other economic benefits derived from a share, as well as other rights derived from owning a share.
Eliminations	represents eliminations of inter-business unit sales.
Farmgate Milk Price	means the average price paid by Fonterra for each kilogram of milk solids (kgMS) supplied by Fonterra's farmer shareholders under Fonterra's standard terms of supply. The season refers to the 12-month milk season of 1 June to 31 May. The Farmgate Milk Price is set by the Board, based on the recommendation of the Milk Price Panel. In making that recommendation, the Panel provides assurance to the Board that the Farmgate Milk Price has been calculated in accordance with the Farmgate Milk Price Manual.
Fonterra's average NZD/USD conversion rate	is the rate that Fonterra has converted net United States Dollar receipts into New Zealand Dollars including hedge cover in place.
Foodservice	represents the channel selling to businesses that cater for out-of-home consumption; restaurants, hotels, cafés, airports, catering companies etc. The focus is on customers such as; bakeries, cafés, Italian restaurants, and global quick-service restaurant chains. High performance dairy ingredients including whipping creams, mozzarella, cream cheese and butter sheets, are sold in alongside our business solutions under the Anchor Food Professionals brand.
Free cash flow	is the total of net cash flows from operating activities and net cash flows from investing activities.
Fund	is the Fonterra Shareholders' Fund.
Gearing ratio (%) (adjusted net debt)	is adjusted net debt divided by total capital. Total capital is equity excluding hedge reserves, plus adjusted net debt.
Global accounts	means large scale, multi-national/multi-region customers.
Global Dairy Trade (GDT)	means the electronic auction platform that is used to sell commodity dairy products.
Global Markets	represents the Ingredients, Foodservice and Consumer channels outside of Greater China.
Greater China	represents the Ingredients, Foodservice and Consumer channels in Greater China.
Gross margin	is gross profit divided by revenue from sale of goods.

Terms	Definitions
Gross profit from Core Operations per kgMS	is Core Operations business unit gross profit excluding Farm Source and the cost of New Zealand milk sold. Shown per kilogram of New Zealand milk solids sold by Core Operations (continuing business).
Growth capital expenditure	is investments to drive business expansion or improvement toward our strategy and generate incremental revenue. This includes organic growth (existing business projects) and inorganic growth (mergers and acquisitions).
Held for sale	is an asset or disposal group is classified as held for sale if it is available for immediate sale in its present condition and its sale is highly probable. A disposal group is a group of assets and liabilities to be disposed of (by sale or otherwise) in a single transaction.
Ingredients	represents the channel comprising bulk and specialty dairy products such as milk powders, dairy fats, cheese and proteins manufactured in New Zealand, Australia and Europe, or sourced through our global network, and sold to food producers and distributors.
kgMS	means kilograms of milk solids, the measure of the amount of fat and protein in the milk supplied to Fonterra.
Market Maker	is a third party appointed by the Co-op who is active in making bids and offers on a minimum number of Fonterra Co-operative Group Shares.
Maximum Holding	is the maximum number of shares a Supplying Shareholder can hold, which is equal to 4 times the Share Standard.
Minimum Holding	is the minimum number of shares a Supplying Shareholder is required to hold, which is equal to 33% of the Share Standard. New entrants have up to six seasons to meet this.
Net debt	means adjusted net debt.
Net working capital	is total trade and other receivables plus inventories, less trade and other payables. It excludes amounts owing to suppliers and employee entitlements.
Non-Reference Products	means all New Zealand milk solids processed by Core Operations, except for Reference Commodity Products.
Non-shareholding farm	means a farm where the owning entity is not entitled to hold shares in the Co-operative. As an example, farms supplying MyMilk.
Non-supplying Shareholder	means all shareholdings that are not Supplying Shareholders.

Terms	Definitions
Normalisation adjustments	means adjustments made for certain transactions that meet the requirements of the Group's Normalisation Policy. These transactions are typically unusual in size and nature. Normalisation adjustments are made to assist users in forming a view of the underlying performance of the business. Normalisation adjustments are set out in the Non-GAAP Measures section. Normalised is used to indicate that a measure or sub-total has been adjusted for the impacts of normalisation adjustments. E.g. 'Normalised EBIT'.
Permitted Transferee	is a person who has been approved by the Co-op and who is (and remains) related to or associated with a Ceased Shareholder.
Price Relativities	refers to the difference in the weighted average price (in USD) between the Co-op's Reference Product portfolio and Non-reference Product portfolio. The difference between these two weighted average prices is a key driver of the Co-op's gross margin.
Product channel	Fonterra has three product channels, Ingredients, Foodservice and Consumer.
Profit after tax margin	is profit after tax attributable to equity holders of the Co-operative, divided by revenue from sale of goods.
Reference Commodity Products (also referred to as Reference Products)	is commodity specifications of the five Reference Commodity Products (RCPs) which are Whole Milk Powder (WMP) and Skim Milk Powder (SMP), and their by-products Butter, Anhydrous Milk Fat (AMF) and Buttermilk Powder (BMP). These commodity groups are included in the calculation of the Farmgate Milk Price.
Reported	is used to indicate a sub-total or total is reported in the Group's Financial Statements before normalisation adjustments. E.g. 'Reported profit after tax'.
Retentions	means earnings per share, less dividend per share. Retentions are reported as nil where Fonterra has reported a net loss after tax.
Return on Capital (ROC)	is calculated as Total Group normalised EBIT including finance income on long-term advances less a notional tax charge, divided by average capital employed.
Rules for Shareholding	is the Rules for Shareholding adopted by the Fonterra Board from time to time.
Season	New Zealand: A period of 12 months from 1 June to 31 May. Australia: A period of 12 months from 1 July to 30 June.

Terms	Definitions
Secondary Shareholder	is a sharemilker as defined in section 34 of the Co-operative Companies Act that holds shares as if they were a Supplying Shareholder, pursuant to section 44 of the Co-operative Companies Act and clause 30.5 of the Constitution.
Share Standard	means one share per one kgMS supplied, used to calculate a Supplying Shareholder's Minimum Holding and Maximum Holding.
Shareholding farm	means a farm where the owning entity of the farm has a minimum required shareholding of at least 1,000 shares in the Co-operative. This includes farms where the owning entity is in the process of sharing up on a Share Up Over Time contract.
Supplying Shareholder	is a shareholder supplying milk to the Co-op.
Sustaining capital expenditure	represents investments to maintain the capability of our existing assets from risk management, legislation/regulation commitments, business continuity and capital replacement, as well as projects that drive the Co-operative's sustainability targets.
Total Group	is used to indicate that a measure or sub-total comprises continuing operations, discontinued operations and non-controlling interests. E.g. 'Total Group EBIT'.
Total payout	means the total cash payment per milk solid that is backed by a share, being the sum of the Farmgate Milk Price per kgMS and the dividend per share.
Total Shareholder Return (TSR)	is the measure of share price movements and all economic distributions (e.g. dividends, capital returns) over a specified period of time, divided by the original investment amount. Expressed as an annualised percentage.
Tradeable shares	represents shares on issue that are in excess of aggregate minimum shareholding.
WACC	means weighted average cost of capital.
Weighted average share price	represents the average price Fonterra Co-operative Group Limited shares traded at, weighted against the trading volume at each price over the reporting period.
Working capital days	is calculated as 13-month rolling average working capital divided by revenue from the sale of goods (excluding impact of derivative financial instruments) multiplied by the number of days in the period. The working capital days calculation excludes other receivables, prepayments, other payables and includes working capital classified as held for sale.

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Fonterra Business Performance Report 2023
Pūrongo haumāuiui pakihi Te Mātāpuna

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Fonterra Sustainability Report 2023

Pūrongo Toitūtanga Te Mātāpuna



Dairy for life



Kate & Mohi,
Bay of Plenty

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 the year commencing 1 August 2022 and ending 31 July 2023 – 'FY23'. It is one supporting document to the Annual Review 2023, forming an integrated suite of reports published on 21 September 2023. The Board has reviewed and approved the publication of this report.

www.fonterra.com/annualreview2023

In certain sections throughout the report, we have included data relating to periods prior to FY23 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 seventh sustainability performance report (our first was in 2017) and we intend to continue this type of reporting on an annual basis. This report has been prepared with reference to the Global Reporting Initiative (GRI) Standards : (see page 102 for an index of disclosures).

Seeking independent assurance is part of the standard practice for development and release of this report. This is the seventh year Bureau Veritas has been engaged to provide assurance of the report. 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 SR-105.

Te Mātāpuna reflects our name, Fonterra, to spring from the earth.

COVER
Mohi,
Bay of Plenty



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Welcome to our Sustainability Report for FY23.

This Sustainability Report is one of a series of supplementary reports to the Fonterra Annual Review. In it we provide stakeholders with information about our policies, targets and actions taken in FY23 in the broad areas of people and culture, nature and working together. Included in the appendices is detail on our performance data.

We know the importance of understanding stakeholder perspectives, so we'd appreciate your feedback on this report and our performance.

Please email us at sustainability@fonterra.com

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OUR 2023 SUITE OF REPORTS

[Annual Review 2023](#)
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[Governance & Statutory Disclosures 2023](#)
(Referenced as G&S)

[Modern Slavery Statement 2023](#)
(Referenced as MS)

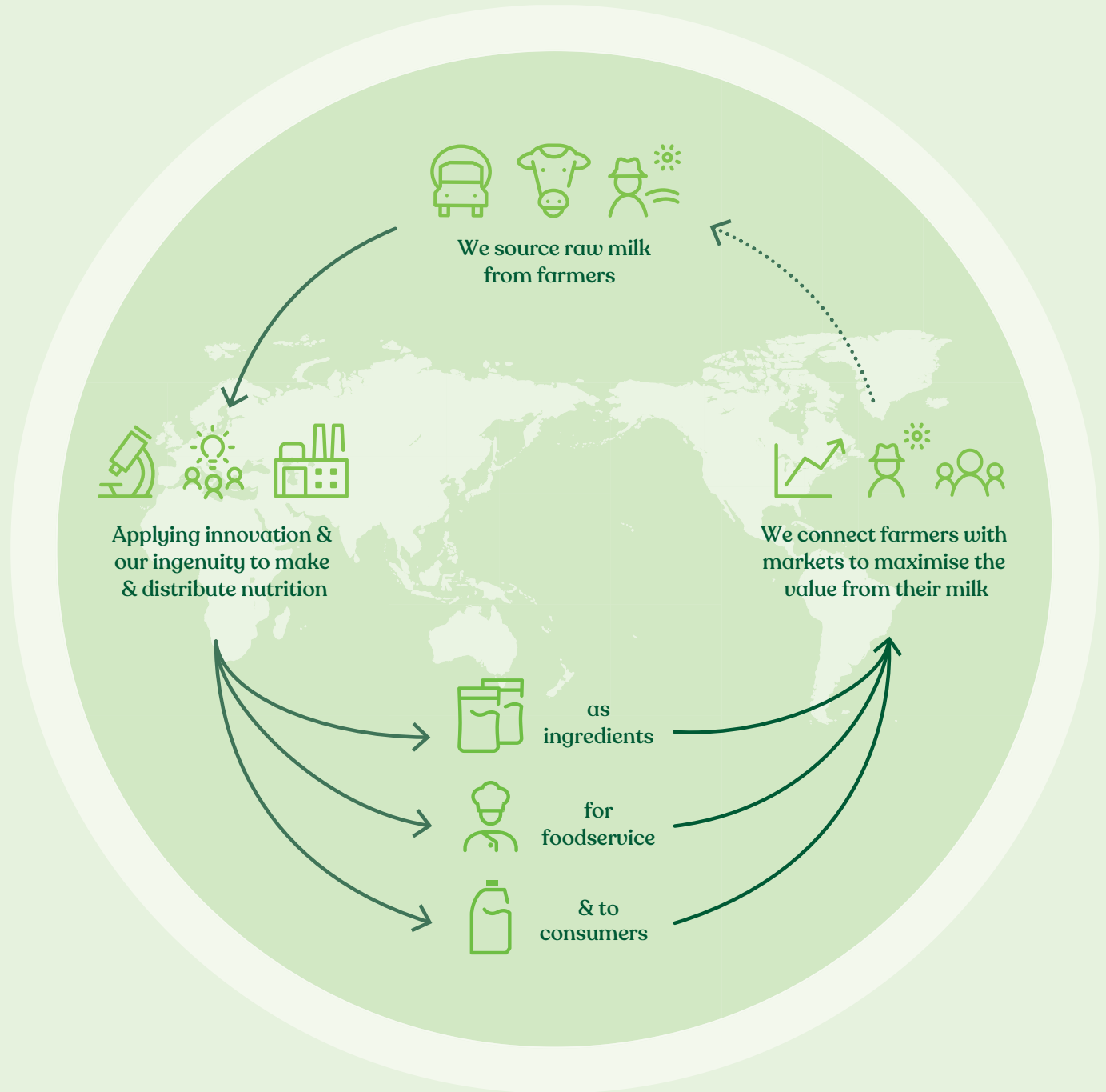
[Farmgate Milk Price Statement 2023](#)
(Referenced as MP)

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How we create value




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Governance & Risk

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







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

Resources we rely on (our inputs)

<p>People & Culture</p> 	<p>Approximately 18,000 skilled and motivated employees led by a board and management team with diverse skills and experience</p> <p>20,000+ dedicated farmers and farm workers</p> <p>Thousands more people in our supply chain</p>
<p>Nature</p> 	<p>4 million milking cows grazing on 1.5 million hectares of pastoral land</p> <p>Some fertiliser, irrigated water and supplementary animal nutrition</p> <p>Energy (27.5PJ) and freshwater (48.7 million cubic metres) for our manufacturing sites</p>
<p>Relationships</p> 	<p>With farmers, governments and regulators, unions, employees, customers, iwi and communities</p>
<p>Intellectual Capital</p> 	<p>Our know-how, systems and intellectual property</p> <p>Our strong global brands</p> <p>232 granted patents across 25 families of patents</p>
<p>Assets & Infrastructure</p> 	<p>Our portfolio of property, plant and equipment including right-of-use assets (\$6,343 million total net book value)</p> <p>500+ milk collection tankers</p> <p>45 manufacturing sites</p>
<p>Financial</p> 	<p>A strong financial base, capital from our farmer shareholders, unit holders and debt (\$12,774 million average capital employed)</p>

Our progress

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	Core Indicators ¹	Target ²	FY20	FY21	FY22	FY23 [Target]	FY24 Target		Page
People & culture	 Total recordable injury frequency rate (TRIFR) per million work hours	Less than 5	5.8	5.7	6.7	8.6	–	●	See 73
	Serious Harm	Zero Harm	10	9	8	5	–	●	See 73
	Gender diversity (Band 12+) ³	40:40:20	–	–	37.6%	39.5%	40%	●	See 74
Nature	 Reduction in absolute Scope 1 & 2 GHG emissions from FY18 baseline ⁵	50% reduction by 2030 ⁴	3.5% reduction on FY18	6.5% reduction on FY18	11.3% reduction on FY18	14.1% reduction on FY18 [10.6%]	15.6% Reduction on FY18	●	See 78
	Farm Environment Plans (FEPs) (NZ)	100% by 2025	34%	53%	71%	85% [84%]	92%	●	See 74
	Water Improvement Plans in place at manufacturing sites	100% by 2024	–	–	–	44% [37.5%]	100%	●	See 74
Relationships	 Share of New Zealand milk collected (% kgMS of New Zealand milk collected for season ending 31st May)	–	80%	79.0%	79.1%	79.0% [80%]	79.0%	●	BP-08
Intellectual Capital	 EBIT from NZ value-add business (\$ million)	–	–	616	307	466 [388]	–	●	
Assets & Infrastructure	 Cost of quality (% of cost of goods sold)	–	–	0.45%	0.44%	0.34% [0.35%]	–	●	BP-41
Financial	 New Zealand Farmgate Milk Price (per kgMS)	–	\$7.14	\$7.54	\$9.30	\$8.22 [\$8.50 - \$10.00]	–	●	BP-29
	Return on capital	7% – 8% by end FY24 9% – 10% by end FY30	6.6%	6.6%	6.8%	~12.4% [7.0% to 7.5%]	8.0% to 9.0%	●	BP-16

FY23 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

1 All targets are global unless stated otherwise (e.g. NZ).
 2 All targets are by the end of the year stated.
 3 For FY23 onwards our indicator changed to consider representation in Band 12+, see page 74.
 4 For FY24 onwards our indicator changes from a 30% reduction to 50% reduction on FY18 baseline emissions.
 5 Minor restatement of prior years see page 98.

Responding to what's important

Engaging with our stakeholders

Taking into account the views and perspectives of our stakeholders, and building relationships, is critical to the long-term success of our Co-operative.

We consider our stakeholders to be those individuals or entities that are significantly impacted by our products and the activities required to source, make and distribute these or whose actions affect our ability to deliver our strategy see (see AR-02).

Determining what's important

Using a combination of the relative importance to our stakeholder groups and the significance of our impacts, in 2021 we refreshed our list of most material topics.

We reaffirmed this list in late 2022 through an internal review to understand relative impacts and emerging topics. In recognition of the high interrelationship between biodiversity and soil health as a result of the review we have combined them into one topic.

Our material topics list is used to help us prioritise areas for improvements and the importance of disclosure in this report.

The table on the right lists the most important topics, in order, and identifies where we cover our response in our reporting. For further details on the process and findings see page 99.

Topic	Contribution to UN SDGs	Reporting on our response
Ensuring the food safety and quality of the products we deliver.	Zero Hunger (2.1)	See food safety and quality on page 24
Adapting to the effects of climate change , while mitigating our impacts.	Climate change (13.1)	See climate change on page 28
Using water responsibly, including water quality, availability and disposal.	Clean water and sanitation (6.3, 6.4, 6.6) Life below water (14.1)	See land and water on page 42
Protecting the health and safety of people at work , including their wellbeing.	Good health and wellbeing (3.9) Decent work and economic growth (8.8)	See health, safety and wellbeing on page 16
Protecting animal health and welfare within our supply chain, including caring for our cows and responsible use of antibiotics.		See animal wellbeing on page 38
Supporting the livelihood of thousands of people through meaningful employment and sustainable income creation , including the milk price for our farmer owners.	No poverty (1.2)	See investing in people on page 10 See employee data on page 83
Protecting and enhancing biodiversity and the underlying ecosystem services we rely upon such as soil health and the impact of deforestation.	Zero hunger (2.4) Life on land (15.1, 15.2) Clean water and sanitation (6.3, 6.6)	See land and water on page 42 See working with vendors on page 68 See working with farmers on page 57
Contributing to nutrition and health through the products and information we deliver, including reducing obesity and under-nutrition.	Zero hunger (2.1, 2.2) Good health & wellbeing (3.1, 3.2, 3.4)	See nutrition and health on page 20
Maintaining ethical business practices is fundamental to the way we work, including anti-corruption and fair competition.		See ethical business practices on page 63
Using responsible procurement to influence environmental, social and economic performance along our supply chain.	No poverty (1.2) Gender equality (5.5) Decent work & economic growth (8.7, 8.8) Climate change (13.1)	See working with farmers on page 57 See working with vendors on page 68
Protecting the employment rights and working conditions of our people, including diversity and inclusion, women's empowerment and learning and development.	Gender equality (5.5) Decent work & economic growth (8.5)	See investing in people on page 10
Minimising post-consumption waste , including product packaging and food waste.	Responsible consumption & production (12.3, 12.5)	See packaging and waste on page 51

Our Sustainability Advisory Panel

The Fonterra Sustainability Advisory Panel was established in 2018. The Panel is comprised of external experts to come together at least twice each year with Fonterra representatives.

The Panel have the role to:

- review and provide feedback and advice to the Fonterra Management Team (FMT), and from time to time the Fonterra Board and relevant sub-committees, on Fonterra's strategy, targets and initiatives as they relate to economic, social and environmental sustainability;
- provide credible, independent expertise and guidance to the FMT to improve performance and outcomes in relation to sustainability;
- present to the FMT on advice and/or issues and opportunities that relate to sustainability and affect Fonterra.

The following were members of the Panel in FY23 – [Read their full biographies online](#)



Dr Gail Tipa



Paul Gilding

Until December 2023



Lou Sanson



Corrigan Sowman



Dr J Morgan Williams QSO

Message from the chair

The Sustainability Advisory Panel has continued to provide support for the Fonterra Board and Management in the update and development of Fonterra's long-term climate targets, aligning with international reporting standards.

Technology solutions have been a significant part of the Panel agenda as have challenges with water quality and the development of catchment strategies which will aid the movement towards effective nature-based solutions in time.

Our independent Sustainability Advisory Panel has acted as a 'critical friend' to the company again this year, bringing fresh perspectives and challenges to assist the Fonterra Board and management team on their climate change journey. The 'voice of the global customer' has again been heard powerfully as various initiatives have been put in place to respond to their requirements.

Finally, this will be my last message as Sustainability Panel Chair. After four very eventful, productive and enjoyable years, I step down this month in favour of incoming Chair, Rachel Taulelei. Morgan Williams is also stepping down. We all welcome Rachel as the incoming Chair and thank Morgan for his service. I feel confident that our excellent Panel (Corrigan Sowman, Gail Tipa and Lou Sanson), under Rachel's leadership, will continue to provide thoughtful support and guidance to the Fonterra Board and Management in years ahead.

Bridget Coates

Chair, Fonterra Sustainability Panel



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People & culture

39.5%

female representation in senior leadership roles

100%

of our manufacturing sites are certified to a leading food safety management system

5

serious harm is reduced but our focus remains on achieving zero harm

97.1%

continued improvement in the formulation of our everyday and advanced nutrition products to meet our independently endorsed nutritional guidelines

In this section

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Health, safety & wellbeing	16
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Jack, Auckland

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Investing in people

Our long-term success depends on the skill and commitment of our people, so investing in them is vital. We are committed to creating a culture where we care about each other, encourage different views and perspectives and treat each other with respect.

We are focused on building an inclusive workforce where diversity flourishes and teams can achieve their highest performance. This involves the ongoing development of our employees to help them respond to the ever-changing nature of work.

Our approach

Our Code of Business Conduct and global policies, including ethical behaviour and diversity and inclusion, set clear expectations for how our people need to act and behave. These policies are supported by local guidance to reflect relevant regulations and norms.

As part of our customer-led operating model, understanding and connecting with local markets is vital to our success. By hiring and developing local talent, we contribute towards the shared success of our Co-operative and the countries where we operate. Our remuneration framework for salaried staff includes base salary, benefits (KiwiSaver, superannuation and insurance where applicable), and variable remuneration (incentives). The amounts we pay to our employees are benchmarked against comparable companies in relevant markets, using information obtained from independent remuneration consultants.

Throughout the world, we are committed to identifying and unlocking our people's potential by developing capability, leadership and talent through coaching, learning, and regular feedback. We respect and support everyone's uniqueness, regardless of sexual orientation, gender identity or gender expression and recognise that diversity contributes to a stronger, more successful and sustainable Co-operative.

We fund an independently administered whistle-blowing hotline (The Way We Work Hotline) facilitated by Deloitte. It's available to all employees globally to raise concerns about behaviour not aligned with our Code of Business Conduct, and we provide an Employee Assistance Programme (EAP) where employees can seek advice and counselling.

Fonterra has a long-standing agreement with the International Union of Food and the New Zealand Dairy Workers Union that recognises our commitment to the Conventions of the International Labour Organisation for all Fonterra employees and is built into our Code of Business Conduct. In New Zealand, 61% of all full-time equivalent Fonterra employees are covered by collective bargaining agreements, and we have union agreements and relationships in many other markets.

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

For information on how we are working with and supporting our supplying farmers see AR-30 and SR-57.

Culture & Values

A good culture helps us to successfully deliver our strategy which helps us provide the best returns back to our farmer shareholders. We believe a workplace culture that is driven by our purpose and values helps our people to be highly engaged, work together effectively, and channel their effort to the right things, so they can do their best work for the Co-operative.

We are applying the learnings from the Culturing for High Performance programme (see our [FY22 Sustainability Report](#)), and simplifying it into meaningful actions that support our values. As well as continuing to enhance our people programmes, we have begun work to further connect our people to our values and provide clear expectations for how we work together.



Orla & Rajiv,
Auckland

What we've been doing

Diversity, equity & inclusion

We believe diversity, equity and inclusion (DEI) are integral to the success of our Co-operative. We are committed to bringing the principles of belonging (whanaungatanga), care (manaakitanga), inspiration (whakaohooho) and empowerment (kaitiakitanga) to life throughout our organisation.

We are nurturing an organisational culture and leadership approach where inclusive teams are embedded in our behaviour and are a natural way of operating. We encourage different views and perspectives to bring out the best in people. This requires an integrated approach where our DEI culturing and leadership initiatives align and complement each other.

In FY22 we updated our gender target to 40:40:20 representation in global senior leadership¹. 40:40:20 refers to 40% female, 40% male, 20% of any gender. The 20% provides the flexibility of female, male, non-binary or open. We aim to achieve this by the end of FY24.

Female representation in global senior leadership increased from 37.6% to 39.5%. This year two women were internally

promoted to the Fonterra Management Team ('FMT') early in FY23 and were joined by a third woman in June (in the acting role of Chief Operating Officer), bringing the proportion of women on the FMT to 50%.

We provide learning opportunities for our staff to grow their awareness and understanding of DEI. In FY23, we launched a new e-learning module understanding diversity, equity and inclusion and in support of our recruitment process our people can complete an e-learning programme on unconscious bias and mitigating bias.

Demonstrating our commitment to gender equity, we retained GenderTick™ accreditation² and achieved an advanced status for the first time since 2018. We are also members of the Pride Pledge which provides access to additional rainbow training and resources to help us improve inclusion of our LGBTQI+ staff.

Fonterra's parental leave cover for New Zealand employees offers extra care for primary carers who have been employed for at least 12 months. We top up their government parental leave payments to 100% of base salary or wages for 26 weeks; accrue their annual leave at 100% for the duration of their parental leave; and provide a one-off KiwiSaver employer contribution upon return to work, covering contributions that would have been made during their unpaid parental leave. We continue to support secondary careers who have been employed for at least 12 months with two weeks paid leave. In FY23, 173 females and 13 males took parental leave as primary caregiver, and one female and 148 males took parental leave as secondary caregiver.

'Good Chats' are a monthly internal DEI initiative to discuss cultural celebrations, wellbeing and raise awareness of different topics. We held 11 Good Chats this year, covering neurodiversity, Te Wiki o Te Reo Māori (Māori Language week), World Mental Health Day,

¹ Senior leadership for this metric is defined by Band 12+.

² The GenderTick™ is as an external accreditation programme across six key indicators: equal pay, leadership representation, flexible work and leave, gender safe workplaces, supporting the menopausal transition and gender inclusive culture.

Dwali, Men's Health Month, Lunar New Year, Pride, International Women's Day, Ramadan, Dairy Women's Network Awards and Matariki (Māori New Year).

We have been exploring alternative ways to express our intent and track progress towards ethnic diversity, starting with our Māori workforce, as the indigenous people of Aotearoa New Zealand (see Māori strategy on page 15). This year, primarily due to increased voluntary disclosure of ethnicity information, ethnic representation in senior leadership improved from 15% to 16%.

We partner with Tupu Toa and First Foundation to provide opportunities for rangatahi (young people) to experience success. Tupu Toa (to grow and flourish) is an external organisation for businesses to employ Māori and Pasifika tertiary students as interns. First Foundation is about transformational change for Māori, Pasifika and ethnic rangatahi and their families through a hand-up to finish secondary school, through to University and work experience. This year, we awarded three scholarships to rangatahi who will be part of the FBNZ Takanini whanau (team).



Isha & Nishaa,
Auckland

Learning & development at Fonterra

At Fonterra, we are investing in our collective future. Growing our workforce capability will help us to deliver our long-term strategy. Our investment in learning and development goes beyond traditional training programmes. Included in the range we are proud to offer, are New Zealand Qualifications Authority (NZQA) accredited learning opportunities ranging from NZQA Levels 3 to 9. In a typical year, Fonterra has more people gaining post-16 qualifications than the average New Zealand secondary school. In addition to our functional and technical development programmes, we also invest in developing leaders and the teams they lead.

We have been committed to investing in people for some time and in 2019 we signed the Aotearoa New Zealand Skills Pledge. This pledge is to double the on-the-job training and reskilling hours in New Zealand by 2025, from a 2020 baseline. The Skills Pledge aligns with our focus on building the right capabilities, preparing employees for their roles today and the future in New Zealand and globally, and significantly contributing to building the capability of New Zealand as a whole.

In the past year, our New Zealand employees spent more than 430,356 hours upskilling, an increase of 59% on FY20, and an average of 32 hours per learner¹. This is a decrease of 14% on the upskilling hours recorded for FY22, which included additional hours due to the completion of training that was previously delayed by COVID-19.

Externally accredited vocational learning programmes for operations

Since 2019, we have had sustained growth in our apprenticeship and traineeship programme numbers. At the end of FY23 we had 69 apprentices and 25 energy centre trainees on programme, with four apprentices and two energy centre trainees completing their qualifications and moving into full time roles.

For our New Zealand manufacturing sites and distribution centres, DAIRYCRAFT is our 18-month programme allowing employees to develop relevant technical skills and gain NZQA recognised qualifications². This year, 135 employees completed NZQA Level 3 and a further 26 completed NZQA Level 4. Since DAIRYCRAFT's inception in 2015, more than 1,260 of our employees have completed the programme. Our FY24 focus is to broaden the programme by introducing new learning streams for our employees such as engineering for the dairy sector. We will also be exploring how DAIRYCRAFT can be deployed in other areas of our business.

FY23 saw 53 employees enrolled in the two-year NZQA Level 6 Dairy Diploma qualification. In this course our people developed deeper technical knowledge across dairy microbiology, food safety, dairy engineering and dairy chemistry.

For the Milk Collection part of our New Zealand operations, the Tētēkura programme brings less experienced drivers in to the Co-operative. We invest in their growth and development by taking them through a 10.5 week programme covering classroom and on-the-job training along with support from assessors and driver trainers. Participants need to hold a minimum of a Class 4 licence and on the programme they will gain their full Class 5 licence (enabling them to transport liquids in double tankers).

Our FY23 season saw 12 Tētēkura learners progress successfully through the programme. The FY24 national plan is to integrate another 47 into our recruitment pipeline.

¹ These figures cover New Zealand based employees only. The reporting systems for training elsewhere in the world currently do not allow us to report globally in a consistent manner.

² The DAIRYCRAFT training is recognised by the New Zealand Qualifications Authority (NZQA)

Internally delivered courses

Looking beyond the vocational programmes, we also invest in our leaders growing function-specific capability and create the team culture and engagement that makes Fonterra an attractive place to work.

Our Leadership Essentials Programme (LEP) is about developing our current and future frontline leaders. To date, over 950 employees have completed the programme globally, with 400 of those completing in FY23. Pre- and post-programme surveys show a lift in performance across all 16 leadership capabilities measured, and 93% of participants say they've improved their performance and feel inspired to continue taking action after completing the programme.

In April 2023, we launched our Enterprise Leaders Programme (ELP) for 57 of our most senior leaders in our Level 3 population. The overall intent of the programme is to build the leadership capability required to deliver our Long-Term Strategy. ELP is a year-long immersive programme that combines assessment, face-to-face forums, virtual learning labs, coaching and projects.

In FY23, deployment of our High-Performance Teams (HPT) programme continued where teams focused on practical skills helping leaders to enhance their effectiveness together with their teams. In FY23, 63 teams completed 5,460 hours developing their skills across core communication and ways of working topics through this HPT programme.

The Employment Relations (ER) team has delivered a wide range of manager capability training sessions in FY23, totalling approximately 26,400 learning hours, with 550 employees attending a total of 48 hours of training. The team has also delivered targeted ER on-line and in-person training sessions on topics such as the implementation of E-Road cameras as a safety feature in the Co-operative's milk tankers and our refreshed Alcohol and Other Drugs policy.

In Farm Source, this year we launched Kura Hokohoko — our retail training academy, which won Silver in the global Brandon Hall Excellence Awards. In addition, the feedback and level of participation was positive.

Early careers (Graduate Programmes)

Our graduate talent pipeline is a key part of our workforce planning for business-critical roles.

During FY23, our 53rd annual Fonterra Graduate Technical Programme (FGTP) cohort was onboarded with a complement of 16, one of which is funded by the Singapore office to increase the technical capability in our offshore markets. The FGTP programme is unique, being the only New Zealand graduate programme to include a Masters in Dairy Science and Technology (NZQA Level 9). During the year we also onboarded a cohort of 21 Business Graduates, making our full complement across the two intakes of the Business Graduate two-year programme to 38 people.

In order to ensure our key talent pipeline remains robust and supports our long-term aspirations, we refreshed our Graduate Strategy. Upcoming changes include the addition of an offshore rotation for the FGTP programme from 2024 and the development of a new Global Graduate programme launching in 2025. Leveraging development opportunities for our graduates across our global footprint helps to maintain our attractiveness for the top graduates, building end-to-end value chain awareness and providing opportunities for offshore candidates with relevant degrees.

For those specialist graduates on the engineering stream, we support their ongoing professional development through our Technical Excellence's Professional Engineering Programme. Graduates are partnered with a chartered engineer who is a Fonterra employee and provides mentorship to support the graduate gain their professional engineering chartership. By increasing our chartered employee base, we are expanding our expert technical knowledge to deliver future focused engineering solutions to complex, and in some cases, country-leading projects.

Closing our gender pay gap

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We believe that after considering factors such as tenure, qualification levels or experience there should be no gender pay gap for any employees.

This is a complex topic and cannot be accurately summarised by a single aggregated number. Instead, we believe transparency is important, providing a breakdown of the gender pay gap by geographies and job categories.¹

Closing the gender pay gap remains a key priority. This year, we have introduced an additional gender pay parity methodology for salaried positions, facilitating improved internal tracking and the identification of focus areas for long-term gender pay plans. This methodology compares positions on a “like-for-like” basis within each job category and country—removing the impact of changes in gender representation and currency. For example, a ratio of 1 shows no pay gap where above 1 is in favour of females and below 1 is in favour of males.

When looking at the gender pay gap overall, the ratio of female to male base salary has remained the same this year at 0.93 on a median basis and 1.02 on a mean basis. This result continues to be influenced by factors such as the different proportions of men and women in higher and lower paid levels around the world. The impact of the sale of the Chilean Soprole business is also a factor and illustrates the importance of reporting different geographies.

Considering job categories globally, Manager and Waged categories remain largely unchanged; for Senior Leaders the gap has narrowed significantly but remains in favour of males; and for Professionals the gap has widened in favour of females.

In New Zealand, the gap on a median basis has narrowed to 0.96 which is equivalent to a 4.1% pay gap and continues to compare very favourably with the most recent national statistic of 8.6% for the June Quarter 2023.

Applying the additional methodology, when we look at like-for-like positions the median gender pay parity overall for salaried positions is 0.97 at the end of FY23. This is a 3% gap on a median basis in favour of males.

Gender pay gap by job category

	GENDER PAY GAP - MEDIAN		GENDER PAY PARITY GAP - MEDIAN ²
Senior Leaders	0.92 -> 0.97		1.00
Manager	0.95 -> 0.97		0.97
Professionals	1.08 -> 1.17		0.98
Waged	0.84 -> 0.82		—

Gender pay gap by location

	GENDER PAY GAP - MEDIAN		GENDER PAY PARITY GAP - MEDIAN ²
New Zealand	0.95 -> 0.96		0.97
Australia	1.02 -> 0.95		0.97
Brazil	0.84 -> 0.80		—
Greater China	1.09 -> 1.04		1.00

Gap narrowed Gap widened Gap same =

1 Where a breakdown of information represents a small number of employees we omit this detail to protect the privacy of individuals.
2 Salaried employees only.

Non-discrimination

Through our independently administered whistle-blowing hotline (see The Way We Work Hotline AR-08), three disclosures were made this year relating to discrimination, including harassment. Following investigations, one was substantiated (resulting in disciplinary action being taken) and two were unsubstantiated. Once a matter has been raised, the incident is reviewed to determine if a formal investigation is deemed necessary. If an investigation determines that an incident has been substantiated, remedial action is taken (whether formal or informal, dependent on the circumstances) by a relevant manager, with support from an appropriately qualified Fonterra representative. Relevant senior stakeholders are informed of the action taken to see that the action is appropriate, in the circumstances, as the issues arise. Reporting to the Board on substantiated incidents also takes place.

In addition to concerns raised through The Way We Work Hotline, some discrimination and other employment issues are raised with local human resource or management teams every year. These are reviewed and, where appropriate, formally investigated in a similar manner as above. In New Zealand, 12 formal complaints were raised that included allegations of discrimination or harassment. In so far as these related to alleged discrimination or harassment, five were substantiated (resulting in disciplinary processes), five were unsubstantiated, and two remain active matters. At the reporting date last year, one complaint in New Zealand remained under investigation. That complaint was subsequently found to be unsubstantiated. In respect of other countries, three complaints were raised in Australia. Of these, two were substantiated (resulting in disciplinary processes) and one was unsubstantiated. No complaints of discrimination or discrimination-related concerns were reported in other countries.

Our Māori strategy – Haea te ata (To draw a new day)

In Aotearoa New Zealand, Māori are our indigenous peoples who have a spiritual connection between people and the land – the wellbeing of one sustains the wellbeing of the other. It's a spirit we share together as New Zealanders, and with many cultures around the globe, that connects and unifies us all.

Within this spirit, Haea te Ata, is our Māori strategy to weave Te Ao Māori (Māori world view) through the Co-operative in an inclusive and authentic way: Tāngata (connecting all with Te AoMāori), Taiao (embedding balance of the natural environment and our business), Tuakiri (enhancing our provenance, products and services).

This year, our Matakahi Māori (Māori strategy team) carried out Project Puna, a project to understand and improve experiences for and representation of Māori staff across our Aotearoa New Zealand workforce. The review included 230 one-on-one interviews with 194 staff who identify as Māori and 38 senior leaders, a tailored online survey completed by 205 people, eight discussions with external bodies (including Unions), a thorough desktop review of Fonterra's people policies and processes and a review of relevant Aotearoa New Zealand literature on addressing historic and modern inequities.

Insights from Project Puna were grouped into four themes: low cultural intelligence in leadership; limited Māori in leadership; majority designed

people frameworks; and cultural identity and load. The Fonterra Management Team have endorsed an action plan to address the review insights, starting with creating cultural connections for all our people.

The Matakahi Māori team continued to support all farmer shareholders and secured its first Memorandum of Understanding ('MOU') between a South Island manufacturing site (Takaka) and Manawhenua ki Mohua. Manawhenua Ki Mohua are an iwi (tribal authority) mandated organisation representing Ngāti Tama, Ngāti Rārua and Te Ātiawa within the area defined as the Golden Bay catchment and Kahurangi National Park area, at the top of the South Island of Aotearoa New Zealand. We have now secured seven MOUs between our manufacturing sites and iwi (tribal authorities) nationwide. These MOUs are essentially 'heads of agreement' formalising a partnership between Fonterra and mana whenua when it comes to how we will engage with and support each other on agreed matters of mutual interest.

To continue momentum and increase engagement, starting at our Kauri site, we implemented a new and more inclusive engagement approach between manufacturing sites and tangata whenua (indigenous, Māori people) to empower our sites and employees to engage directly.

In July 2023, we held Co-operative wide Matariki celebrations. Matariki is the appearance of a cluster of stars and marks the start of the Māori New Year. It is a time for celebration and reflection across Aotearoa New Zealand.

What's next

We will continue looking to improve our gender diversity, including pursuing our 40:40:20 goal for senior leadership, and also implement a number of actions and initiatives that were identified in Project Puna to support our Māori employees, so that we are more diverse and connected to our heritage.

We will continue our team-based development with a refreshed and enhanced focus on the High-Performance Teams skill building.

We will be launching our Senior Leaders Programme engaging around 200 leaders across the business in FY24.



Arekatera,
Auckland

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Health, safety & wellbeing

Our ambition is for all our people to return home safely every day, everywhere.

Our approach

Fonterra operates a global health and safety management system and continuously improving health, safety, and wellbeing is fundamental to our business.

The Fonterra Global Health, Safety and Wellbeing Policy defines our commitment to providing a safe and healthy work environment where our employees, contractors and visitors can return home from work safely every day, everywhere. Implementation of, and compliance with, the policy is overseen by our Chief Executive Officer.

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

- People who believe harm is avoidable and support a safe and healthy work environment.
- Processes that always prioritise safe work practices, proactively identifying and managing exposure to risk to support our business activities to 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, front-line employees and contractors working on Fonterra sites.

We monitor our performance using a number of preventative and reactive, lead and lag indicators. These include injury rates and findings from self-assurance, internal audits and event investigations. We use this information to seek improvements, identifying and controlling risk from credible hazards and maintaining a strong safety culture with regular training and employee engagement.

What we've been doing

Supporting the wellbeing of employees & their whānau

This year we continued with our GoodYarn programme and grew our network of 'Good Sorts'. We now have 190 volunteer employees who have been trained as mental health 'first aiders' and provide initial support to other employees. We also ran 135 'GoodYarn'¹ workshops to raise awareness of mental wellbeing and the available support. Further to this we made the benefits of the GoodYarn programme more widely accessible by translating it into Arabic, Urdu, Chinese, and Amharic.

Complementing the GoodYarn programme, is our internal podcast series on healthy minds. This is backed by an easy-to-understand healthy minds meter and access to healthy minds first aiders.

Our Employee Assistance Programme (EAP) is a professional and confidential service, paid for by Fonterra, that helps employees when they are experiencing difficulties. We recognised that the EAP offer might be helpful to our supplying farmers, so in 2022 we opened up this opportunity for farmers too.

Through our 'Better You' digital platform we provide wellbeing tools and resources for our employees and whānau. By completing a questionnaire covering ten healthy habits, including healthy eating, sleeping, exercise and mental health, the participant receives an overall 'wellbeing score' along with access to material and activities that can help them make improvements to their wellbeing.

The platform also allows us to run global team challenges designed to promote improved health and wellbeing by providing valuable information and encouraging the adoption of new behaviours through teamwork and competition. We ran three global challenges this year, including our Hauora (wellness) themed Moove It Challenge, Road Safety Week Campaign and Ready to Recharge. Overall, 11,124 employees participated across the three challenges this year.

1 GoodYarn is an evidence-based, peer-delivered, mental health literacy programme for workplaces that enables people to talk about mental health. See www.goodyarn.org/

Improving workplace safety

We have continued to improve workplace safety through proactive risk assessment, building team capability, simplifying policy and extending support programmes.

This year, we have seen an increase in the recordable injury frequency rate. To improve focus on reducing this and seeking to make sure everyone returns home safe every day we have appointed a Director of Health Safety and Wellbeing. Previously this role was combined with the portfolio of safety, quality and regulatory.

We are simplifying our Health and Safety management system, increasing our focus on keeping safe at work. We started with our operations in New Zealand, which are now part of a new Global Integrated Management system (see page 26). We also completed the global deployment of the first stage of the digital ecosystem. This change will simplify the management of food safety and quality, health and safety risks and incidents by significantly reducing the number of operating systems, improving data management, visibility and insights.

This year, while implementing the standardised management of change and incident management modules we took the opportunity to refresh our contractor safety management system. This enhanced capability allows our teams to view contractor safety performance by site, regionally and nationally, supporting our ability to select and work with contractors who have the best safety performance. Planning has begun to move our health and safety risk management, auditing

Buckle up for Road Safety Week

Road safety continues to be one of our biggest safety risks.

We want to help our people have safer journeys, whether at work or not.

Sign up for the Road Safety Week 2023 Challenge to build your knowledge in road safety and make changes to reduce your road safety risk.

There are lots of prizes up for grabs as well!

Register Here

BETTER HEALTH. BETTER SAFETY. BETTER YOU.

and inspection and permit to work onto the same digital platform in the coming years.

Recognising that fellow employees who are impaired at work by alcohol or other drugs increases the risk of accidents and injuries, we have also reviewed our related policies and procedures, consulted on the improvements and are now rolling these out in New Zealand.

Following stringent document and site verification audits by the Malaysia Occupational Safety and Health Awards (MSOSH) panel of qualified auditors this year, our local operations were recognised through a Gold Merit win.

Improving critical risk management

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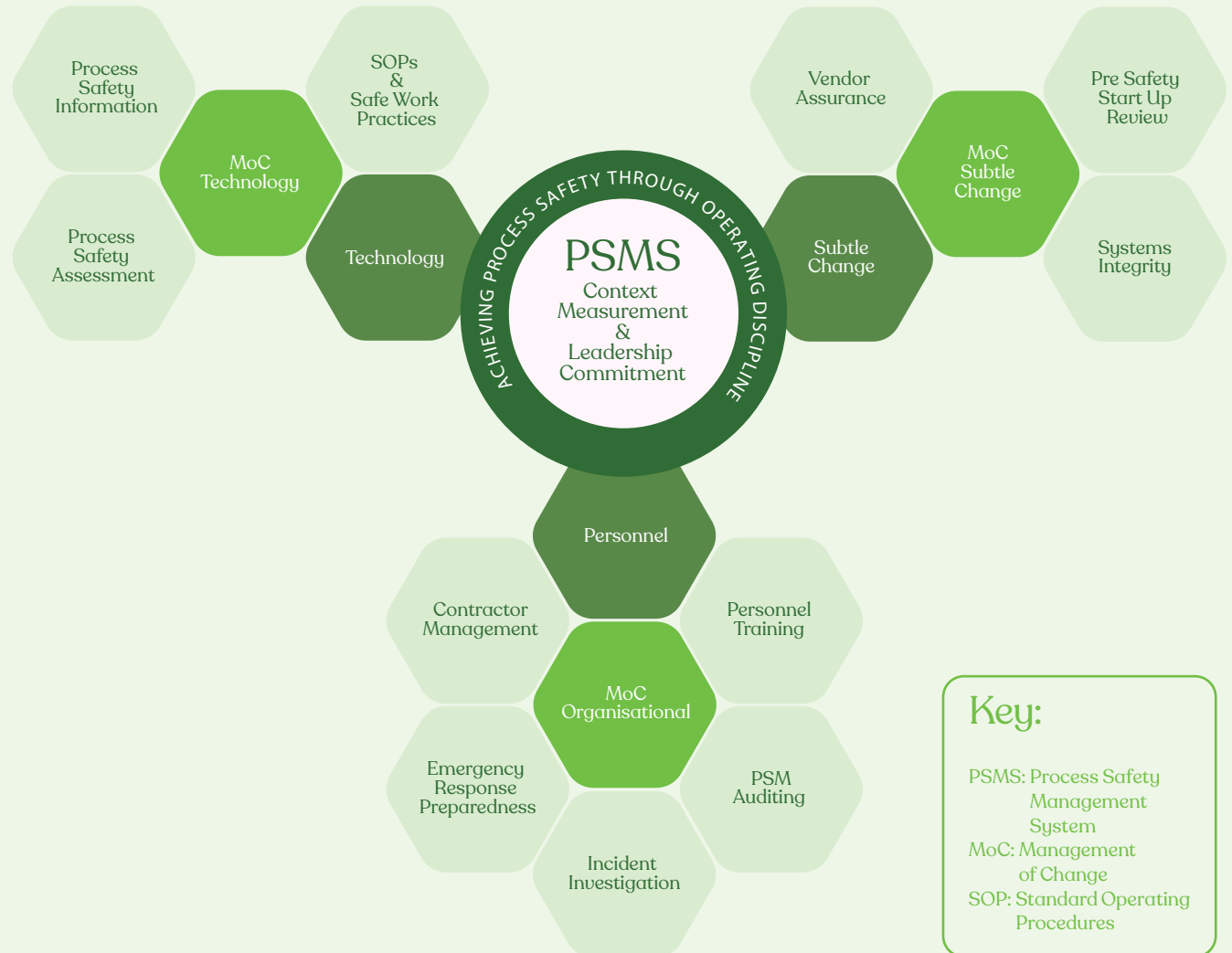
Our extensive manufacturing operations and technological applications carry inherent risks that could reasonably lead to serious harm or environmental impact.

Termed a Major Incident (MI), we anticipate and manage these rare outcomes through our Process Safety Management System (PSMS). The PSMS seeks first to eliminate or minimise hazards in advance of a credible major incident, and then minimise their consequence to reasonably practicable levels.

In the current year of process safety integration, we are pleased to report that we have now closed over 5,000 recommendations from process safety assessments at more than 35 facilities globally. We have identified over 1,220 Safety Critical Elements (SCEs), instituted 589 shared assurance maintenance strategies, 391 critical maintenance instructions, and invested more than \$70 million in capital this year to significantly reduce hazardous chemical volumes and implemented or remediated safety controls to advance our aspiration of zero serious harm.

We met our ongoing Rail Safety Case commitments completing all scheduled rail safety assessments and hosting a New Zealand wide industry siding operator forum at our Darfield site. We continued to advance our risk assessment methodologies. Our dust safety re-assessment programme continues to re-baseline our understanding of dryer safety controls, and we have developed a suitable radiation safety assessment methodology seeking to advance risk management for our x-ray machinery.

This ongoing work has been a real team effort, involving numerous people and partner organisations. It was pleasing to have this acknowledged in November 2022 by being awarded the annual Australasia IChemE Safety Centre Process Safety Award in collaboration with Beca. This recognition is external validation of our ongoing commitment to integrating process safety principles across our manufacturing facilities.



Regulatory compliance

With designated major hazard facilities and an asset-intensive manufacturing footprint, Fonterra will, from time-to-time, receive regulatory notices. We seek to work collaboratively with all of our regulators to support risk management, and we approach each occurrence as an opportunity for improvement.

There have been no health and safety prosecutions in connection with Fonterra's operations since 2014, and during FY23, we did not receive any prohibition notice enforcements.

This year, we received notice from WorkSafe that our Tirau site is no longer considered a Major Hazard Facility (MHF). At Whareroa, our one remaining MHF site, we invested ~\$60million to reduce our use of liquified ammonia. We are currently commissioning three new heat pump systems which will reticulate chilled water and significantly reduce the risk associated with older equipment.



2022 IChemE Process Safety Award Winning Ammonia Decanting System

Our performance

Zero

work related fatalities

5 ↓

Number of serious harm injuries

328 ↑

Number of recordable injuries

What's next

We will continue to improve our proactive risk management approach, focusing on the actions that come from our investigations into actual or potential high-severity incidents, eliminating root causes, and moving towards doing work that is safe rather than doing safety work.

We will also continue to improve and apply our PSMS and safety critical element assurances.

We will continue to grow the maturity of our mental health and wellbeing programmes as we work to further integrate our Health, Safety and Wellbeing strategy across the Co-operative.

We will also continue to evolve our integrated digital platform, which will include an electronic permit to work system and integrate other assurance processes such as risk management and auditing.

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Nutrition & health

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

People eat for enjoyment and the nutrients needed to fuel growth, development, health and wellbeing. Milk and dairy products are a unique and valuable source of essential nutrients with proven benefits to support health outcomes across all life stages and, as a naturally nutritious product, we see dairy as an important part of the sustainable food systems of the future.

The July 2023 United Nations report on food security and nutrition highlights undernourishment continues to be of concern globally. To achieve the Sustainable Development Goals to end hunger, food insecurity and all forms of malnutrition, sound nutrition is essential. There is a clear call to action by governments, civil society and business to increase the supply of nutritious and safe foods that constitute a healthy diet and shift consumption towards them.

Unhealthy diets and poor nutrition are among the top risk factors for non-communicable diseases (those that do not transmit from person to person) such as heart attacks, strokes, certain cancers, and type II diabetes. We continue to see malnutrition from micronutrient deficiencies across both developing and developed countries.

Milk and dairy products provide a meaningful contribution to our nutrition status and health outcomes, with high quality protein and a wide range of vitamins and minerals for relatively low calories, which makes it both nutrient-rich and nutrient dense. The proteins found in milk and dairy products are high quality because they contain all the essential amino acids, in the right amounts, that are both easy to digest and in proportions that meet human needs. Many nutrients that milk provides are also in an easily absorbed form.

As a food company, we recognise the valuable role nutrient-rich milk and dairy products can play in addressing deficiencies in diets and improving people's health and wellbeing across the globe. This section covers our approach to nutrition and its contribution to health and wellbeing.

Our Nutrition Expert Panel:
Nikki Hart, Dr Manny Noakes and Julian Mellentin

Our approach

The [Fonterra Global Nutrition Policy](#) sets out our overarching commitments including delivering science-based nutrition and health benefits, products tailored to specific nutritional needs and marketing these responsibly.

Supporting the policy is our Nutrition Standard which outlines how we operate regarding nutrition with detailed [Nutrition Guidelines](#) that define the nutrition criteria and principles for the composition and marketing of our consumer products and ingredients.

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

We seek to promote our products responsibly and take particular care when marketing to vulnerable populations. No matter the stage of life of our consumers, we are committed to promoting responsible consumption of our products in line with national dietary guidelines. Our commitment is demonstrated in our [Marketing to](#)

[Children Standard](#) which sets out the nutrition criteria and requirements that our products must meet in order to be marketed to children. These have been set to align with international marketing to children policies, such as the World Health Organisation (WHO) set of recommendations on the marketing of foods and non-alcoholic beverages to children and the EU Pledge, as well as local regulations and advertising standards from across our markets.

We [support and promote](#) the aim and intent of the International Code for the Marketing of Breast Milk Substitutes. The WHO recommends six months of exclusive breast feeding and continued breast feeding, with suitable nutritious complementary feeding, up to two years of age and beyond. We are committed to complying with the relevant industry codes and legislation in all countries where our products formulated for infants and young children are sold.

Internally, our Global Nutrition Council, which is comprised of senior leaders is responsible for governing our nutrition policy, standards and guidelines and overseeing the nutrition performance of our portfolio.

This year, we launched our Nutrition Expert Panel with a purpose to provide external nutrition expertise to support and guide our nutrition strategy – to be our critical friend. The external experts on the Panel bring a wealth of expertise and experience from a range of different areas that brings credibility as we leverage our sustainable dairy nutrition credentials. Panel members are: Nikki Hart, Dr Manny Noakes and Julian Mellentin.

What we've been doing

Improving the nutritional profile of our consumer products

We are continuing to improve the composition of our consumer products, taking into consideration the levels of dairy protein and calcium, while also minimising the addition of free sugars, refined carbohydrates, non-nutritive sweeteners, sodium and saturated fat. Our Nutrition Guidelines also reflect our support for the global public health objective to reduce the intake of industrially produced trans fats from partially hydrogenated oils, and state our commitment to not use industrial trans fat ingredients in our products.

Our target is for 100% of our everyday consumer products, such as milk, cheese, yoghurt and fortified milk powders, to comply with our independently endorsed nutrition guidelines by 2025. This year, on a volume sold basis, we improved from 87.7% to 97.1%. Now we have achieved more than 90% of these products meeting the guideline, our aim is to stay above this level as we progress towards our target of 100%.



Delivering Essential Nutrients

We have already completed research and development work that has delivered evidence that allows us to position products around health benefits, including the areas of muscle health and sarcopenia (age-related loss of muscle mass), mobility, malnutrition, and digestive health.

In early 2023, we launched our innovative new product Anlene™ Total 10 in a number of our South-East Asia markets, including the Philippines, Singapore, Indonesia, Malaysia Thailand and Vietnam.

Aptly named Anlene™ Total 10, for the ten essential benefits delivered in every glass, this scientifically developed formula is made with Fonterra's unique whey protein isolate (WPI) and milk protein concentrate (MPC) to deliver a high protein solution that is naturally lower in lactose. Anlene™ Total 10 has 27 nutrients in the right amounts, to make sure the consumer is getting the nutrition needed alongside a healthy diet to support active and healthy lives.

¹ Luliano S. et al. Effect of dietary sources of calcium and protein on hip fractures and falls in older adults in residential care: cluster randomised controlled trial. [BMJ 2021;375:2364](https://doi.org/10.1136/bmj.n2364) | doi: 10.1136/bmj.n2364



Adding to the Anlene™ Gold stable of products

Like many countries in the world, China is facing the challenge of an ageing population. Good nutrition plays a vital role in helping the ageing population live more healthily and to help decrease age-related health issues. Studies such as Luliano et al on the effects of dietary sources of calcium and protein on hip fractures in adults in residential care, indicate that milk and dairy products have an important role to play.¹

Following our FY22 launch of Anlene™ Gold Plus in China to help support the digestion and immunity of the older population, in January 2023 we launched Anlene Gold™ Milk Powder for 50+. This product supports bone health through the high-quality protein it contains, and its bundle of vitamins and minerals including vitamin A, vitamin D, vitamin C, vitamins B2 and B12, calcium, magnesium, and zinc. It is targeted to adults over the age of 50.

Investing in new food technologies & sources of nutrition

Dairy offers a unique source of nutrition, which is recognised by governments and health experts around the world as having an important role to play in maintaining a healthy, balanced diet.

We believe there will continue to be demand for natural dairy goodness, especially our pasture-based dairy nutrition from New Zealand. At the same time, we are committed to remaining at the forefront of innovation and science and want to continuously position ourselves to meet the needs of our customers and consumers. To this end, Fonterra is exploring the potential of emerging food technologies and the role they can play alongside our core dairy products. Earlier this year Fonterra together with Dutch company Royal DSM established Vivici BV a start-up company focussed on the use of precision fermentation to produce dairy-like proteins.

Compliance with regulations

In the past year, we received no fines or market bans for breaches of marketing regulations. None of our products are banned from sale in any country.

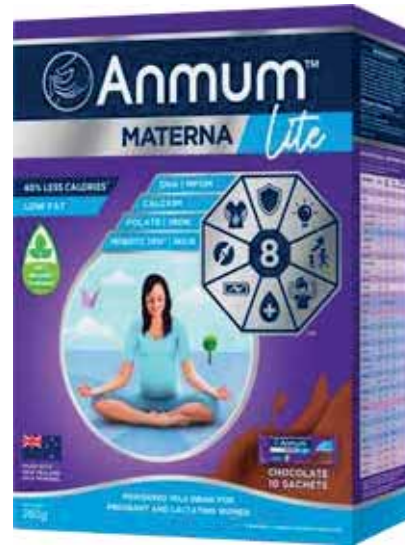
Annum™ Materna Lite

Annum™ was first launched in 1996 in Singapore and Malaysia as a maternal product for pregnant mothers. Specially formulated in response to independent research, it provides essential nutrients that are important during pregnancy.

This research indicated pregnant mothers could help safeguard their child against neural tube defects (such as spina bifida) by consuming folic acid before conception and in the early stages of pregnancy. From launching pregnancy milk in Asia to expanding into the paediatrics range in Malaysia and Greater China, the brand and its products continue to grow as we seek to offer consumers the best range of products to meet their needs.

During pregnancy, the mother's body requires a higher amount of certain macro- and micro-nutrients than usual, and healthy weight gain is to be expected. However, recent research by UNICEF found that Indonesia has the highest maternal overweight rate among six other countries in Southeast Asia¹. This year, in response to this issue, we launched Annum™ Materna Lite in Indonesia, the Philippines and Thailand to support pregnant women in accessing the nutrition their bodies require without the excess calories.

This fortified low-fat milk supports pregnancy nutrition for both mother and fetus by delivering a bundle of nutrients including energy, protein, folic acid, iodine, zinc, calcium, and dietary fibre. It is also Indonesia's first low-fat pregnancy milk. It has 99 kcal per glass, is low in fat and has no added sugars.



Annum™ Materna Lite provides mothers with the pregnancy nutrition they need.

Our performance

97.1% 

of our everyday and advanced nutrition products meet our independently endorsed nutritional guidelines.

What's next

We will continue to improve the nutritional value of our consumer branded products, minimising added sugars and salt and eliminating industrially produced trans fats.

We will continue to invest in research and development and new innovations for our entire product range.

We plan to run a nutrition summit to educate our employees on the dairy nutrition fundamentals, with both internal and external experts.

We will continue to work with our Nutrition Expert Panel to help shape how we communicate internally and externally on all aspects of sustainable dairy nutrition.

¹ UNICEF Southeast Asia Regional Report. Maternal Nutrition and Complementary Feeding (2021) www.unicef.org/eap/reports/maternal-nutrition-and-complementary-feeding

Viray,
Auckland

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Food safety & quality

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

Our approach

At Fonterra, food safety and quality (FSQ) are everyone's responsibility – from our farms all the way to our customers around the world.

Accountability extends from the Board of Directors, through the Fonterra Management Team, to individual managers, front-line employees, contractors working on Fonterra sites and providers of goods and services.

To encourage consistency of approach and continuous improvement, the Global Safety, Quality and Regulatory (GSQR) organisation and operating model, including the FSQ Council, is embedded across Fonterra.

Our FSQ System means that, wherever we are in the world, we have a clear, consistent framework to deliver safe, quality products and services. It consists of four key components: our Food Safety Policy, business unit requirements, partner requirements, and our food safety and quality behaviours.

All our food products are assessed for health and food safety impacts prior to initial launch and on an ongoing basis. This includes detailed processes for new product development, manufacturing and product sampling and testing, including shelf-life studies. To evaluate our performance, manufacturing sites are subject to an internal audit programme and regular scrutiny through third-party audits by regulators, key account customers and certification bodies. Any areas identified as needing improvement are acted upon.

We are guided on best practice by multiple international food safety and quality standards, and 100% of our manufacturing sites are independently certified to a leading food safety management system (e.g. FSSC22000, BRC).

What we've been doing

Safety culture & capability

Building FSQ as a core part of our culture continues to be a focus. Global regulatory and customer requirements increasingly place importance on FSQ standards and culture. We believe our continued focus and actions put us in a good place, but we know there is still more to do.

This year, we have put more attention on measuring our FSQ culture. Having seen positive results from the first business units using our new FSQ culture survey tool, we are now extending coverage to more of our global business units and will continue with the roll out into next year. The culture survey provides our sites with information about how they are tracking against an international FSQ culture maturity model and where they can focus improvement activities. To support this, we have also embedded culture into our internal quality assurance auditing process.

Capability is a core part of building our safety culture and we continue to develop the influencing skills of our safety professionals and to improve our operational safety training to support better safety outcomes.

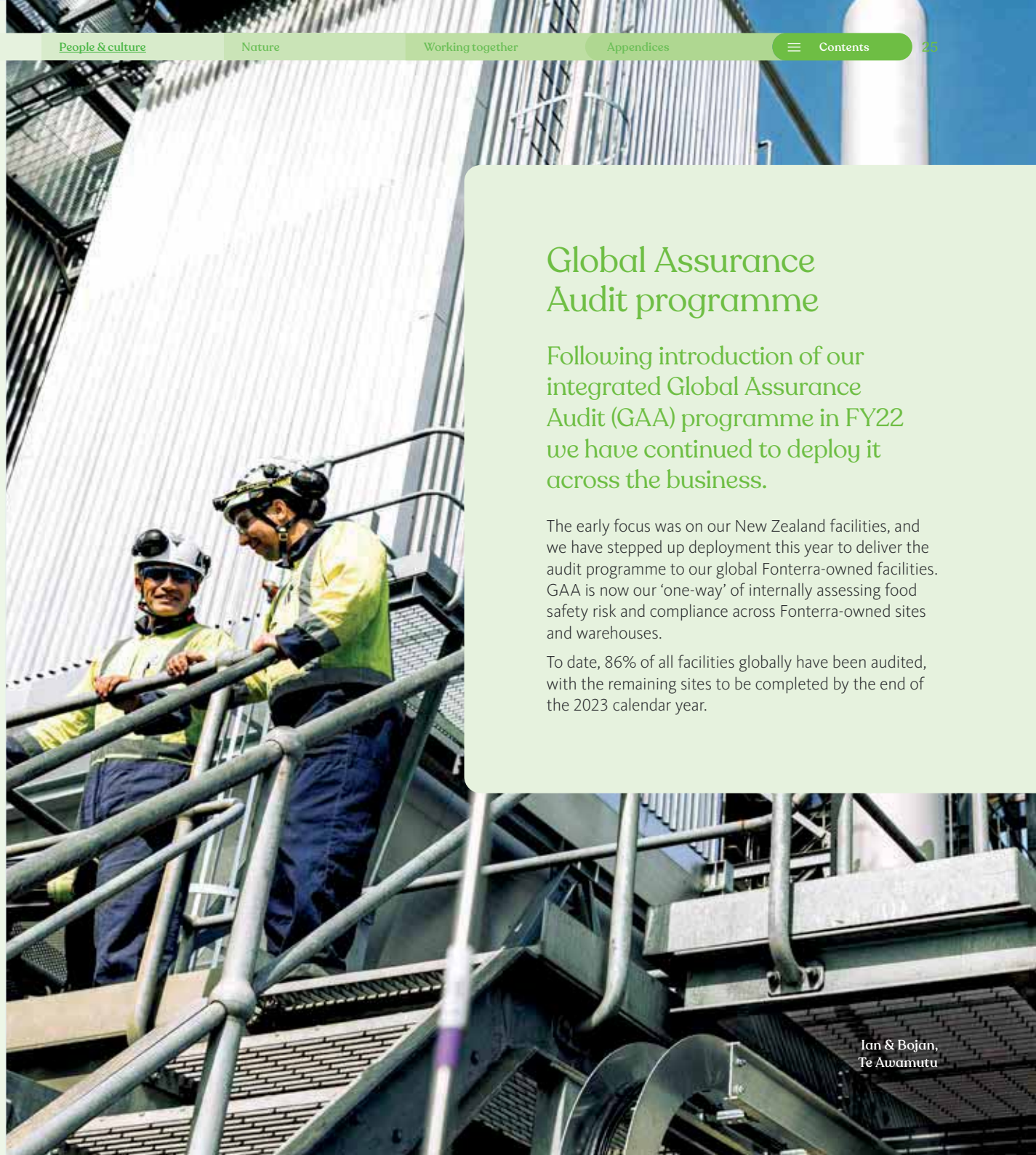
Global Assurance Audit programme

Following introduction of our integrated Global Assurance Audit (GAA) programme in FY22 we have continued to deploy it across the business.

The early focus was on our New Zealand facilities, and we have stepped up deployment this year to deliver the audit programme to our global Fonterra-owned facilities. GAA is now our 'one-way' of internally assessing food safety risk and compliance across Fonterra-owned sites and warehouses.

To date, 86% of all facilities globally have been audited, with the remaining sites to be completed by the end of the 2023 calendar year.

Ian & Bojan,
Te Awamutu



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A single digital platform

We began the roll out of integrating food safety, quality and health and safety systems to one digital platform.

This helps us draw deeper insights into our performance and identify opportunities for improvement, simplification and risk reduction. We are taking a staged approach to deployment. For our New Zealand operations we have integrated the management of change, incident management and contractor safety management modules. For our Australian sites we have deployed management of change and incident management modules. Deployment to the rest of our global sites continues.



Influencing our supply chain

Global FSQ vendor management and factory permit to work are planned for deployment in 2024. Further modules are being scoped for development, including audit and inspection, shared learnings and compliance monitoring.

With COVID-19 travel restrictions lifted, this year we rolled out a new auditing approach for our new and existing vendors and third-party manufacturers (TPMs). This begins with an initial assessment to determine the food safety risk of vendors and therefore the subsequent auditing approach. We then determine if a full physical audit, a hybrid physical/remote audit, fully remote audit or desktop assessment are required. We have completed screening for over 600 vendors and have a clear plan on the audit and assurance requirements for these vendors (see page 68).

Physical audits have commenced again but the post-COVID environment we now operate in has changed. As we progressively catch up on any audit backlog resulting from COVID restrictions, we are concentrating our efforts on undertaking physical audits as we believe these are of the highest importance.

We continue to set the expectation that our vendors and TPM should progress towards achieving leading FSQ standards and independent certification. Such independent assurance reduces the audit burden for all parties while ensuring leading standards are being met.

¹ For the remaining 3% of our global manufacturing plants, all have some electronic trace capability within their own local systems and some manual steps are required to complete the analysis.

Our performance

Zero

During the year, there were no consumer recalls of product for safety reasons and no legal or regulatory non-compliances related to FSQ.

100%

of our manufacturing sites are certified to a leading food safety management system (e.g. FSSC22000 or BRC)

97%¹

of our global manufacturing plants have 100% electronic traceability from the farm vat or milk collection centre to the first sale to the customer, meaning we can track the origins of nearly any product within minutes.

What's next

We expect to maintain our certification to leading food safety management systems, including FSSC22000.

We will continue to use the lessons we have learned to broaden our influence in the supply chain through our global assurance audit programme.

We will continue the development and deployment of our global digital platform for FSQ and health and safety.

We will continue to review opportunities for further automation in milk collection, manufacturing and distribution to improve the efficiency and reliability of data collection to give us even more real-time access to information.

Nature

By working together to care for nature we are seeking 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.

85%

of our farmer owners in New Zealand have a Farm Environment Plan tailored to their specific farm, on the way to 100% by 2025

14.1%

reduction in our greenhouse gas emissions (Scope 1 & 2) since FY18, on the way to 50% by 2030

44%

of our manufacturing sites have bespoke water improvement plans, on the way to 100% by 2024

85%

of our farmer owners in New Zealand have an Animal Wellbeing Plan prepared with their vet

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Climate change

We support a just transition to a resilient, low-emissions economy and are committed to leading the transition to a net-zero GHG emissions future for dairy nutrition.

Maunsell Farm,
Waiuku

Global food production accounts for 20–30% of global GHG emissions with dairy accounting for 2–3% of global GHG emissions. However, dairy delivers a significant amount of the world's total nutrients, including 12% of protein, 24% of vitamin B2 and 49% of calcium.

Pre-farmgate, the Greenhouse Gas (GHG) emissions associated with dairy products mostly come from the methane cows produce. Total farm-related activities account for about 86% of Fonterra's reported GHG emissions. The carbon footprint of New Zealand's on-farm milk supply is already one of the lowest in the world. We are committed to helping reduce this further and leading the transition to a low-carbon future.

Milk is highly nutritious but very perishable, and our natural pasture-based farming means the volumes produced are highly seasonal. Pasteurising milk and drying it into powders adds significant value to raw milk, producing safe, long-life nutrition that is efficient to store and transport, but it does require significant amounts of reliable energy. Currently, a lot of that energy comes from fossil fuels, and our manufacturing activities account for about 13% of our reported emissions.

Despite being located a long way from many of our markets, our efficient transportation of finished goods, primarily by ocean freight, means only about 1% of our reported emissions are associated with distribution to destination countries. The world needs a global approach to achieve a sustainable food system meaning emissions-efficient nutrition from countries such as New Zealand play an important role.

New Zealand has introduced mandatory climate risk disclosures from FY24 onwards. The requirements align with the Task force on Climate-related Disclosures and cover governance, strategy, risk and metrics and targets. Fonterra is currently preparing to meet these reporting requirements.

This section covers our impact on; and our response to; climate change across our supply chain.

Our Approach

In July 2023 we announced the uplift of our decarbonisation ambition with a new Scope 1 & 2 emissions reduction target of a 50% absolute reduction by 2030, from a 2018 baseline. This is an increase on our previous target of a 30% reduction by 2030 from the same baseline.

This commitment reflects the latest science, and we are in the process of submitting this new target to SBTi for accreditation. Strengthening our emissions reduction target supports our ambition to be net zero by 2050. Earlier this year, we signalled our intent to set an on-farm emissions target. Since then we have engaged with farmers about the need for this target, what it may look like and how we will work together to achieve it (see AR-33).

For on-farm, we regularly commission carbon lifecycle assessments (see page 30). In New Zealand, we provide farm-specific GHG reports so farmers can understand their current performance and prioritise improvements. Our Farm Environment Planning service includes a GHG emissions module (see page 31), and we are investigating a wide range of potential breakthrough technologies to help reduce on-farm GHG emissions (see page 33).

For our manufacturing operations, our approach is to use less and emit less. Improving energy efficiency not only uses less energy, it also reduces emissions, reduces costs and will help with our transition to lower carbon energy sources. We also emit less by continuing to transition to lower carbon energy sources (see page 34).

For distribution, our approach is to partner with transport organisations and other import/exporters to continuously improve resilience and efficiency and to pursue low-carbon options for heavy goods transportation (see page 36).



What we've been doing

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Understanding our on-farm emissions

To understand the full carbon life cycle of the milk we collect in different regions of the world, we regularly commission analysis by AgResearch, an independent New Zealand Government research agency.

The approach considers the full life cycle from feed production (including purchased supplementary feed) to the milk leaving the farm and is aligned with internationally recognised methodologies and tools (see page 91). We use this information to estimate our absolute GHG emissions related to farming (see graphs on page 37), to identify opportunities for further reduction and to support related-service offerings to customers.

GHG accounting is an evolving science, and there are frequent updates to method details and factors to be used, as well as changes in underlying base data and assumptions. Changes to international and local guidelines are investigated each time we commission an update of the footprint. In 2022, a consensus of an appropriate science-based methodology to account for carbon removal through sequestration was reached, however we are yet to adopt this within our lifecycle assessment approach.¹ When changes to methodology occur and are material, we transparently re-baseline and back-calculate our footprint so our progress can be assessed on a like-for-like basis, using the latest available science, as is the case this year.

In New Zealand, for the 2021/22 milk season, the estimated cradle-to-farm-gate carbon intensity, including land use change (LUC) and peat soils, is 1.03 kilograms of carbon dioxide equivalent per kilogram of fat-and-protein-corrected milk (kg CO₂-e/kg FPCM). Excluding land use change and peat soils this is 0.86 kg CO₂-e/kg FPCM. While these results appear to

be the same as those reported for 2020/21 season in FY22, underlying allocations and methodology changes exist. By using a like-for-like basis the 2020/21 milk season would now reflect an emissions intensity of 1.02 kg CO₂-e/kg FPCM including LUC and peat. Updates include the impact from increased use and the variety of bought-in feed during the season, and an amendment to the GHG global warming potential of methane to be calculated dependent on fossil or non-fossil sources (see Data Reporting Notes page 91).

While our farmers have been making gains in on-farm efficiency, the total on-farm emissions intensity has remained relatively flat since 2010 (accounting for land use changes and increases in brought-in supplementary feeds).

Our most recent assessments for other regions are: Australia 2017/18 season at 0.97 kg CO₂-e/kg FPCM; China 2016/17 season at 1.44 kg CO₂-e/kg FPCM; Soprole our recently divested subsidiary in Northern Chile 2017/18 season at 1.33 CO₂-e/kg FPCM; and Prolesur our recently divested subsidiary in Southern Chile 2017/18 season at 2.32 CO₂-e/kg FPCM.²

During May 2023 the Australian dairy industry published an updated GHG lifecycle assessment, reflecting an Australian wide emissions intensity for the 2020/21 dairy season of 0.91 CO₂-e/kg FPCM.³ Adjusting for the Fonterra Australia milk pool and IPCC AR6 methodology this indicates an intensity of 0.88 CO₂-e/kg FPCM. Due to the timing of the publication analysis of these results is ongoing, our footprint calculations this year are based on the earlier lifecycle assessment (0.97 CO₂-e/kg FPCM).

¹ International Dairy Federation. (2022). C-Sequ LCA guidelines for calculating carbon sequestration in cattle production systems (Bulletin of the IDF n° 519/2022). <https://doi.org/10.56169/WMRP7985>
² While we have adjusted the non-New Zealand results to align all on IPCC AR6 (see Data Reporting Notes on page 91), they have not been updated in the same way as the New Zealand result to reflect the latest global and national inventory methods and assumptions. This year we have corrected a publication error in the 2022 Sustainability Report where Soprole and Prolesur were misprinted as 1.45 and 1.34 kg CO₂-e/kg FPCM respectively.
³ Christie, K. (2023). Towards carbon neutrality for the Australian dairy industry (Tasmanian Institute of Agriculture, 31 May 2023).

Working with our farmers to reduce on-farm emissions

In October, we issued Farm Insight Reports in New Zealand, including a farm-specific GHG Report. The GHG emissions estimate is based on a combination of primary data, collected from the farmers annually, and secondary data as used for our national lifecycle assessment.

For farmers, understanding the emissions produced on their farm and how they are performing relative to their peers, is a key step to identifying and prioritising improvement opportunities. Each report has a breakdown of the estimated GHG emissions by source that enables the contribution of the various sources to be understood. The report also shows the GHG emissions calculated from previous seasons, to identify progress over time. In October 2023, we will issue farmers with this reporting for the fourth time.

In addition to the Farm Insights Reports, the Farm Environment Plans (FEP) we are currently delivering (see page 46) contain a specific GHG emissions module. FEPs are created in consultation with one of our Sustainable Dairy Advisors who visits the farm and can provide farmers with additional guidance. We're working towards all our supplying farmers in New Zealand having a FEP by 2025.

The calculation method, contents and processes we use for both the GHG reports and FEPs have been independently assessed and accepted by the He Waka Eke Noa steering group (see below) as

meeting the requirements for the New Zealand Climate Change Response Act milestones.

This year, we published our booklet on [our approach to on-farm emissions](#), which we will update regularly to reflect the changing landscape. We continue to work with farmers to support their understanding of on-farm emissions and how we can work together to maintain our competitive advantage of producing some of the most emissions efficient dairy in the world.

In the short-term, the main improvements farmers can deliver will continue to come from adopting good management practices on farm. These include being efficient with feed and fertiliser, having the correct number of cows for the specific areas of land, improving animal husbandry and genetics, and maintaining good animal health. There are also opportunities to optimise pasture quality and use of supplements to meet feed demand, use alternative forages to reduce protein in the cow's diet, improve manure storage and spreading and reduce on-farm energy use.

Over the past four years in Aotearoa New Zealand, we have been supporting the He Waka Eke Noa partnership to find practical ways to help farmers with emission reductions. The partnership, involving representatives from across the Government, primary sector and Māori has been progressing a range of climate-related actions. In 2022, the partnership provided advice to the New Zealand Government on a framework for managing agricultural emissions which included how farmers could be charged for the emissions arising from agriculture. The recommendations take a split-gas approach with an overall levy calculated based on the methane and nitrous oxide produced, with deductions made for approved emission reducing actions and sequestration by above ground vegetation. The Government has endorsed the use of a

split gas levy to be adopted with a phased implementation period from quarter four of 2024 onwards.

In 2022, Fonterra Australia adopted a similar FEP framework for Australian supplying farms (see page 46). This includes a GHG module, specific to the Australian farming conditions and practices. To date, around a third of farmers supplying Fonterra in Australia now have a FEP in place.

Continued productivity gains, the adoption of good management practices on-farm and the sharing of best practice offers opportunities to make further footprint reductions in the coming



Blair, Billie & Penelope,
Hawkes Bay

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years. However, new innovations from investment in research and development will be required to meet targeted emission budgets.

Working in partnership

This year, Fonterra and Nestlé announced a partnership designed to help reduce New Zealand’s on-farm emissions, including a New Zealand first – a drive to develop a commercially viable net zero carbon farm. Dairy Trust Taranaki is a co-partner in the five-year project that will examine all aspects of the farm operations to reduce carbon. The short-term aim is to reduce emissions by 30% by mid-2027 and the ten-year ambition is to reach net zero carbon emissions.

Dairy Trust Taranaki will work with Fonterra and industry partners to reduce total emissions on the farm, including methane. Successful solutions will need to be good for the cow, good for milk as well as economically viable and practical for farmers to implement. Lessons learned will be shared through open days with farmers who can then adopt the techniques and technologies most appropriate for their own farms.

Since the announcement, Dairy Trust Taranaki has had good engagement with many stakeholders and is continuing to engage with farmers regularly on progress through open days.

GHG farmer support pilot programme

The partnership between Fonterra and Nestlé also encompasses the launch of a GHG farmer support pilot programme. This multi-year project will see enrolled Fonterra supplying farms receive additional support to implement changes aimed at lowering on-farm emissions. Examples of potential solutions include improved management of feed and pasture and enhanced milk production efficiency. This opt-in pilot started this year with around 50 farms, and the initial indication is that the farmers appreciate the increased focus and support from our Sustainable Dairying Advisors and that more detailed information on their farm’s footprint is allowing them to better identify

For any game-changing solution to be successful, it needs to be scalable and to be:

Good for the environment (GHG reduction)



Good for the farmer (practical & cost-effective)



Good for the cow (her health & performance)



Good for the milk (composition & food safety)



Game-changing solutions for methane

opportunities to improve. This programme will continue to be scaled-up over the next three years.

Since the beginning of the Industrial Revolution, coal, oil and gas have fuelled the economic development and advancement of many nations. At the same time, according to the United Nations, these fossil fuels have been the largest contributor to global climate change, accounting for over 75% of global greenhouse gas emissions. While studies show that methane emissions from livestock have made a less significant contribution (roughly 12-14% of anthropogenic warming to date) we recognise that reductions in this area can play an important role in the overall solution.

We are currently working with partners and other stakeholders on a wide range of potential solutions to help reduce the biological emissions for dairy farmers and the wider global agricultural sector. Our aim is to lead the transition to low-carbon dairy, which will help our customers further reduce the footprint of their products too.

We are dealing with a complex system with an animal at its centre, this animal has a rumen to process what it eats, and in the rumen there is a complex microbial ecosystem. Not all research and development will deliver a successful solution, and there is unlikely to be only one.

For New Zealand farmers to meet expectations for methane reduction by 2030 and 2050, significant investment is required from both Government and industry in research and development to create practical steps that farmers can take. Achieving this type of change at the scale and within relatively short timeframes will require collaboration.

Collaborative research

AgriZero^{NZ}

Formally launched at the New Zealand national Fieldays this year, AgriZero^{NZ} is a world-first investment fund established between the New Zealand Government and major agribusiness companies. It has been established to undertake targeted investments and action to accelerate the development, commercialisation, and adoption of effective technology solutions to reduce biogenic methane and nitrous oxide emissions. This will help to ensure New Zealand pasture-based farmers have equitable access to affordable and effective tools and technology to reduce their agricultural emissions, while maintaining efficiency, production and profitability.

Fonterra will contribute up to \$50 million over the next three years to a total investment pool of around \$172 million which will be invested over the next four years. This year, AgriZero^{NZ} has committed to investing in a methane measurement facility to be constructed at the Massey University dairy research farm and will house twelve new cattle respiration chambers and associated infrastructure. Other investments include Ruminant Biotech, a New Zealand-based start-up that is developing a slow-release, biodegradable methane-inhibiting bolus for livestock, and in continuing research underway in New Zealand towards developing a methane vaccine and methane inhibitor for use in livestock. (see AR-34)

Ehara tāku
toa i te toa
takitahi,
engari he toa
takitini

My strength is not
as an individual,
but as a collective

AgriZero^{NZ}

Natural methane inhibitors from red seaweed

The Fonterra red seaweed trial has continued into its third season at Annandale Farm in Tasmania. Red seaweed was added to cows' feed at conservative inclusion rates over many weeks. Raw milk from the farm was collected for processing into finished products including pasteurised milk and cheese. The milk samples were identical in taste and residues to the control samples from a different farm where red seaweed is not used. Cheese from both farms is still undergoing maturation and results are expected before the end of 2023. External to Fonterra there were also significant red seaweed trials undertaken at the Ellinbank dairy research facility in Australia¹.

KowbuchaTM natural cultures and fermentations

Fonterra scientists have identified a beneficial impact on feed efficiency and methane emissions from feeding selected probiotics from our extensive dairy culture collection (KowbuchaTM) to dairy calves, with the benefits extending through their first year of life. To ensure efficacy and repeatability of these benefits under a range of real farming conditions, Fonterra is leading an ongoing research programme with partners AgResearch, Massey University and DairyNZ. The work is still in the research and development phase, with the intention of providing evidence to secure approval for the use of KowbuchaTM in New Zealand. (see AR-34)

¹ The Ellinbank results were published and available here. <https://doi.org/10.1016/j.anifeeds.2023.115579>

Decarbonising our manufacturing operations

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Achieving the uplift in our decarbonisation ambition will require us to continue with our energy efficiency improvements and fuel switching to renewable energy sources across our milk collection fleet and manufacturing sites, focusing on the sites where we still have some reliance on coal.

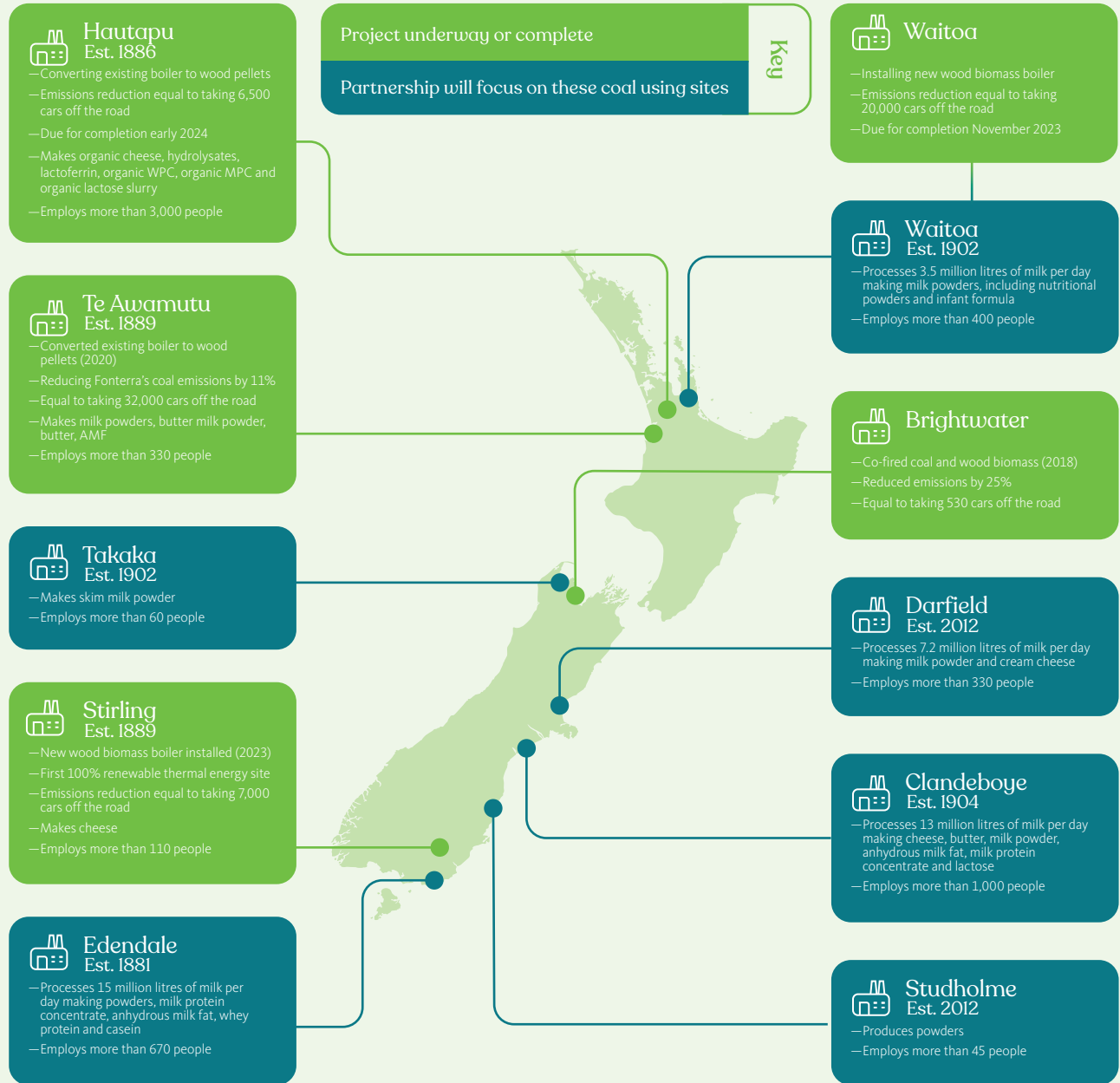
To do this, we are forecasting an investment of \$790 million, including a New Zealand Government contribution of up to \$90 million through the Government Investment in Decarbonising Industry (GIDI) fund. The addition of Government funding enables us to lift our 2030 ambition to reduce Scope 1&2 emissions to 50% (from a 2018 baseline) and optimise our process to exit coal by 2037.

Our goal is to transition the seven¹ sites that still use coal to renewable energy by 2037, with the majority of coal transitioned by 2030. We continue to evaluate new technologies and supply options to continuously improve our plans but the rate at which we can transition off coal is paced by upstream fuel supply development, New Zealand's capacity for large simultaneous infrastructure investment and the sequencing of outages during brief winter shutdown periods at our sites.

In addition to our work to get out of coal as highlighted here, we have a number of other decarbonisation projects already underway, which will contribute towards meeting our target of a 50% reduction in Scope 1&2 emissions by 2030 (from a 2018 baseline).

¹ Initially Fonterra had 10 sites in NZ that used coal. Te Awamutu transitioned to wood pellets in 2020. Stirling transitioned to wood biomass in FY23. Following operations at Brightwater changing from a milk powder plant to a milk transfer site that site has stopped using coal. There is currently a project underway at Hautapu to transition to wood pellets.

* processing figures are for peak capacity



Alongside our continued focus on operational efficiency, a wide range of improvement projects are underway.

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Stirling biomass boiler plant, ground level

During FY22, we retired ageing and inefficient evaporator assets and reduced the amount of steam required at our **Whareroa** site. We also installed new equipment to enable more recovered heat for preheating in our casein pasteuriser. These two projects combined, delivered a reduction in emissions of about 5,500 tCO₂-e in FY23. The project to install two heat pumps as part of the refrigeration upgrade was started in FY22 and continued this year. These heat pumps are each rated at 3.5 MW, and we believe it will be one of the largest heat pump installations in New Zealand. This project is expected to reduce our annual energy use by 120,000 GJ (33 million kWh) per year and our GHG emissions by about 9,100 tCO₂-e per year.

This year we also took steps to replace one of the three coal boilers at our **Waitoa** factory in the Waikato with a wood biomass boiler. We expect the new boiler to begin commissioning in late 2023. It is expected to reduce the site's annual carbon emissions by at least 48,000 tCO₂-e.

The new wood biomass boiler at our **Stirling** site fired up for the first time in April this year, marking the next steps on the site's transition to be totally reliant on renewable energy for its process heat. Changing this boiler is expected to reduce annual carbon emissions by 18,500 tCO₂-e per year. This project also delivers our first 100% renewable thermal energy site.

Also in April, we announced our plans to convert the coal boilers at our **Hautapu** site to wood pellets and to install a heat pump at our milk processing site in **Palmerston North**. Both projects have received support from the GIDI Process Heat Contestable Fund¹. Once complete in early 2024 the Hautapu site's carbon emissions are anticipated to reduce by 15,785 tCO₂-e per year. The heat pump at the Palmerston North site will convert wasted heat from the refrigeration system into a heat source. This will reduce the amount of natural gas needed for process heat. The site will also generate additional heat via a solar thermal plant.

¹ Fonterra is receiving up to \$2.5million in co-funding from the GIDI fund to complete the work at Hautapu and \$425,000 for the Palmerston North site project.

Tātou – working with others

In 2022 we successfully trialled a new organic and long-life battery, at our Te Rapa farm, storing electricity produced by the farm's solar panels to increase the use of power from solar and provide an energy back-up (see our [2022 Sustainability Report](#)). Some of our manufacturing sites are impacted by power quality events that can lead to product waste and long shut down times, and we believe this battery technology could help minimise the impact from such events. So, this year we have been trialling the Polyjoule battery at our **Waitoa** UHT site to demonstrate the benefits of minimising the impact of power quality events. We believe this is the world's first industrial scale organic battery.

Seeking further opportunities and innovations to support our decarbonisation, this year we entered into two significant memorandums of understanding. One is with MAN-Energy Solutions, to assess how a steam heat pump could be integrated into one of our dairy sites. Using these heat pumps could result in a reduction of 60,000 tCO₂-e annually by using electricity instead of coal to power milk dryers. The other MOU is with local energy provider and another coal user in New Zealand, Genesis Energy. Together we are exploring options for local biomass supply to support our transition out of coal. Options under investigation include black (steam exploded or torrefied) pellets.

Continuing to electrify our transport

In New Zealand, GHG emissions from road transport are one of the fastest growing sources, making the transition to electric vehicles an important part of Fonterra's decarbonisation journey.

Since 2022 our aim has been to transition more than 300 light vehicles (about one third of our light vehicle fleet) to be electric vehicles (EVs). This is backed by a policy requiring all light vehicles that can be electric to be transitioned when they are next replaced. However, due to ongoing supply chain disruptions, we have extended the date to achieve this milestone from the end of 2023 to the end of 2024. This year, we received our 100th EV and expanded our network of EV charging stations to 25 of our sites in New Zealand.

With our heavy transport fleet, our focus has been on investing in practical ways to reduce our GHG emissions through efficiencies. For example, training helps our drivers improve fuel efficiency and sophisticated software systems help plan and execute our milk collection activities to minimise the distance travelled. We have also invested in our tanker fleet to adopt the latest technology in terms of efficiency and lower emissions.

Coverage of reporting

This year, we undertook a rescreening exercise for our Scope 3 emissions to identify any significant changes in previously excluded items and opportunities to improve the coverage of our reporting. As a result of this exercise, we have obtained additional data of sufficient accuracy to improve the completeness of our reporting. We now estimate that our reported Scope 3 emissions represent more than 95% of our total Scope 3 emissions (see page 93).

Milk-E

With the support of funding from EECA⁷, we have been trialling our first fully electric milk tanker in New Zealand to better understand the viability of electric transport in a rural setting. Milk-E, is based at our Waitoa manufacturing site and completed its first run in November 2022. Milk-E can carry 25,700 litres of milk within the truck and trailer and can travel 140km on a full charge. It operates within a 60km radius of the Waitoa site.

The battery takes just over two hours to charge and a battery swap system has been developed so that the tanker does not sit idle. The battery can be swapped out in six minutes.

⁷ EECA – Energy Efficient and Conservation Agency.



Our performance

14.1 % ↓

reduction in Scope 1 & 2 GHG emissions since FY18. Well on way to 50% by 2030.

3.3%

improvement in energy efficiency compared to FY18, down to 7.57GJ/tonne of finished goods.

What's next

We will continue to use farm-specific GHG emission reports and Farm Environment Plans to help our farmers understand their on-farm footprint and prioritise improvements.

We will continue to focus on energy efficiency with the aim of delivering direct emission reductions, cost savings and help prepare for the transition to low-carbon energy sources.

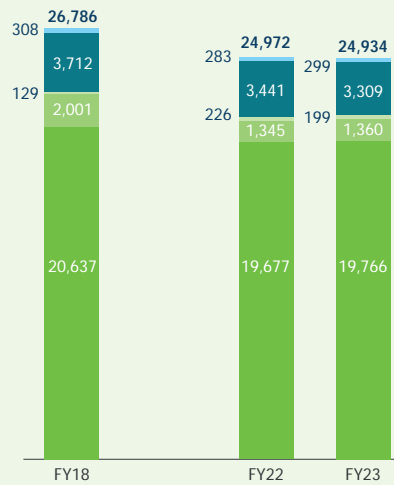
We will continue to develop and deliver our decarbonisation plan, with our Waitoa site installing a wood biomass boiler in FY24 and Hautapu converting its coal boilers to use wood pellets.

We are currently assessing wood biomass, electrification, and heat pump technology at our Clandeboye and Edendale sites.

We will be trialling the use of black pellets at our Studholme site.

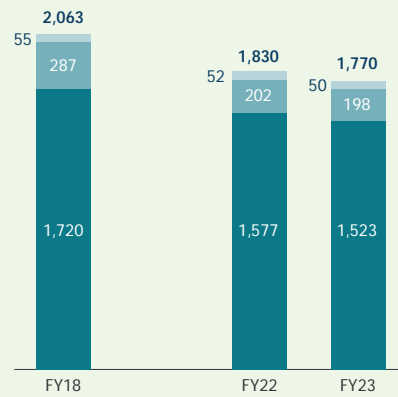
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Total GHG emissions by value chain segment ('000 tCO₂-e)



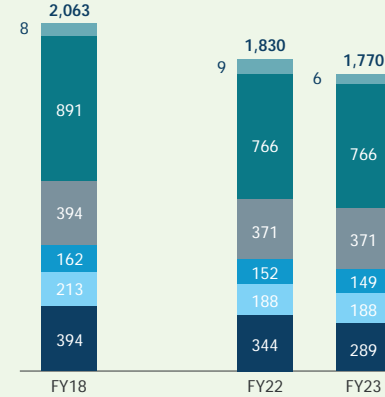
- Farming (New Zealand)
- Farming (Australia)
- Farming (Rest of the World)
- Distribution & other

Manufacturing GHG emissions by geography ('000 tCO₂-e)



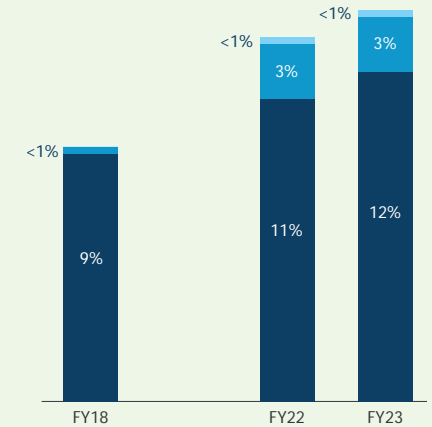
- Scope 1 & 2 by geography
- New Zealand
 - Australia
 - Rest of the World

Manufacturing GHG emissions by source ('000 tCO₂-e)



- Scope 1 & 2 by emissions source
- Electricity
 - Liquid fossil fuel
 - Coal
 - Purchased steam
 - Natural gas
 - Non-energy (e.g. packing CO₂ refrigerants)

Use of renewable energy in manufacturing (% of total energy use)



- Electricity
- Biofuels

Adding the individual numbers together may not add up to the totals due to rounding.

The CO₂ emissions from biofuels are not shown as protocol excludes them from the total. Biofuel emissions in FY23 increased slightly to 81,416 tCO₂-e from 73,345 tCO₂-e, due to higher production volumes. The wood products we use for energy production are sourced from FSC-certified forests.

The data presented is adjusted for acquisition and divestments so that underlining performance can be assessed on a like-for-like basis. For detailed information on the scope, methodology and assumptions used in reporting these emissions, including restatements of prior years, see Data Reporting Notes page SR-88.

Animal wellbeing

We want all animals to be valued and treated with respect and care throughout their lives.

Cows are at the heart of every dairy farm, and their wellbeing is of paramount importance to us. Having healthy cows is not only good for the cow, it also leads to more efficient production of high quality milk and taking a proactive approach is better for the farmer too. It's also important for our customers who are increasingly interested in where their food comes from and how it is produced.

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

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



Our approach

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

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

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

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

Globally, our international audit and compliance team assesses animal wellbeing as part of its milk sourcing audits in all markets outside of New Zealand where we collect milk. This enables us to identify any issues and recommend improvements to farmers. Many markets also have local veterinary and milk quality support teams to manage this work. See Working with farmers on page 57.

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.



Ruby,
Southland

What we've been doing

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Animal Wellbeing Plans

The increased adoption of Animal Wellbeing Plans (AWPs) is our main approach for further embedding the Five Domains model of animal wellbeing and helping farmers demonstrate leading levels of animal care.

We know that farmers with a focus on animal wellbeing and a good relationship with their vet will usually achieve better outcomes for their animals. Therefore, each AWP must be developed with, and signed-off by, a registered vet every season. Ultimately, we want to see these on every farm that supplies milk to Fonterra, but our initial focus is New Zealand, where the percentage of farms with an established AWP increased from 76% to 85% this season.

Developing and implementing an AWP with a vet is one of the minimum criteria for a farm to achieve recognition within The Co-operative Difference framework which is linked with increased payments to farmers (see page 57). To qualify, each AWP plan must include a number of key elements which have been identified and prioritised in collaboration with the New Zealand Veterinary Association and DairyNZ. These minimum elements include rates of mastitis and lameness, care of calves, mortality, body condition scoring, prudent use of antibiotics, mitigation options for heat stress and other extreme weather events, and consideration of genetic improvement strategies to enhance animal wellbeing outcomes.

Providing insights and training

Farms supplying us milk in New Zealand receive a Farm Insights Report, which includes key animal wellbeing metrics, including somatic cell count, milking efficiency, mastitis rates, lameness and the potential impact of heat stress. In each case, the report provides the farmer with detailed information on the performance of their specific farm relative to regional and national benchmarks and the potential benefits associated with making certain improvement actions.

A key focus in the 2022/23 season has been working to ensure that our New Zealand farmers understand the impact and opportunity the different areas highlighted in the annual Farm Insights Reports have at an individual farm level. These conversations are aiming to tie together three key areas that focus on productivity, profitability and sustainability and how they interact with the three main sections of the report: Milk, Animals and Environment.

We have developed several new tools and services to aid farmers in realising the potential opportunities identified in their Farm Insights Report. These tools and services vary, in some cases the we provide on-farm support and advice directly to farmers while in others we utilise existing networks to link farmers to external expertise. As the visibility and understanding of these reports grows throughout the industry, we are seeing more and more external companies use them to help provide advice and expertise to support our farmers.

Cared for cows

By analysing data we already collect for other purposes, such as food safety, quality, and compliance, Fonterra looks for unusual patterns that could indicate a farm at risk of animal welfare compromise. These farms are proactively visited and offered support, even if no animal welfare risk is identified at the time. Increasing use of monitoring technology on farms should allow us to access novel ways of monitoring animal wellbeing in the future.

Managing the risk of travel on biosecurity

In 2020, Fonterra became a founding member of The Biosecurity Business Pledge, a partnership developed by New Zealand businesses and Biosecurity New Zealand, to take a proactive approach to biosecurity (for more information see [2021 Sustainability Report](#)).

Improving policies and standards

As part of our process of continuous improvement we regularly review our policies and standards. In 2021 we updated our Animal Wellbeing and Biosecurity Policy and our Animal Wellbeing Standard, taking a more process-driven and outcome-based approach. We also changed the term used from 'animal welfare' to 'animal wellbeing' and included reference to the Five Domains model in addition to the existing reference to the Five Freedoms. The Policy and Standard apply globally to our business, and informs all decision making in relation to all the animals within our supply chain.

Consumers here in New Zealand and around the world are increasingly looking for more assurances about the quality of life experienced by the animals who produce their food. Therefore, in addition to the refresh of our Policy and Standards, we have introduced a new clause within the Terms of Supply for New Zealand farmers which means calves can only be euthanised on-farm when there are humane reasons for doing so. Fonterra places a strong emphasis on calf wellbeing and a big part of this is all dairy calves having a useful life. Many heifer calves are raised as replacement cows to join the milking herd when they are about two years old. Caring for these calves from the day they are born, not only leads to good animal wellbeing outcomes, but also leads to increases in life expectancy and productivity which reduces the overall environmental footprint of the milk produced. From 1 June 2023, our terms require that farmers supplying us with milk in New Zealand must direct all their non-replacement calves into a value stream, either beef, veal or pet food. In New Zealand, about 30% of beef finishing animals are already born in the dairy sector, but we know that in parts of New Zealand, the value stream options are currently limited. To help improve this, we're collaborating with the wider industry, investing in R&D and exploring long-term solutions such as dairy-beef partnerships.



Hopkins Farm,
Manawātū-Whanganui

Our performance

85% 

of farms in New Zealand with an Animal Wellbeing Plan established with their vet this year.

What's next

Our dedicated team will continue to work with farmers, veterinarians, and regulators to support strong biosecurity and on-farm practices that are good for animal wellbeing outcomes.

In line with our focus on animal wellbeing on farm, we will be reviewing our New Zealand codes on animal transportation.

We will continue to improve the quality of the Farm Insights Reports that we provide to farmers in New Zealand to help them prioritise improvements on farm.

Land & water

Healthy freshwater, soil and ecosystems are essential to the long-term success of farmers' businesses, the Co-operative, and communities.

Kaitiakitanga (how we care for our environment) is critical to safeguard opportunities for future generations. We believe this regenerative mindset must become embedded through our global value chain. As part of this, we are committed to working proactively with local stakeholders on catchment-wide solutions.

This section covers our impact on land and water from the manufacturing operations we manage globally and the farms from which we collect milk.

Our approach

When our manufacturing sites withdraw water from the environment to use and subsequently discharge wastewater, this can impact a resource we share with others. We are committed to playing our part to improve the environment and maintain water security for our communities and operations.

Recognising the importance of effective water stewardship, we take a collaborative planning approach, assessing the health of sourcing and receiving environments as a key outcome for ongoing and long-term improvements. Recovering water from milk when we make powder products means that most sites discharge more water than they take in. By improving processes and adopting new technologies, we aim to further reduce water use and improve wastewater treatment (see page 44). Our management of risk also considers the potential adverse impacts of business activities on biodiversity and ecosystems, seeking to improve environmental outcomes.

We support farmers to prepare for and meet increasing regulatory requirements, identify environmental impact risks and prioritise improvement actions specific to their situation (see page 46). This includes encouraging and supporting the adoption of recognised good farming practices related to water, soil health and biodiversity, including the exclusion of stock from waterways, riparian management, nutrient management and land management that minimises soil disturbance.

We also recognise that we can achieve more by working with others, so we have a strong focus on partnerships at local, regional and national levels. Our Living Water Partnership with the New Zealand Department of Conservation and our Sustainable Catchments partnerships (see page 47) help our farmers accelerate land, water and biodiversity action on-farm and also bring farmers, iwi, communities, councils and scientists together to plan and implement collective action.

What we've been doing

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Improving water stewardship at our manufacturing sites

We recognise the importance of water to our business and communities and continue to maintain a strong focus on using water responsibly. We continue to work toward our numeric targets for water reduction and wastewater treatment and we are progressing substantially to deliver on an approximately \$550 million investment in our wastewater treatment plants. As water stewards, we are committed to playing our part to improve the environment and maintain water security for our communities and operations.

Water Improvement Plans

This year, we began a significant piece of work developing bespoke water improvement plans which capture our opportunities to provide the best water stewardship at a manufacturing site level. Water Improvement Plans for 20 sites have been successfully completed with each plan assessing water availability, water use and wastewater quality in a long-term integrated manner. Our goal is to develop plans for all Fonterra manufacturing sites by the end of FY24. Through this process we establish how each manufacturing site can operate in a resilient, efficient and unconstrained manner into the future while supporting water security for our wider communities and catchments. These plans better position Fonterra in the changing regulatory environment in New Zealand.



Using less water

We continue to work towards our broad water reduction target to reduce absolute water use across manufacturing sites by 15% by 2030 from a FY18 baseline. This year, we continued to prioritise our efforts to improve water efficiency throughout our Fonterra operations with a particular focus in areas where we see growing pressure on water. We remain on track to deliver our target with a 6.7% reduction in absolute water use compared to our baseline. That means we are using about three billion litres less water each year at these sites when compared to FY18.

To achieve this, a number of large water reduction projects were implemented in FY23, while projects implemented in FY22 continue to deliver significant water savings. One of the key initiatives in FY23 was water optimisation at Reporoa, which will reduce water use by approximately 70,000m³ per season.

At our Edendale site we've been working on a project that will enable us to use even more of the water we take out of the milk when we dry it. From FY24 onwards we'll be looking to reuse up to 750,000m³/year by recovering evaporator condensate from powder dryer activities such as clean-in-place processes.

Improving water quality

We continue to work towards our target of at least 80% of manufacturing sites treating wastewater to leading standards by 2030.

Our continued commitment to leading in the area of wastewater design has led us to a novel partnership approach in New Zealand. This approach brings together New Zealand's top consultants, civil contractors, designers and industry experts into one cohort with the aim of bringing innovative thinking and optimised learning opportunities to our strategy.

This year, Fonterra has made substantial progress towards upgrading our wastewater treatment plants, creating resilient assets for decades to come.

At Clandeboye, we are investing approximately \$15m in a unique wastewater treatment process using an anoxic biological reactor specifically designed to reduce nitrates prior to discharge. This innovative process, researched and trialled by Fonterra experts, is a novel approach demonstrating advances in nutrient removal and delivers significant cost savings.

At Te Awamutu, our now completed \$52m wastewater treatment plant upgrade produces a very high quality of discharged water, with almost non-detectable levels of some key parameters, including biological oxygen demand (cBOD5).

We are commissioning the Tirau wastewater treatment plant upgrade to improve the quality of discharged wastewater. It includes an anoxic tank with upgraded aerobic pond systems, clarifier, alum dosing and tertiary filtration for phosphorus removal and UV disinfection.

We are currently progressing designs for new wastewater treatment systems at our Hautapu and Edgcombe sites. At Kapuni, we are trialling an innovative phosphorus removal approach by modifying the standard dissolved air flotation process.



Investing in innovation

We actively support academic research. This year, we continued providing support for researchers including the Sustainable Resource Recovery Postgraduate Programme of the University of Auckland's Engineering Faculty. The work encompasses a wide range of activities but is focused on the removal and recovery of key pollutants, such as urea and phosphorus.

Dileeka Weerakoon (PhD student) from Sri Lanka – far left
 Iin Parlina (PhD student) from Indonesia – second from left
 Sonal Badi (Masters student) from India – third from left
 Mozghan Keyvani (Masters student) from Iran – middle background
 Associate Professor Saeid Baroutian, Chemical and Material Engineering, University of Auckland – far right

Prioritising on-farm improvements

Helping farmers understand their current areas of strength and opportunities for improvement is a priority for us. It is where we can add value to farmers, our customers and communities.

In New Zealand, our team of 48 Sustainable Dairy Advisors (SDA) are working with our farmer owners to establish and maintain Farm Environment Plans (FEPs). Each FEP is unique and requires a physical visit to each farm to capture the specific environmental characteristics, assess current activities against industry-defined Good Farming Practices (GFP) and agree prioritised improvement actions with the farmer.

This year, we delivered more new FEPs than planned, increasing coverage from 71% to 85% of supplying farms in New Zealand as we work towards all farmers having FEPs by 2025. In addition to establishing new FEPs, our team of SDAs were also revisiting farms with existing FEPs to re-assess them against the latest framework and to confirm progress on improvement actions. While the impacts of Cyclone Gabrielle hampered progress in some regions more progress was made in others to maintain the momentum.

The need for updates to our FEP framework and process is assessed on an annual basis, and to date, additional modules have been added nearly every year since we launched the service in 2018. Our goal is for farmers to remain a step ahead of future regulations and the requirements of our customers. The regulatory requirements vary between different regions in New Zealand, and in all cases the requirements of a Fonterra FEP go beyond these. In most cases, each GFP is higher than the local regulatory requirement, but where the local requirement is higher, the farm is assessed against that.

Topics currently covered in the FEP include water, soil health, biodiversity, GHG emissions, mahinga kai (the value of natural resources) and whakapapa (recognising the people and their connection to the land over multiple generations). For the farms with irrigation systems (about 18%), our FEPs also build on regulatory requirements for metering and support irrigation efficiency improvements.

We recently undertook a project with Dr Gail Tipa (from our Sustainability Advisory Panel see page 8) to critique our FEP modules through a cultural lens, bringing indigenous knowledge and a unique sustainability perspective. Alongside her report, SDAs from each region attended a workshop with Dr Tipa on 'Recognising the cultural and environmental outcomes sought by Tangata Whenua in FEPs'. By overlaying iwi environmental plans and considering proposed regulatory changes, the aim is to further improve our FEP service for our Māori shareholders. In addition, we recognise Tangata Whenua input into localised catchment context to guide cultural values and outcomes in the farm planning process.

This year, we have been engaging with the New Zealand Ministry for Primary Industries, Ministry for the Environment and regional councils to enable the significant progress Fonterra has made in delivering FEPs to support compliance with upcoming regulations on freshwater farm plans.

In New Zealand, farmers complete an annual Farm Dairy Records update, which is a key input for the Farm Insights Reports we provide them. This combines information on nitrogen risk, milk quality, GHG emissions and animal wellbeing, providing the farmer with detailed information on their performance relative to the average farm in their region and nationally. It also identifies the potential financial benefits that could be achieved by making specific improvements.

Building on the FEP framework and delivery service developed for New Zealand, our Farm Source team in Australia has tailored the New Zealand FEP framework and delivery service to the specific needs of the Australian farming environment. At the end of FY23 more than 30% of Fonterra supplying farmers in Australia had a tailored FEP for their farm. Each farm selects the most suitable modules for their circumstances. Selections could include GHG emissions, nutrients, animal welfare, effluent management or water efficiency. This year we developed a new module on the topic of biosecurity. It will be included in FEPs delivered in FY24 and beyond.

FEPs provide an opportunity for our supplying farms to have clear options for improving farm management and outcomes. Our aim is to increase the number of supplying farms in Australia with a FEP in FY24, as we work towards all New Zealand farmers having a plan by 2025.





Libby & Matt, Canterbury

Sustainable catchments

To achieve sustainable water catchments where we operate, we know we can achieve more by working with others.

Our aspiration is to put nature at the heart of a regenerative food production system and help reverse the decline of New Zealand's natural resources by partnering with others to solve local and global environmental issues.

Established in 2013, our Living Water partnership with the New Zealand Department of Conservation is working with farmers, scientists, councils, mana whenua and local communities in five catchments across 35,000 hectares. The goal is to identify game-changing and scalable solutions that show dairying and freshwater can thrive together. This work is focused on innovation and demonstration of what is possible. To date, we have initiated 44 trials of different tools and solutions, and 17 solutions have been scaled or used by others (for more information on the Living Water

partnership, see page 60). Of those Fonterra farmers operating in the five catchments, 98% have engaged with the partnership, (up from 90% in FY22) and, 50% are implementing freshwater improvement actions that go beyond regulatory requirements (no change from FY22).

Beyond the five Living Water catchments we are supporting farmer and community action in other catchments across New Zealand. Working alongside local stakeholders such as regional councils, the Department of Conservation, iwi, farming leaders, scientists and other industry members in catchments across New Zealand, our aim is to build on existing community efforts, helping them achieve their priorities and nurturing the national movement on catchment restoration through our Hapori Programme (see page AR-20).

We are also supporting several catchment level and national initiatives intended to deliver transformational change. This year, we significantly progressed a partnership with Te Rūnanga o Ngāi Tahu, Murihiku Rūnanga and Land Information New Zealand to [Reimagine the Maitai River](#).

National

Farming with Native Biodiversity

In late 2021 we joined forces with the New Zealand Landcare Trust, Silver Fern Farms, the New Zealand Biological Heritage National Science Challenge and the Ministry for Primary Industries to co-design and pilot biodiversity resources and support services for farmers. The aim of the two-year partnership was to develop the prototype of a national programme that would ultimately upskill and support farmers and farm advisors to enhance native biodiversity on their farms. This pilot is now complete, and recommendations are being formulated for central government and industry.

Northland

We are a [key delivery partner](#) for the Kaipara Moana Remediation Programme that is focused on collaboratively restoring the health and mauri of Kaipara Moana, including an ambitious target of reducing sediment into the harbour by 50% between 2020 and 2030. Our partnership has enabled the acceleration of Farm Environment Plan development and the implementation of sediment reduction activities on-farm. Since August 2021, the partnership has delivered a total of 203 Farm Environment Plans covering 38,087 hectares. Remediation projects on-farm have involved commitment to, or completion of 169km of fencing and the planting of 50,000 natives.

Hawkes Bay

We have continued our partnership with Hawkes Bay Regional Council focusing on the many benefits that arise through wetland restoration, with this only growing in focus post Cyclone Gabriel. There is anecdotal evidence that the Tukipo constructed wetland we co-funded in FY21 helped to protect surrounding productive land from the worst of the flooding, allowing farming and growing operations to resume earlier than other areas.

Waikato

We have provided additional funding support this year towards the restoration of the Mangapiko Stream, as part of the wider Maungatautari to Pirongia Ecological Corridor project. This funding to Apakura Rūnanga Trust will allow them to undertake additional riparian planting on the Mangakopara Farm Block to improve water quality and native biodiversity habitat, and support iwi connections to the awa (river). We also have part-funded a coordinator for the Piako Catchment Forum and partnered with Fish & Game New Zealand and Manaaki Whenua – Landcare Research to extend a constructed wetland on a dairy farm in the Whangamaire Stream catchment near Taupiri maunga (mountain) in the Waikato. The wetland has been designed to reduce the impact of agricultural land use upstream and improve wildlife habitat.



Constructed wetland in the Whangamaire Stream catchment

Bay of Plenty

We have partnered with the Bay of Plenty Regional Council over the past three years to support collaborative community projects to restore and protect wetlands and whitebait habitats within the Pongakawa catchment and Waihi estuary. This year our support allowed the Regional Council, Ngāti Whakahemoto and the New Zealand Department of Conservation to re-batter and plant a 500m stretch of the Pongakawa canal to reduce erosion and improve connection to new whitebait spawning habitat near the estuary.



Pongakawa canal restoration

Taranaki

We are continuing our support for the South Taranaki District Council Wetland Reserve at Rawhitiroa with Forest and Bird, Ngāti Tupaea, and the local community. The restoration project involves fencing, the creation of wetland habitat, a walking track and an outdoor classroom space. This year the focus has been on finishing the construction of the ponds and walking track and planting a nursery crop to add diversity and reconstruct the type of native vegetation that would have existed historically.

South Taranaki District Council
Wetland Reserve restoration
at Rawhitiroa



Marlborough

Our funding support for the [Ruapaka Wetland Restoration project](#) has seen significant weed control activities take place this year. Ruapaka Wetland is deeply significant for Ngāti Kuia as it is a place where their tūpuna (ancestors) gathered kai (food) including tuna (eels) and kōura (freshwater crayfish). The restoration mahi (work) helps support Ngāti Kuia aspirations for te taiao (the environment) as well as for their people, with Ngāti Kuia horticulture crews doing follow-up planting work after completing a Level 3 Certificate in Horticulture and using the seedlings being grown at Ngāti Kuia nursery at Titiraukawa.

Canterbury

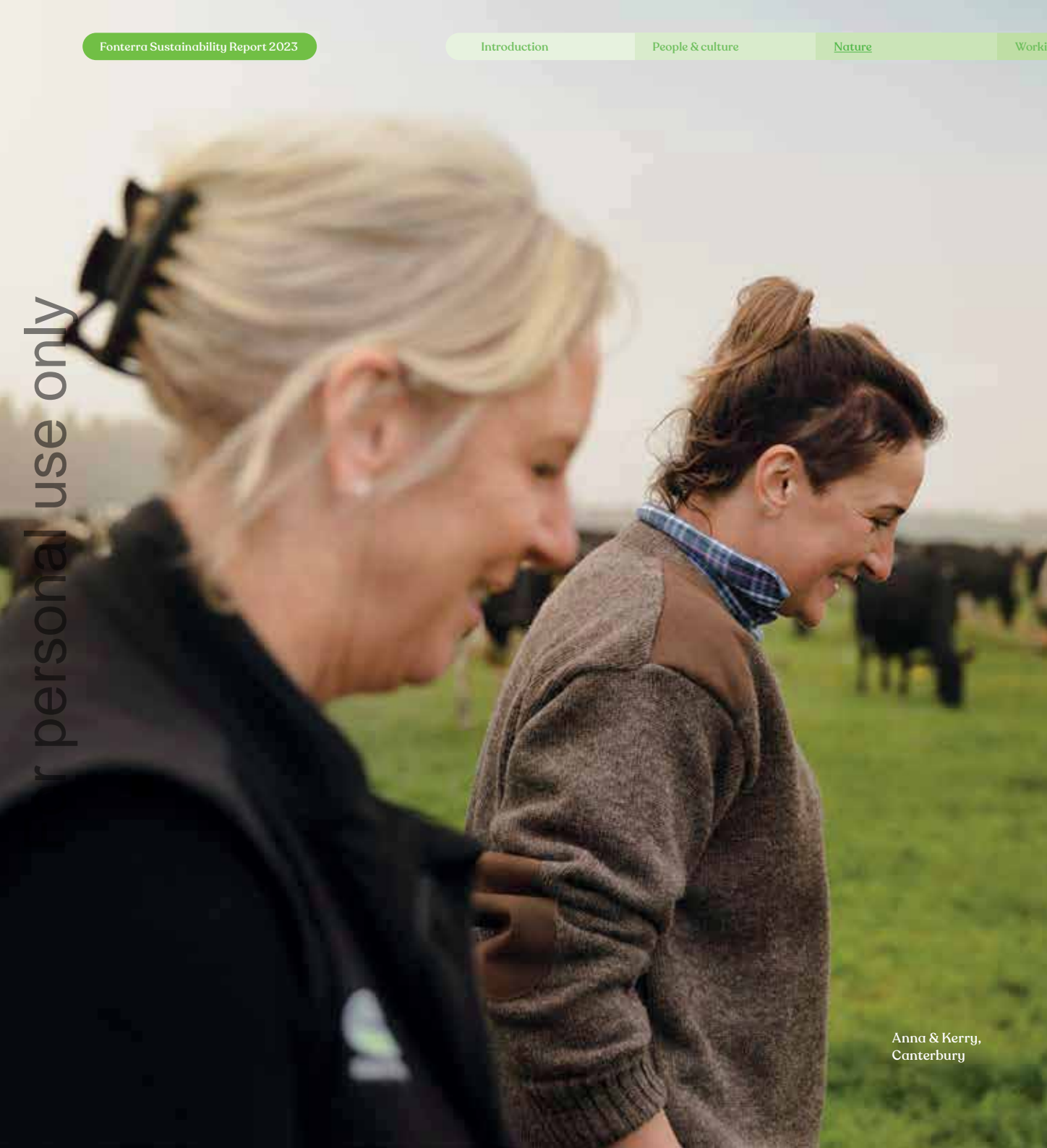
We have partnered with Opihi College and other members of the community to develop a constructed wetland on the northern boundary of the school. As well as reducing sediment loads and increasing biodiversity, the wetland will be a key teaching and student engagement tool. We have also provided funding to support the Sir Charles Creek restoration project to assist with achieving iwi and community water quality and biodiversity goals for the Wainono Lagoon catchment.

Southland

We supported a water quality improvement initiative that will help prevent contaminants impacting the internationally significant Waituna Lagoon wetland system. Our funding has helped install a series of three on-farm sediment traps to capture sediment from adjacent paddocks and tile drains, preventing it entering the Jordan Creek and Lagoon. An area of approximately 3000m² around the sediment traps has also been planted with native species to increase on-farm and catchment biodiversity.

Sediment traps and planting





Anna & Kerry,
Canterbury

Our performance

85% 

of our farmer owners in New Zealand now have tailored Farm Environment Plans

44%

of our manufacturing sites have bespoke water improvement plans in place

6.7%

reduction in water use at our manufacturing sites since FY18

What's next

We will continue to support our New Zealand farmer owners as they establish Farm Environment Plans, focusing on the specific priorities for their farm.

We will use this approach to drive improvements that positively impact greenhouse gas emissions, water quality, water use, soil health and biodiversity.

We will continue to improve water stewardship at our manufacturing sites, and roll out bespoke Water Improvement Plans covering both water usage and treatment of wastewater.

We will take part in the Aotearoa Circle bootcamp on the Taskforce on Nature-related Financial Disclosures (TNFD) and look to apply the framework through an Aotearoa New Zealand lens.

Ngahere,
Hamilton

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 an important part of our Food Safety and Quality system and allows us to deliver the high-quality dairy products our customers and consumers expect. Understanding the source, make-up, quality and functionality of the different packaging types and materials we use is critical to protecting the nutrition we produce.

We want to play our part with a Fonterra sustainable packaging journey, which means considering what happens to our packaging once the nutrition inside has been consumed.

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

Our approach

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

Our Global Environmental Policy and supporting standards require all our sites to manage hazardous substances responsibly, maximise manufacturing yield, reduce waste, improve the packaging on Fonterra-branded products so that they are reusable, recyclable, or compostable, and collaborate with others to enable greater access to waste collection and recycling services.

What we've been doing

Sustainable Packaging Programme

Our sustainable packaging programme continues to make good progress. Firm plans are in place with all our global business units, and along with our Research and Development Centre activity, the transition to recycle-ready packaging is being delivered. We are forecasting that we will achieve greater than 95% recycle-ready packaging by the end of 2025.

Using globally accepted recyclability definitions and sales volumes for the 12 months ending July 2023, on a total tonnage of packaging basis, 91% of our packaging is now recycle-ready, up from 89% last year. This leaves 9% that is classified as unsuitable for recycling (e.g. foil-based sachets) that we will continue to focus on reducing.

Our global packaging programme doesn't stop at recycle-ready packaging. We continue to analyse our portfolio to identify where we can make further, meaningful improvements to the packaging we use to protect our products. Our overarching objective is to protect the food we make while conserving packaging resources and reducing waste.

This year, we have continued to collaborate with industry partners to drive innovation and optimise packaging design. We have also been working with others to improve access to recycling collection and reprocessing infrastructure in the markets where we operate.

In looking at solutions we continue to be committed to zero deforestation across our primary deforestation linked commodities (see page 70). This year we commenced a review of our fibre suppliers for appropriate third-party certification.

To take us through to 2030, our sustainable packaging focus is on the four Rs of:

Reduce

Reduce unnecessary plastic and optimise what we must use to keep products safe



Recover

Raise awareness on how packaging should be disposed of by increasing on pack guidance and supporting the development of soft plastic collection and recycling



Redesign

Deploy a fully recycle-ready portfolio and continue to enhance the design of beverage cartons to improve circularity



Rethink

Explore the development of high performing and efficient dairy packaging systems including at-scale reuse and refill systems



Improving our packaging

As we continue to identify new recycle-ready materials, we are also identifying opportunities to improve existing packaging formats.

Fonterra Brands Australia has redesigned its Mainland On the Go™ Lunch range. Changing to a recycle-ready PET tray and removing the cardboard sleeve on each unit will save an estimated 47 tonnes of paperboard annually. These changes provided the additional benefit of increasing the number of units that can be packed into each shipping carton, to reduce corrugated board by 10 tonnes per year and increase transport efficiency.

Over the past year, we have been working with one of our packaging suppliers, Amcor, to develop a new recycle-ready film to use on our consumer and foodservice cream cheese blocks. This new film is based on Amcor's award-winning AmPrima™ technology and has been modified to meet Fonterra's operational requirements. The new film is ready for recycling in the [4] polyethylene stream, which improves opportunities for our customers to recycle in markets where soft plastic recycling infrastructure exists. Our new cream cheese film is the first commercialisation of the AmPrima™ technology in Australasia and will start to be deployed from October 2023, replacing approximately 72.3 tonnes of plastic that is not suitable for recycling.



Reducing plastic waste

To have confidence that our products have not been tampered with along their supply chain journey, we apply security seals to the many forms of transport we use. Products are mainly transported in containers via road, rail and sea.

Until recently these security tags were made with a mix of plastic and metal components, meaning that they couldn't be recycled after use.

For movements within New Zealand our Distribution Centre (NZDC) network has recently completed the roll out of a fully Polypropylene (PP) security seal. These seals are now fully recyclable with collection points in all Fonterra New Zealand distribution centres to direct them into the recycling stream.

We have redesigned the security seals to reduce waste. Previously tags came in strips of ten, all with the same serial number. This meant if we didn't need all ten tags those that were unused went to landfill. The new design comes in a selection of configurations to reduce wastage. We estimate that following full implementation in late 2023 this change will divert approximately 13 tonnes of tags from landfill.



Collaborating to improve recycling

To achieve reusable, recyclable or compostable packaging requires a direct focus on the materials we use. It also requires collaboration and engagement with others to align on preferred materials, influence the product users and accelerate delivery of suitable infrastructure.

To support the development of waste infrastructure Fonterra Sri Lanka has partnered with INSEE Ecocycle to promote sustainable waste practices. Under this partnership, and in collaboration with five local government authorities, non-biodegradable plastic found in municipal solid waste channels is diverted away from landfill to provide energy and which can be a substitute for oil-based fuels. Over time we will explore this material going to higher value uses. With the support of Fonterra, INSEE Ecocycle is also raising awareness among the local council workers regarding the correct segregation of plastic materials.

This year, Fonterra Brands Malaysia has partnered with the Penang Green Council (PGC) and Resource Recycling Systems (RRS) on a feasibility study to establish a pilot collection scheme for soft plastic packaging in Penang. The study is evaluating

current recycling systems, consumer behaviours and available recycling infrastructure in Penang. The aim is to provide data to support the creation of meaningful change by developing a recycling model, which if successful, could be a blueprint for the country's packaging and recycling challenges.

In New Zealand, Fonterra operates a network of 65 Farm Source™ stores retailing farm supplies. This year, we have extended our existing partnership with AgRecovery to introduce facilities across all our stores to collect low density polyethylene bags used for seed, feed and fertiliser. AgRecovery recycle the used bags into plastic pellets, which are used by others to create new products. We believe that by providing collection facilities across our Farm Source™ network it makes it easier for our farmers to access this recycling service. This year we saw a 75% increase on the prior year in AgRecovery collection through our stores.



Working together to reduce solid waste

This year, we continued reducing solid waste sent to landfill, down 13% from last year and down more than 45% from our baseline of FY19.

This covers the solid waste from sites we directly manage, including manufacturing sites, offices, retail stores and Fonterra-owned farms.

This year, in New Zealand, as part of our sustained focus on waste reduction and integration of recycling infrastructure across the Farm Source™ network of stores, we have reduced retail waste to landfill by 54% in comparison to last year.

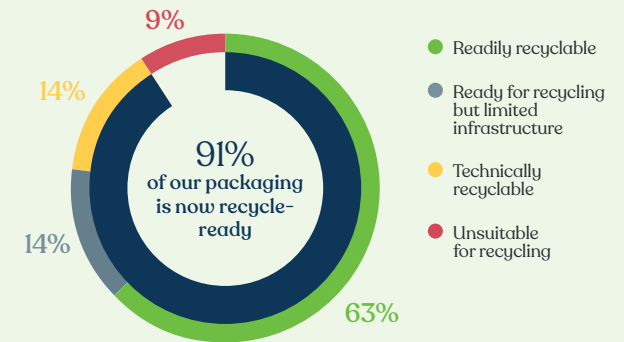
At our Reporoa manufacturing site in New Zealand a collective effort has yielded site-wide waste reduction results, with solid waste almost halved between FY22 and FY23. At times we have product that does not meet our exacting food safety quality standards and is not suitable to divert to stock food. We are now diverting this from a potential landfill waste stream and processing it through a local company's anaerobic biodigester to make heat, electricity and a bio-fertiliser. Other waste reduction activities at this site include recycling any worn or damaged tanker mudflaps and placing smaller volume items like waste slipsheets into appropriate recycling streams.

These site-wide outcomes can be attributed to a culture uplift, where sustainability improvement discussions have been seamlessly integrated with daily health, safety, and quality conversations. Across multiple departments and levels, sustainability metrics have driven positive change, complemented by the establishment of sustainability champions who fuel transformation on the factory floor.

In Australia, since 2019 we have reduced the amount of waste sent to landfill by 39%, through a combination of reducing waste and diverting materials from landfill to more beneficial uses. In partnership with [APR](#) we have introduced a new recycling programme across our manufacturing sites, which will enable these locations to recycle relatively clean soft plastics.

While we still aspire to achieve 'zero waste' from our sites globally, we no longer have a specific deadline. We have already made significant progress in this area, with our current intensity being about 2.1kg of solid waste per tonne of product. Aligned with waste management principles, we will continue to seek year-on-year improvements and eliminate the sources of waste. We will focus on making products to specification to avoid food waste, work with vendors to prevent non-recyclable materials coming onto our sites and partner with others to increase the range of materials that can be economically recovered.

Our performance



What's next

We will continue to seek year-on-year reductions in the solid waste we send to landfill from all our operational sites.

We will continue to move our global packaging portfolio to be recycle-ready and collaborate in markets to improve the viability of recycling.

We will continue to share advice and case studies with vendors to help influence the packaging profile of more products that go onto farms in New Zealand.

We will review our packaging portfolio to identify and close any gaps in the certified sourcing of our fibre-based packaging.

We will perform feasibility studies on various projects aligned to our four identified 2030 focus areas and establish enabling research and development work programmes where required.

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Working together

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.

84%

of internal audits completed across our global business included an assessment of the risks related to corruption

\$12.2 billion

returned to farmers in New Zealand through the Farmgate Milk Price

7,139

farms in New Zealand achieved a recognition level in The Co-operative Difference framework, up from

Gold

EcoVadis Medal awarded in 2023 placing Fonterra among the top 5% of companies assessed by EcoVadis

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Working with farmers

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Farmers are the heart of our Co-operative and we add value to their milk and businesses by supporting continued innovation.

This enables the expectations of our customers and communities to be met.

We have made a strategic choice to focus on New Zealand milk and about 90% of the milk we collect comes from our farmer owners in New Zealand. We also collect milk in other countries, such as Australia, to help meet the needs of our customers and generate the most value from our New Zealand milk (see AR-04).

In this section, we explain how we work with farmers to encourage and support the continuous improvement of good farming practices on farms supplying milk directly to our manufacturing sites.

The Co-operative Difference

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

The Co-operative Difference framework provides a clear signal to farmers about what needs to happen on-farm so we can meet our customer's needs both today and into the future. It pulls the best of what we do into five focus areas: Milk, People and Community, Environment, Animals and Co-operative and Prosperity.

So that we meet those needs today we set clear standards and audit processes with our farmer owners. We can never afford to compromise on matters such as regulatory compliance, producing safe, high-quality milk and looking after people, animals and the environment.

The Co-operative Difference payment recognises farmers who are making improvements in prioritised areas. By meeting specific on-farm targets for the season there are three levels of achievement possible and we use the analogy of a journey climbing up a mountain. Te Pūtake represents the start, Te Puku represents the mid-point, and Te Tihi represents the summit.

In the 2022/2023 season, farms are eligible for a payment of up to 10 cents per kg of milk solids, with 7 cents for reaching Te Pūtake and a further 3 cents for reaching Te Puku. Reaching Te Tihi is about celebrating the farmer leaders in the Co-operative through recognition and is not linked to payments.

The specific criteria for Te Pūtake this season included: accurate and timely completion of annual Farm Dairy Records; completing a DairyNZ Workplace 360 assessment and achieving 100% on the foundational level; having an Animal Wellbeing Plan (see page 40); having a Farm Environment Plan (see page 46) and achieving certain key standards related to topics such as nitrogen surplus, dairy shed effluent, on-farm plastics, farm-grown feed and winter management.

Te Puku builds upon the achievement of Te Pūtake and is all about milk quality. It requires the milk supplied to achieve the excellence level for at least 30 days during the season and then, all milk that met this standard during the season attracts the extra payment of 3 cents per kg of milk solids.

Te Tihi builds upon the achievement of Te Puku and provides additional non-financial recognition for those farms delivering 'excellent' quality milk for at least 90% of their season.

This year, farmers took significant action with more than 83% of farms achieving The Co-operative Difference payment at some level. This outstanding level of participation is an encouraging indication that farmers are willing to step-up and make changes on farm in a way that is meaningful for customers. With more farmers achieving Te Pūtake, we're able to give assurances around the sustainability credentials of our high-quality New Zealand milk.



The
**Co-operative
Difference**

718

Achieved – Te Tihi
“the summit of the mountain”

5,038

Achieved – Te Puku
“the mid-point” 3c/kgMS on all qualifying milk

1,383

Achieved – Te Pūtake
“the start of the journey”
7c/kgMS on all milk supplied

Setting expectations for supplying farms

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

The Fonterra Farm Dairy Standard and The Dairy Material, Collection and Storage Standards are part of our Global Integrated Management System and set out the minimum requirements that all farmers must meet. It applies to all farmers, collection points, co-operative vats and chilling centres supplying raw milk to Fonterra around the world, and forms the basis for our on-farm audits.

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

- In New Zealand, in addition to regular visits by our team, every supplying farm is visited each year by an independent farm assessor. The assessor validates the accuracy of the data submitted to the Co-operative and verifies the farmers' Co-operative Difference achievements at this time. This year, 17% of farms were placed into our performance management process at some point during the season to support on-farm change. Milk collection suspension notices were issued for nine farms in New Zealand this year: seven related to milk quality, one related to animal wellbeing and effluent and one related to environmental management¹.
- In Australia, farms are visited multiple times each year by our employees, and independent assessments are scheduled based on prior compliance levels. Every farm is assessed at least once every two years. In FY23, 55% of farmers were assessed, and 8% of the assessed farms were referred for follow-up and resolution.
- In Latin America, each farm is assessed by a combination of our employees, and third parties. In addition, our New Zealand-based Global Assurance team audits a random selection of farms once every three years. This was disrupted by COVID-19 related travel restrictions but has resumed in FY23².

- In China, the one farm under our direct control prior to its sale in April 2023, was subject to assessment by a combination of our own employees and third parties. In addition, it was subject to assessments by our New Zealand based Global Assurance team and Internal Audit team. This has been disrupted by COVID-19 related travel restrictions but resumed in FY23. The sale of Hangu China farm finalises Fonterra's exit of China farms³.

Where we find mandatory requirements are not being met, our On-Farm Advisors 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.

Farms we manage

We only have a very small number of farms around the world under our management control. In New Zealand, we manage 30 farms that neighbour our manufacturing sites, including 10 that have dairy herds.

We use these farms to manage excess water and nutrients from our manufacturing operations. The water and nutrients improve soil health and support pasture growth, which then allows us to grow and supply supplementary animal feeds for our farmers.

In April of this year we sold the one remaining farm we operated in China.

- ¹ The data presented reflects the New Zealand 2022/23 milking season, which runs from 1 June 2022 to 31 May 2023.
- ² In March 2023 we completed the sale of the Chilean Soprole business. DPA Brazil currently held for sale.
- ³ In April 2023 we completed the sale the Hangu Farm in China.

What's next

We are continuing to build capability in our New Zealand Farm Source field team around on-farm efficiency to support our farmers around what options they have to become more efficient based on their stage of the farming journey.



Working in partnership

We know we can achieve more and have a greater positive impact when we partner with others.

This section covers some of the partnerships we have been progressing this year.

See also

Working with farmers — page SR-57

Working with vendors — page SR-68

Doing Good Together — page AR-15

Sustainable Nutrition Initiative®

Sustainably nourishing an increasing global population without exceeding the capacity of the planet is a major challenge for society, and there are many narratives on how this should be done.

Fonterra is supporting the Sustainable Nutrition Initiative (SNI®), which is creating a better understanding of the food system and identifying practical opportunities to sustainably feed the global population with the nutrients required.

We must thoroughly understand the problems to be solved before embarking on changes that will be difficult and slow to introduce, and extremely challenging to reverse if we get them wrong. The global food system of the future will be shaped by the shifts in thinking that we make today. The SNI® helps provide context to support this thinking and helps to guide decisions.

The current impacts of the pandemic, conflict and climate-related issues on the supply and trade in food and associated nutrients has emphasised the importance of a global approach to food security.

The DELTA Model® has been created by the SNI® to generate a wide range of possible scenarios and explore what improvements to the global food system might be possible and practical. Using the DELTA Model® to explore global food supply, flows, consumption and losses highlights facts that may differ from some current thinking. The food system is already plant-based, and

from the perspective of production, consumption and waste, animal-sources of food are not as inefficient as previously thought. There is also strong evidence that to provide the global population with the nutrition it needs, a plant-based and animal-optimised food system is required.

This year, the SNI® team have begun work on a new dietary optimisation tool that will be available to all. It will allow the role of dairy to be explored in a dietary context, considering its nutritional, environmental and cost characteristics. The team have also been involved in modelling of international nutrient trade, identifying that almost all New Zealand's export partners have national calcium deficiencies, alongside other micronutrients. An open access tool will soon be released to visualise these flows and the most important contributing food items.

In terms of advocacy and international engagement, Prof Warren McNabb continues his role on the Scientific Advisory Committee for the FAO project on the contribution of livestock to food security, sustainable food systems, nutrition and healthy diets, and has also taken up a role representing New Zealand on the World Farmers' Organisation (WFO) Scientific Council. Dr Nick Smith has joined the Thought Leaders Group for Te Puna Whakaaronui, New Zealand's Food and Fibre Sector Think Tank hosted by MPI. The DELTA Model® has been used in Master's level teaching over the last year at the University of Otago, Monash University (Australia), Wageningen University & Research (Netherlands), University of Lincoln (UK), and University of Padua (Italy).

For more information please visit the SNI® website

www.sustainablenutritioninitiative.com.

Living Water

Living Water is a partnership between Fonterra and the New Zealand Department of Conservation, two large organisations with different skill sets and purposes, who saw the potential value of working together.

Caring for Aotearoa New Zealand's ecosystems and species is critical to New Zealand's economic success and that of the agricultural sector in the future, and it needs to happen across all landscapes, not just on conservation land.

Through a gradual process over time, it is estimated that about 10% of New Zealand's land area has been artificially drained to make lowland areas productive for agriculture. This has modified the natural water network, and these drains can often now be the last refuge for native freshwater species in productive landscapes.

Established in 2013, the partnership is focused on five catchments (see map on page 61) to identify game-changing and scalable solutions that show dairying and freshwater can thrive together.

After 10 years in partnership, there is much to celebrate, including:

- The inclusion of a specific Biodiversity module in the farm-specific Farm Environment Plans that Fonterra uses with farmers (see page 46)
- 98% of farms supplying milk to Fonterra in Living Water catchments now have FEPPs, up 8% on 2022
- 17 identified solutions have been scaled or are being used by others
- 8 potential game-changing approaches have been trialled
- 200,000 native plants and trees have been planted in Living Water catchments
- Tangible improvements to instream habitats for native fish have been achieved
- 50% of our farmer shareholders located in Living Water catchments are implementing freshwater improvement actions over and above regulatory requirements.

Our early work trialling biodiversity assessments on farm led to the recently completed [Farming with Native Biodiversity](#) pilot. This resulted in developing resources that were made available nationally to support farmers and farm advisors to identify, enhance and restore biodiversity on farm. We've also shared our work on [ecosystem services](#) and sediment [detention bunds](#) with the [Kaipara Moana Remediation](#) programme, which is looking to reduce sediment reaching the ecologically sensitive and significant Kaipara Harbour by 50% between 2020 and 2030.

There are also valuable lessons learned that can be used to inform not only our own future work but also the work of others. Some of these include:

- Working at the farm scale alone will not fix the challenges faced. We need to 'reimagine' our productive landscapes for a more-resilient future and design with nature rather than squeeze nature in around farming.
- Aspects of the natural landscape can influence water quality outcomes more than farm management practices, so using the new science of physiographics (natural landscape attributes and processes) for improved catchment and farm planning will be beneficial.
- It's important to use all the available knowledge – indigenous, western science and farmers – and use the right solution in the right place for the right purpose.
- Farmers are smart business people who look to maximise their return on investment – we can support them to implement changes that provide multiple benefits for climate, water, soil, biodiversity, ecosystem function, and long-term farm and business resilience.

Living Water has built a strong working relationship and mutual respect between DOC and Fonterra. We've learned a lot that we look forward to taking beyond the ten-year partnership.

Living Water example projects

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National projects

- LandscapeDNA
- Fish passage remediation project
- Farming with Native Biodiversity
- Fonterra FEP App



Waituna Lagoon/
Te pūroto o Waituna,

- ▲ Contaminant intervention approach
- ▲ Physiographics
- Fine Particle Fertiliser Application
- Instream habitat additions



Pūkoro-Miranda, Hauraki

- ▲ Catchment condition survey
- ▲ CAPture catchment prioritisation



■ National projects	Key
▲ Catchment scale projects	
● Farm scale projects	
Completed	
In progress	



Wairua River/
Te awa o Wairua,
Northland/
Te Tai Tokerau

- Low cost constructed wetland
- ▲ Detention bunds
- ▲ Catchment condition survey



Lake Ruatuna,
Waikato

- ▲ Water Primrose
- Trees on farm



Ararira-LII River/
Te awa o Āraiaara,

- ▲ Instream habitat additions
- ▲ Drainage network redesign
- Economic value of lowland drainage restorations

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External initiatives & membership of associations

Fonterra is a supporter of the following voluntary initiatives:

Initiative	Date adopted
CDP	2015
Science Based Targets initiative	2020
Dairy Sustainability Framework	2013
New Zealand Climate Leaders Coalition	2017
Rainbow Tick	2019
Global Food Safety Initiative (AUS/NZ forum)	2019
TupuToa	2018
New Zealand Plastic Packaging Declaration	2019
The Australian Packaging Covenant	2011

Fonterra is a member of the following organisations:

International Dairy Federation

Global Dairy Platform

Dairy Companies Association of New Zealand

Diversity Works New Zealand

Sustainable Agriculture Initiative Platform

Roundtable for Sustainable Palm Oil

Business New Zealand

Sustainable Business Council

Sustainable Business Network

Pride Pledge

The Aoteroa Circle

Dairy Womens' Network

Bioenergy Association of New Zealand (BANZ)

LandscapeDNA

Ethical business practices

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We earn trust by acting ethically and living our values every day.

Our Purpose

Our Co-operative,
Empowering people,
To create goodness,
for generations.

You, me, us together,
Tātou, tātou.

Our Values

Co-operative spirit

Do what's right

Make it happen

Challenge boundaries

Holli & Jess,
Hawkes Bay



Our approach

So that we live up to the intent of our Purpose, the experiences and interactions that farmers, our customers, business partners and communities have with our people must foster trust and credibility.

The Board, Co-operative Council and Management of Fonterra consider that strong governance plays a critical role in the success of our Co-operative and are committed to achieving the highest standard of corporate governance, representation and leadership (for details, see G&S-08).

Our Group Legal and Compliance Policy requires all of Fonterra's business units to clearly assign roles and responsibilities for compliance, with all applicable laws and regulations applying to our operations. We are committed to embedding compliance with all applicable laws, regulations and Fonterra Global Policies into our operations and creating a culture of compliance, including appropriate monitoring, assurance, reporting and continuous improvement.

Fonterra's Code of Business Conduct, The Way We Work, outlines our expectations across a wide range of internal and external operating practices. It is made available in a range of languages to employees and our stakeholders.

We are committed to operating in a manner that builds trust and lasting relationships through behaving with honesty, integrity and transparency. We seek to protect the reputation of our business by implementing robust practices in the areas of actual or potential conflict of interest, gifts and corporate hospitality, bribery and corruption, and the disclosure of fraudulent and unlawful activity.

We require our people to complete training on our global policy framework, which includes our global policies, standards and supporting documents.

For more information on our Code of ethics see G&S-08.



Orla & Kate,
Auckland

Our performance

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Legal compliance

We have not identified any material incidents of non-compliance with laws and regulations in the social and economic area in the past year. There were also no fines or non-financial sanctions related to anti-competitive behaviour, anti-trust, and monopoly practices over this period.

Fonterra is currently a defendant in climate change litigation commenced by Mr Mike Smith, a Māori climate change representative, which was commenced in the Auckland High Court. Fonterra is a co-defendant, along with six other major New Zealand corporates. In basic terms, Mr Smith is claiming that the defendants undertake or enable activities that release greenhouse gases into the atmosphere that have contributed to climate change, and that Mr Smith has, or will in the future, suffer losses as a result of climate change. Fonterra and the other defendants are vigorously defending these proceedings. Following an application by the defendants, the High Court struck out two of Mr Smith's three specific claims. A High Court claim can be struck out if the High Court determines the claim is not reasonably arguable in law. The decision of the High Court was then

appealed by Mr Smith in the Court of Appeal (Fonterra and the other defendants cross-appealed the decision of the High Court not to strike out the remaining claim). The Court of Appeal ruled in favour of the defendants and struck out all three claims. Mr Smith has been granted leave to appeal the decision of the Court of Appeal to the Supreme Court and this was heard on 15-17 August 2022. The parties are awaiting the Supreme Court's judgement.

It is expected that the judgment in the appeal will be issued by the Supreme Court by the end of 2023. If the Supreme Court decides one or more of Mr Smith's claims should not be struck out as being legally untenable, litigation will then proceed to a full trial in the High Court where Mr Smith will be required to fully argue his claims and present supporting evidence. The Supreme Court decision will not determine any liability as that would be determined through the full High Court trial. Fonterra will continue to vigorously defend the claims made by Mr Smith.

For further details on environmental compliance, see page 67; for health and safety compliance, see page 19; for product marketing compliance, see page 22.

Anti-corruption

Each year our Internal Audit team assess all Fonterra businesses for the risk of potential fraud. This risk assessment helps determine the priorities for audits across our global business.

During FY23, 84% of the internal audits completed across our global business included an assessment of the risks related to corruption. Particular areas of focus include segregation of duties, delegated authorities, procurement practices, and sensitive inventory management. Within the coverage of these audits, five manufacturing sites where we have management control were subject to an anti-corruption check.

Internal Audit was referred to investigate one potential corruption/fraud case identified through our whistleblowing hotline in FY23. It involved one of our entities in Southeast Asia, and individuals were accused of unethical behaviour with respect to conflicts of interest and bribery. Investigations did not substantiate the claims, no further action was taken.

In addition to the case identified through our whistleblowing hotline, three further cases in one of our entities in Southeast Asia were investigated for unethical behaviour with respect to corruption and asset misappropriation. The investigations did not substantiate the claims, no further action was taken.

A full-time employee in New Zealand was investigated for unethical behaviour with respect to a non-disclosed interest in a competitor business. The investigation substantiated the conflict of interest and the employee was dismissed.

Responsible political behaviour

Fonterra does not allow corporate contributions of any kind to a candidate or political party in connection with political elections. No political contributions were made by Fonterra in the past year. We do not offer money or anything of material value to government officials, parties or candidates for the purposes of influencing the acts or decisions of officials.

Principled approach to tax

Fonterra has a clear set of principles that guide how we manage our tax obligations in New Zealand and around the world. We pay our fair share of tax in all jurisdictions. We are transparent and work with tax authorities so we can continue to act responsibly.

In New Zealand, co-operatives are treated differently to corporates under tax law. Rather than being taxed directly, Fonterra passes our income on to our farmer shareholders, who pay the tax at their level.

Environmental Management for our manufacturing operations

Our Global Environmental Policy defines our approach to the management of all environmental aspects relevant to our activities including, but not limited to, water, climate and energy, waste and pollution prevention across our global value chain.

This includes assessing and managing environmental risks, taking a precautionary approach to decision-making to prevent damage to the environment or human health where there is uncertainty and implementing best-practice environmental management systems. We set aspirations, objectives and targets that drive environmental performance and continue to work towards these.

We expect our people to demonstrate a commitment to environmental management, including in their strategic planning and the way they run the business, such as developing innovative approaches for managing and restoring the environment.

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

Manufacturing sites where we do not have operational control are excluded from our performance reporting.

Independent evaluation & 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, environment, health and safety and business practices are required by some of our customers. Other customers require us to undertake an annual assessment by EcoVadis. This year, we retained a Gold rating.

Other third-party audits are part of the independent certification of site Environmental Management Systems (EMS) to international standards, such as ISO14001:2015. Independent certification to ISO14001, or an equivalent such as EnviroMark Diamond, provides a third-party evaluation of the performance of our EMS. Globally, 73% of our manufacturing sites are certified to this level or equivalent.



Environmental compliance

We draw on international guidelines and national or local regulation to identify priority substances of concern and establish acceptable limits for operating. We have identified clean-in-place chemicals, refrigerants and contaminated wastewater as our substances of concern.

During FY23, we received no abatement notices for non-compliance with environmental laws or regulations.

At one of our manufacturing sites in Palmerston North we experienced some non-compliances where pre-treatment on-site did not meet trade waste agreement levels with the city council. Over the year we incurred a total of \$7,140 in penalty charges.

One significant spill occurred recently at our Edendale site, when approximately 1,200m³ of water measuring below the consented pH level was discharged into a river. An investigation is ongoing.

Where an event occurs we take action to improve processes and minimise the risk of further non-compliances.

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Working with vendors

We work across our supply chain to achieve alignment with our sustainability commitments and goals.

This means promoting the adoption of responsible practices within our supply chain and working to source goods and services produced in an environmentally and socially responsible way.

By far the largest single input to our business is raw milk, collected directly from farmers. For more information on how we work with our farmers, in New Zealand and around the world, see page 57.

This section covers the way we work with vendors in our non-milk supply chain. Our procurement team is also supporting the vendor selection and engagements to deliver our decarbonisation (see page 34), wastewater improvement (see page 44), forest products (see page 70) and sustainable packaging (see page 51) programmes.



Our approach

Our Global Procurement Policy and Procurement Standard set out our requirements for the procurement of non-milk goods and services, including capital projects.

We are committed to purchasing decisions that set us up for a sustainable future. These requirements apply to all purchasing, and for significant items our specialist procurement team must be involved in the purchasing decisions and ongoing management of the vendors.

The Global Policy is owned by the Chief Operating Officer and approved by the Board of Directors. Business Unit managers are accountable for ensuring the Global Standard is fully implemented across the organisation. Business Unit procurement leads are accountable for guiding and approving major procurement activities, ensuring procurement control activities are operating effectively and addressing any actual or potential non-compliant behaviours. All employees are responsible for complying with the standard.

Vendors are assessed against a range of criteria such as regulatory compliance, food safety and quality, health and safety, cyber security, environmental performance and working conditions. We carry out assessments during initial selection and on an ongoing basis. Part of our on-boarding for a new vendors includes a risk assessment. If a vendor is identified as a potential risk additional assessments are required before we move forward, including consulting our internal risk pillar owner and subject matter experts. Suppliers of any material or services that may impact our sustainability commitments must first be approved by the Sustainability team.

The Fonterra Supplier Sustainability Code of Practice sets our expectations of vendors including upholding standards related to ethical business conduct, human rights, workplace health and safety, fair working conditions, and environmental protection.

What we've been doing

Rolling out our framework to improve management of vendors.

Globally we engage with more than 10,000 vendors, and we are reliant on them to deliver our objectives.

Sustainability is one of the key pillars considered when we refresh our category strategies and a standing item on the agenda in our vendor meetings for providers of ingredients, packaging and engineering categories.

In 2022 we designed a vendor vetting and engagement framework, enabled by an online portal, to help us better understand and manage the risks associated with our vendors. Our framework, supported by an online portal and a robust business process, enables us to assess and manage our vendors in a more efficient and consistent way, both during initial selection and on a proactive ongoing basis.

For our employees, our procurement processes are being simplified and standardised, which is supported by new technology and targeted training. As a result, we can comprehensively cover the broad range of topics that need to be considered

and focus on the most relevant and highest risk topics for each vendor. The topics covered include regulatory compliance, food safety and quality, health and safety, cyber security, environmental performance and working conditions.

For our vendors, the goal is to provide them with easy-to-use systems that support a transparent assessment with clear requirements and good management processes throughout the entire engagement lifecycle.

Following introduction of the portal in July 2022, we continue to progress its roll out. To date, more than 600 vendors have been assessed representing a range of categories, services and vendor size.

A new Fonterra Procurement page was made live on our website in July 2023 to provide our global vendors with easy-to-access information on our processes, links to terms of supply and user guides for vendors to participate in our sourcing events.

www.fonterra.com/nz/en/campaign/vendors.html

Forest products

Protection of forests and other natural ecosystems is critical for maintaining biodiversity, mitigating, and adapting to the impacts of climate change, and sustaining livelihoods.

The forest and agriculture products that Fonterra sources – including palm, soy, paper, and bioenergy – can pose risks for deforestation and human rights violations. Fonterra is committed to eliminating deforestation and the conversion of all other natural ecosystems across our operations and supply chains.

We first launched our Palm Product Standard in 2016, and this year we replaced the Standard with a wider Forest and Agriculture Products Standard to reflect updates to internationally recognised standards and principles and widening our commitment to zero deforestation across our value chain.

With the launch of the revised standard, Fonterra commits to no deforestation across its primary deforestation-linked commodities, with a target date of December 31, 2025.

This includes our existing commitment where we are driving towards 100% certified segregated supply of palm oil. We have been considering the risk of deforestation more widely in our supply chain for several years, and this year completed our sixth response to CDP on Forests.

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 through one of the RSPO supply chain models. During the 2022 calendar year, we purchased 24,676 tonnes of palm-related products as an ingredient, up 20% on 2021, aligning with purchasing volumes in 2020. Volumes were up in most regions, and this has contributed to reduced progress towards our target of 100% RSPO certified segregated

supply this year. For the 2022 calendar year, 67% of our purchasing was RSPO certified to at least segregated supply level and 25% was certified as mass balance.

By volume, 97% of all palm oil being purchased by our New Zealand business and 100% of all palm oil being purchased by our Australian business is certified as segregated supply. It is purchasing for our operations in Saudi Arabia and Indonesia where sourcing segregated supply is most challenging. We remain committed to achieving certified segregated supply and have implemented an internal exemption process to provide greater rigor for non-conformances against our Standard. This has made non-conformances visible to leadership and has contributed to several changes in sourcing which should show through our 2023 calendar year reporting. We are increasing our efforts to positively influence the sustainable production of palm within our supply chains and will continue to work with suppliers of direct and indirect palm oil ingredients to work towards 100% certified segregated supply.

Palm oil is a versatile, functional fat that can be blended with dairy ingredients to make a wide range of products with the potential to make New Zealand-sourced nutrition available to more consumers at affordable price points in some markets.

Palm kernel expeller (PKE) is a by-product of the palm crop, originally treated as waste, and now used as an effective supplementary feed for animals, including dairy cows in New Zealand. Our farmers are aware of the need to source this responsibly, and we test milk received to detect if the expected low use of PKE is being exceeded. We believe our focus on influencing primary palm production is the best way to deliver sustainably produced PKE.

Our performance

67%



of purchased palm oil is now certified as at least 'segregated supply' from credible organisations.

What's next

Using our online portal, we will continue to expand our assessment of, and engagement with vendors, globally to better understand their practices and manage risks in their supply chains.

We will continue to roll out our updated Sustainability Code of Practice, working with vendors so our expectations are understood, and priority risks are being managed.

We will implement our updated Agriculture and Forest Products Standard, driving harder towards 100% certified segregated supply and introducing supply chain audits.

Appendices

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Our contribution to United Nations Sustainable Development Goals

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

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

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

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

The dairy sector's global approach to sustainable development is represented by the Dairy Sustainability Framework (DSF).

Fonterra is a founding and implementing member of the DSF.

We are committed to addressing all 11 DSF criteria within our supply chain, through a process of continuous improvement prioritised in conjunction with the findings of our materiality assessment.




Whenever we refresh our materiality assessment, we ensure that the 11 DSF criteria plus human rights and deforestation are always considered as potential topics in the process.

For more information, see:

www.dairysustainabilityframework.org

www.saipatform.org/sdp/

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

SDG	OUR CONTRIBUTION	INDICATORS	RELATED COVERAGE
 NO POVERTY	Create positive employment opportunities along our value chain	1.2	See Investing in people on page 10 See Working with farmers on page 57
 ZERO HUNGER	Provide access to safe, affordable nutrition	2.1	See Food, safety and quality on page 24
	Address malnutrition through products tailored to specific health needs	2.2	See Nutrition and health on page 20
	Lift dairy productivity to meet growing nutritional needs in a sustainable way	2.4	See Working with farmers on page 57
 GOOD HEALTH & WELLBEING	Responsibly provide products to support wellbeing of people, including mothers and infants	3.1 3.2	See Nutrition and health on page 20
	Continue to improve the nutritional profile of our products	3.4	See Nutrition and health on page 20 See Health, safety and wellbeing on page 16
	Promote healthy and informed consumer choices	3.9	See Health, safety and wellbeing on page 16
	Provide a safe working environment	3.9	See Health, safety and wellbeing on page 16
 GENDER EQUALITY	Provide equal participation and opportunities for women in the workforce	5.5	See Diversity and inclusion on page 11 See Closing our gender pay gap on page 14
	 CLEAN WATER & SANITATION	Reduce the impact of farming and manufacturing on water quality and ecosystems	6.3
14.1 15.1 15.2			See Prioritising on-farm improvements on page 46 See Working with farmers on page 57
6.4			See Using less water on page 44
 LIFE BELOW WATER	Improve water efficiency, especially in areas of constrained supply	6.4	See Using less water on page 44
 LIFE ON LAND	Protect and restore freshwater ecosystems	6.6	See Prioritising on-farm improvements on page 46 See Sustainable catchments on page 47
		 DECENT WORK & ECONOMIC GROWTH	Provide positive and inclusive employment for all groups
Address labour and human rights issues in our supply chain	8.7 8.8		See Working with vendors on page 68 See our Modern Slavery Statement .
Provide a safe and secure working environment	8.8		See Health, safety and wellbeing page 16
 RESPONSIBLE CONSUMPTION & PRODUCTION	Reduce food waste throughout our supply chain	12.3	See Packaging and waste on page 51
	Reduce waste generation through our operations and product packaging	12.5	See Packaging and waste on page 51
 CLIMATE CHANGE	Support farmers to build resilience to climate change	13.1	See Prioritising on-farm improvements on page 46
	Reduced emissions across our supply chain		See Climate change on page 28

Our performance

PERFORMANCE

INDICATOR	TARGET	FY20	FY21	FY22	FY23	COMMENTARY	PAGE
People - Nutrition and health							
Percentage of everyday and advanced nutrition products that meet endorsed nutritional guidelines ¹ Fonterra consumer branded products (Global)	100% by 2025	–	86.5%	87.7%	97.1%	<p>We are continuing to improve the formulation of our consumer products.</p> <p>In 2022, we developed an online system which makes it easier for us to analyse and track our progress. This system has been implemented for our global business units but excludes those businesses that were held for sale in 2023.</p> <p>On a volume sold basis, we improved from 87.7% to 97.1%. Having achieved more than 90% of our everyday and advanced nutrition products meeting our independently endorsed nutritional guidelines, our aim is to keep above the 90% threshold as we progress to our target of 100%.</p> <p>Our nutrition guidelines, as endorsed by the New Zealand Nutritional Foundation are publicly available on our web site.</p>	SR-21
People - Health safety and wellbeing							
Work-related fatalities (employees, contractors, on-site public)	Zero harm	0	0	1	0	Tragically, last year we reported a tanker driver passing away in April 2022, when his tanker left the road in Canterbury and rolled into a paddock. This incident is now under-consideration by the New Zealand Coroner.	
Number of serious harm injuries ² (employees, contractors, on-site public)	Zero harm	10	9	8	5	<p>We have achieved a further reduction in the number of serious harm injuries this year. Our goal remains to eliminate serious harm so we will continue to seek further improvements.</p> <p>Three of these incidents were associated with slip, trips and falls, two were related to incidents of catches in machinery.</p>	SR-17
Number of recordable injuries (employees – work-related)		247	230	258	328	While TRI has increased in FY23, we believe this indicates improved reporting 328 injuries required medical treatment, restricted work duties or time away from work. Manual handling (23%) and slips, trips and falls (20%) continue to be the main cause of recordable injuries. This is the highest number for several years so we will continue to seek further improvements in both rate and severity.	SR-17
Total recordable injury frequency rate (TRIFR per million work hours) (employees – work-related)	Less than 5	5.8	5.7	6.7	8.6	<p>This year, we have seen an increase in recordable injury rate. Slips, trips and falls, as well as manual handling incidents continue to contribute to more than 40% of our injuries.</p> <p>The total hours worked covered by this injury rate was 37.9 million hours.</p>	SR-17

FY23 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.

¹ Assessment of products is based on protein, calcium and added sugars. Everyday nutrition products are intended to deliver a daily source of dairy nutrition. Advanced nutrition products provide a source of dairy nutrition and are fortified for advanced nutrition and health benefits.

² Serious harm injuries are injuries that cause temporary or permanent loss of body function and include those to/involving both employees and contractors.

PERFORMANCE

INDICATOR	TARGET	PERFORMANCE					COMMENTARY	PAGE
		FY20	FY21	FY22	FY23			
People – Investing in people								
Training skills hours (NZ)	Double by 2025 from FY20 baseline	270,355	346,417	501,879	430,356	<p>We have delivered fewer hours this year, decreasing the hours of skills training by 14.9% compared to FY22, with the average hours per learner being 31.6 hours. The reduction this year is largely due to the timing of course completions.</p> <p>In addition to skills-related training there were an additional 224,390 hours of onboarding and compliance learning in New Zealand, covering things such as safety and environmental management.</p>	●	SR-12
Gender diversity (Band 12+)	40:40:20	–	–	37.6%	39.5%	Our new goal for 2023 onward is 40:40:20, which we believe sends a positive signal on the direction we want to go. 40:40:20 refers to 40% female, 40% male, 20% of any gender. The 20% introduces the flexibility of female, male or non-binary gender. This year we also extended the range of senior leadership covered by the goal to Bands 12+.	●	SR-11
Nature – Land and water, on-farm								
Farms with Farm Environment Plans in New Zealand	100% by 2025	34%	53%	71%	85%	Our goal for FY23 was to reach 84% and this has been exceeded.	●	SR-46
Farms with Farm Environment Plans in Australia		–	–	13%	31%	This is the second year we have supported the farmers supplying us milk in Australia to develop FEPS.	●	SR-46
Nature – Land and water, manufacturing								
Water Improvement Plans in place at manufacturing sites	100% by end FY24	–	–	–	44%	This year we set a new target to establish integrated water improvement plans covering both water usage and treatment of wastewater for all our manufacturing sites. We are well on the way to achieving our FY24 target.	●	SR-44
Reduction in absolute water use across manufacturing sites by 2030	15% reduction by 2030 from a FY18 base year				6.7% Better than FY18	<p>This year we broadened our water reduction target to reduce absolute water use across manufacturing sites from a FY18 base year.</p> <p>We anticipate year-on-year performance variability as water demand fluctuates due to various factors, including milk volumes, product mix, recycled water availability, and project activity (eg. FSQ aspects when commissioning new production lines). We expect to see a downward trend over time as water-reduction projects are realised.</p> <p>Performance is adjusted to account for acquisitions and divestments (see Data Reporting Notes on page SR-98).</p>	●	SR-44

FY23 progress is evaluated against stated targets:



Progressing well or target achieved.



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PERFORMANCE

INDICATOR	TARGET	PERFORMANCE				COMMENTARY	PAGE
		FY20	FY21	FY22	FY23		
Improvement in water efficiency (water used per cubic metre of milk processed)	Better than FY18	3.4%	3.0%	2.9%	0.1%	While our priority is on reducing our absolute water use at sites, a focus on water efficiency at all sites is an important aspect of water stewardship. This year saw a drop in our water intensity performance indicators, this was mostly due to a shift to manufacturing products which use more water within their processes.	
Improvement in water efficiency (water used per tonne finished goods)	Better than FY18	6.8%	6.3%	7.0%	4.7%	For these underlying performance indicators, prior years have been adjusted to account for acquisitions and divestments over time.	
Percentage of Manufacturing sites treating wastewater to leading industry standards	>80% of sites by 2030 (global)		57%	60%	60%	Recognising that stakeholders have different views and values when it comes to improving water quality, we believe that a leading industry approach to wastewater quality requires a truly collaborative approach. We judge our success based on a combination of internal guidelines and satisfying the expectations of key stakeholders at a catchment level. We are progressing our investments to upgrade wastewater treatment facilities and expect to see progress as these substantial projects are commissioned. Performance is adjusted to account for acquisitions and divestments (see Data Reporting Notes on page SR-98).	SR-45
Water withdrawal by source overall - Volume ('000 m ³)							
Freshwater (≤1,000 mg/L Total Dissolved Solids)	Surface water (water that occurs naturally on the Earth's surface)	24,918	25,726	23,664	23,619	Includes rainwater harvesting at our Indonesian site.	
	Ground water (water that is in an underground formation)	14,835	14,489	14,074	14,684		
	Seawater (sea or ocean)	0	0	0	0		
	Produced water (through the extraction, processing or use of any raw material)	0	0	0	0		
	Third party water (municipal water supplies or other public or private water utilities)	7,159	7,015	7,415	7,612		
Total withdrawal from freshwater		46,912	47,230	45,153	45,915		

FY23 progress is evaluated against stated targets:



Progressing well or target achieved.



Progressing but not as strongly as we'd like.



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PERFORMANCE

INDICATOR	TARGET	PERFORMANCE				COMMENTARY	PAGE
		FY20	FY21	FY22	FY23		
Other water (>1,000 mg/L Total Dissolved Solids)	Surface water	0	0	0	0		
	Ground water	2,127	1,996	1,992	1,270		
	Seawater	0	0	0	0		
	Produced water	11,236	11,913	12,345	12,009	Water is extracted from milk during some processing. The volume is a conservative estimate of produced water, for sites where discharge volumes exceed withdrawal.	
	Third-party water	1,330	1,536	1,448	1,538		
Total withdrawal from other water		14,693	15,445	15,785	14,818		
Grand Total		61,605	62,675	60,939	60,733		
Water discharge by destination overall - Volume ('000 m ³)							
Freshwater (≤1,000 mg/L Total Dissolved Solids)	Surface water	19,178	19,676	18,507	17,817		
	Ground water	4,200	3,767	3,686	3,313		
	Seawater	0	0	0	0		
	Third-party water (total)	1,446	1,536	1,871	1,486		
	Third-party water - for use by other parties	0	0	502	551	By agreement, or for emergency community support, we provide some water to third parties. These are small volumes and not easy to isolate. From FY22, we began reporting where data is reliable, other volumes are deemed immaterial.	
Total discharged to freshwater		24,823	24,978	24,064	22,616		
Other water (>1,000 mg/L Total Dissolved Solids)	Surface water	5,961	5,974	5,704	6,927		
	Ground water	12,250	12,896	11,879	11,467		
	Seawater	12,936	13,265	13,962	14,456		
	Third-party water (total)	3,780	3,854	3,789	4,051		
	Third-party water - for use by other parties	0	0	0	0		
Total discharged to other water		34,928	35,989	35,333	36,901		
Grand Total		59,751	60,967	59,398	59,517		

FY23 progress is evaluated against stated targets:



Progressing well or target achieved.



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PERFORMANCE

INDICATOR	TARGET	PERFORMANCE				COMMENTARY	PAGE
		FY20	FY21	FY22	FY23		
Water discharge overall – Quality (COD ¹ mg/L)							
Surface water		69	59	58	63		
Ground water		1,183	1,084	1,110	1,109		
Seawater		2,062	2,264	1,947	1,886		
Third-party water		1,703	1,531	1,755	1,846		
Water withdrawal by source from areas with water stress – Volume ('000 m ³)							
Freshwater (≤1,000 mg/L Total Dissolved Solids)	Surface water		0	0	0	0	
	Ground water		0	0	0	0	
	Seawater		0	0	0	0	
	Produced water		0	0	0	0	
	Third-party water		582	582	526	505	
Total withdrawal from freshwater			582	582	526	505	
Other water (>1,000 mg/L Total Dissolved Solids)	Surface water		0	0	0	0	
	Ground water		1,996	1,862	1,857	1,157	
	Seawater		0	0	0	0	
	Produced water		125	117	103	114	
	Third-party water		1,330	1,536	1,448	1,538	
Total withdrawal from other water			3,451	3,514	3,409	2,809	
Total sourced from areas with water stress			4,033	4,097	3,935	3,314	

FY23 progress is evaluated against stated targets:



Progressing well or target achieved.



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Not progressing well or original timeline significantly delayed.

1 Chemical Oxygen Demand – an indicator of water quality measuring chemicals in water that can be oxidized.

PERFORMANCE

INDICATOR	TARGET	FY20	FY21	FY22	FY23	COMMENTARY	PAGE
Water discharge by destination to areas with water stress - Volume ('000 m ³)							
Discharged as freshwater (≤1,000 mg/L Total Dissolved Solids)		1,422	1,495	1,342	913		
Discharged as other water (>1,000 mg/L Total Dissolved Solids)		2,012	2,211	2,058	2,122		
Total discharged to areas with water stress		3,434	3,706	3,400	3,035		
Water consumption - Volume ('000 m ³)							
Total consumption from all areas		1,854	1,707	1,541	1,216		
Total consumption from areas with water stress		599	391	535	279		
Change in water storage		5	(30)	20	11		
Nature – Climate change							
Reduction in absolute Scope 1 & 2 emissions	30% reduction by 2030 from FY18 baseline (Global)	3.5% reduction from FY18	6.5% reduction from FY18	11.3% reduction from FY18	14.1% reduction from FY18	<p>For the second year in a row, progress against our target has been much better than planned and significantly exceeded target. A combination of increased volumes of low emission products such as UHT and Lactose and a reduced proportion of high energy products from coal-reliant sites has positively contributed to this result. Additionally, several countries have experienced reductions associated with grid electricity emissions, driven by increased energy production from renewable sources.</p> <p>In July 23 we uplifted our Scope 1 & 2 reduction target to 50% by 2030 from FY18 baseline (Global). We are in the process of seeking validation from SBTi for this uplift.</p> <p>All prior years have been restated slightly (see Data Reporting Notes on page SR-98).</p>	SR-29
Net change in GHG emissions from dairy farming since 14/15 (NZ) (Pre-farm gate tCO ₂ -e)	Neutral to 2030	554,955 reduction on 14/15 (2.6%)	753,070 reduction on 14/15 (3.6%)	1,364,690 reduction on 14/15 (6.5%)	1,274,954 reduction on 14/15 (6.1%)	<p>Our estimated absolute GHG emissions remain well below the baseline season. Emissions intensity on-farm for 21/22 season (including LUC) is 2.1% higher than the 14/15 baseline. The significant decrease from FY21 to FY22 is based on decreased milk volume, in FY23 milk volumes partially recovered which correspondingly led to increased emissions year-on-year. The lifecycle assessment for 21/22 is the most recent available and is applied to both the 21/22 and 22/23 seasons.</p> <p>All prior years have been restated to reflect the latest available lifecycle assessment (see Data Reporting Notes on page SR-91).</p>	

FY23 progress is evaluated against stated targets:



Progressing well or target achieved.



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PERFORMANCE

INDICATOR	TARGET	PERFORMANCE				COMMENTARY	PAGE
		FY20	FY21	FY22	FY23		
Total energy used by manufacturing							
Fuel consumption	Energy (PJ)	19.5	19.3	18.8	18.6		
	Renewable energy (%)	0%	5%	4%	5%		
Steam consumption	Energy (PJ)	4.0	4.1	3.8	3.9		
	Renewable energy (%)	6%	6%	8%	6%		
Electricity consumption	Energy (PJ)	5.0	5.1	5.1	5.0		
	Renewable energy (%)	55%	56%	59%	64%		
Energy used	Energy (PJ)	28.6	28.6	27.7	27.5		
Renewable energy (%)	%	11%	14%	15%	16%		
Global consolidated emissions ('000 tCO ₂ -e)							
Scope 1	On-farm	241	175	37	31	All prior years have been restated to reflect the latest available on-farm lifecycle assessment, reporting elements introduced (most significant are additions to Scope 3 manufacturing and distribution), and other minor updates (see Data Reporting Notes on page SR-90).	
	Manufacturing	1,469	1,372	1,332	1,316		
	Distribution and other	0	0	0	0		
Total Scope 1		1,710	1,547	1,369	1,347	Emissions include those associated with business units for the period they fall under Fonterra's ownership and management control.	
Scope 2	On-farm	53	36	5	3		
	Manufacturing	580	617	560	496		
	Distribution and other	0	0	0	0		
Total Scope 2		634	652	565	500		
Scope 3	On-farm	23,111	22,928	22,336	22,138		
	Manufacturing	1,639	1,659	1,611	1,539		
	Distribution	283	297	281	292		
	Other	8	3	3	7		
Total Scope 3		25,041	24,887	24,230	23,976		
Total Scope 1, 2 & 3	On-farm	23,405	23,139	23,378	22,172		
	Manufacturing	3,689	3,647	3,503	3,352		
	Distribution	283	297	281	292		
	Other	8	3	3	7		
Total Scope 1, 2 & 3		27,385	27,086	26,164	25,823		

FY23 progress is evaluated against stated targets:



Progressing well or target achieved.



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PERFORMANCE

INDICATOR	TARGET	FY20	FY21	FY22	FY23	COMMENTARY	PAGE
GHG Inventory ('000 tCO ₂ -e)							
Scope 1	Direct emissions from owned/controlled operations	1,710	1,547	1,369	1,347	For full details of our scope coverage, please refer to the Data Reporting Notes on page SR-94. All prior years have been re-stated to reflect the latest available on-farm lifecycle assessment, reporting elements introduced (most significant are additions to Scope 3 manufacturing and distribution) and other minor updates (see Data Reporting Notes on page SR-90). Emissions include those associated with business units for the period they fall under Fonterra's ownership and management control.	
Scope 2	Indirect emissions from the use of purchased electricity, steam, heating, and cooling	634	652	565	500		
Total Scope 1 & 2 (Absolute)		2,343	2,200	1,934	1,847		
Scope 3, Category 1	Purchased goods and services	24,605	24,430	23,797	23,534		
Scope 3, Category 3	Fuel- and energy-related activities (not included in scope 1 or scope 2)	145	157	150	143		
Scope 3, Category 4	Upstream transportation and distribution	283	297	281	292		
Scope 3, Category 6	Business travel	8	3	3	7		
Total Scope 3		25,041	24,887	24,230	23,976		
Total Scope 1, 2 & 3		27,385	27,086	26,164	25,823		
Global consolidated emissions intensity							
Scope 1 & 2	Emissions intensity by finished goods ('000 tCO ₂ -e/t)	0.59	0.55	0.49	0.49	All prior years have been restated to reflect the latest available on-farm lifecycle assessment, reporting elements introduced (most significant are additions to Scope 3 manufacturing and distribution), and other minor updates (see Data Reporting Notes on page SR- 90). Emissions include those associated with business units for the period they fall under Fonterra's ownership and management control.	
	Emissions intensity by revenue (tCO ₂ -e /million NZ\$)	112	104	83	71		
Scope 1, 2 & 3	Emissions intensity by finished goods ('000 tCO ₂ -e/t)	6.9	6.8	6.7	6.8		
	Emissions intensity by revenue (tCO ₂ -e /million NZ\$)	1,306	1,282	1,117	991		

FY23 progress is evaluated against stated targets:



Progressing well or target achieved.



Progressing but not as strongly as we'd like.



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PERFORMANCE

INDICATOR	TARGET	FY20	FY21	FY22	FY23	COMMENTARY	PAGE
Nature – Packaging							
Recycle-ready packaging		87%	87%	89%	91%	Using globally accepted definitions on a total tonnage of packaging basis, 91% of our packaging is now recycle-ready ¹ , up from 89% last year. Improvements are due to a combination of factors including divestment of Chile business and demonstrating alignment of some packaging formats with collection pathways, such as milk powder bulk bags, aluminum closures and steel aerosol cans for whipped cream. We have also now commercialized some of our packaging material change projects, such as for 20kg cream cheese, which is now packed in material which is ready for recycling in the [4] LDPE stream. This leaves 9% that is currently unsuitable for recycling (e.g. foil based sachets). This is where we are focusing our efforts and we forecast we will achieve greater than 95% recycle-ready packaging by end of 2025.	SR-52
Reusable, recyclable or compostable packaging	100% by 2025	50%	58%	56%	63%	<p>Using globally accepted definitions on a total tonnage of packaging basis, 63% of our packaging is now readily recyclable, up from 56% last year. This has primarily been driven by our divestment of Chile business, which has skewed our packaging mix more heavily towards industrial ingredients which have more recyclable packaging formats.</p> <p>We are continuing to collaborate and seek to influence others to improve the provision of recycling infrastructure.</p> <p>Making progress on this aspiration relies not only on progress under our direct control (see recycle-ready packaging above) but also on the actions of others (e.g. provision of infrastructure within countries).</p> <p>Like many other food manufacturers, we will continue to make material changes, collaborate and seek to influence others around the world. Currently, achieving 100% by 2025 seems unlikely to be fully achieved but, we remain committed to the intent</p>	SR-52
Nature – Solid waste							
Solid waste sent to landfill (tonnes)	Zero waste	16,577 A 7% reduction since FY19	12,833 A 28% reduction since FY19	11,994 A 33% reduction since FY19	9,620 A 46% reduction since FY19	<p>We will continue to seek year-on-year improvements with a focus on making products to specification to avoid food waste, working with vendors to prevent non-recyclable materials coming onto our sites and partnering with others to increase the range of materials that can be economically recovered.</p> <p>Significant progress has been made by our Chilean operations while under our ownership and management control. Accounting for acquisitions and divestments, our waste to landfill has reduced by 29% since FY19.</p>	SR-55

FY22 progress is evaluated against stated targets:



Progressing well or target achieved.



Progressing but not as strongly as we'd like.



Not progressing well or original timeline significantly delayed.

¹ This applies to all primary and secondary packaging for Fonterra-owned brands. Tertiary packaging is also included in the assessment but, due to data availability issues, we have continued to use the same baseline data as reported in FY20 (this represents less than 10% of total packaging tonnage).

PERFORMANCE

INDICATOR	TARGET	FY20	FY21	FY22	FY23	COMMENTARY	PAGE
Nature – Animal wellbeing							
Farms with an Animal Wellbeing Plan established with their vet (New Zealand)	100% by end 2024	50%	53%	76%	85%	<p>Our original target was to achieve 100% of New Zealand supplying farms to have an Animal Wellbeing Plan by the end of FY25. We have brought the target date forward to the end of FY24.</p> <p>A large increase was achieved again this year, as The Co-operative Difference framework (see page SR-58) included having an Animal Wellbeing Plan as one of the criteria to receive a differentiated payment.</p>	SR-40
Somatic cell count average (mean) ('000 cells/ml)		2019/20	2020/21	2021/22	2022/23		
New Zealand		171	170	173	172	Somatic cell count (SCC) is not only an indicator of milk quality, a low SCC also gives an indication of good animal husbandry.	
Australia		172	173	178	182	The FY23 SCC has been adjusted for divestments. Calculated on a like-for-like basis the FY22 global weighted average would be 174 ('000 cells/ml).	
China		160	167	327	–	Therefore, the overall global result is stable this year and remains well below the European Union import/export standard of 400,000 cells/ml, which is a widely quoted standard. We will continue to work towards lower counts.	
Chile		317	309	280	–		
Brazil		395	342	335	469		
Sri Lanka		662	629	625	574		
Global weighted average (by volume)		175	175	177	174		
Relationships – Working with vendors							
Palm products		CY 2019	CY 2020	CY 2021	CY2022		
Sourcing 'segregated supply' palm oil from credible organisations.	100% Standard compliance	55%	71%	74%	67%	<p>All palm products we purchase are RSPO certified; this year 67% of purchases were through segregated supply, 25% by mass balance and the remaining 7% via RSPO credits.</p> <p>By volume, 97% of all direct palm oil being purchased by our New Zealand business and 100% of all direct palm oil being purchased by our Australian business is certified as 'segregated supply' from sustainable sources. It is purchasing for our operations in Saudi Arabia and Indonesia where sourcing remains most challenging.</p> <p>We are committed to achieving certified segregated supply for all palm-related purchases within the scope of our Forest and Agriculture Products Standard.</p>	SR-70

FY23 progress is evaluated against stated targets:



Progressing well or target achieved.



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Employee Data¹

Full-time equivalent employees by region

Global Employee Numbers	FTE (Permanent & Fixed-term)		
	FY21(#)	FY22(#)	FY23(#)
New Zealand	11,881	11,992	12,149
Australia	1,427	1,437	1,534
Greater China	753	773	672
Brazil	1,306	1,274	1,328
Chile	1,570	1,707	–
Rest of Asia	1,914	1,902	1,809
Rest of World	503	523	501
Total employees	19,354	19,608	17,993

Employment contract by region

Contract Type by Region		Percentage per Employment Type		
		FY21 (%)	FY22 (%)	FY23 (%)
New Zealand	Permanent	97.1%	97.7%	97.6%
	Fixed-term	2.9%	2.3%	2.4%
Australia	Permanent	94.8%	96.0%	96.6%
	Fixed-term	5.2%	4.0%	3.4%
Greater China	Permanent	99.1%	99.2%	98.5%
	Fixed-term	0.9%	0.8%	1.5%
Brazil	Permanent	100.0%	100.0%	100.0%
	Fixed-term	0.0%	0.0%	0.0%
Chile	Permanent	100.0%	100.0%	0.0%
	Fixed-term	0.0%	0.0%	0.0%
Rest of Asia	Permanent	89.0%	89.3%	93.0%
	Fixed-term	11.0%	10.7%	7.0%
Rest of World	Permanent	89.5%	89.1%	92.6%
	Fixed-term	10.5%	10.9%	7.4%

Employment type by gender

Employment type by gender		Percentage per Employment Type		
		FY21 (%)	FY22 (%)	FY23 (%)
Male	Full-time	99.4%	99.3%	99.1%
	Part-time	0.6%	0.7%	0.9%
Female	Full-time	95.9%	96.1%	95.9%
	Part-time	4.1%	3.9%	4.1%
Gender diverse	Full-time	100.0%	100.0%	100.0%
	Part-time	0.0%	0.0%	0.0%
Undeclared or unknown	Full-time	100.0%	100.0%	100.0%
	Part-time	0.0%	0.0%	0.0%

Full-time equivalent employees by employment contract by gender

Contract Type by Gender		Percentage per Contract Type and Gender		
		FY21 (%)	FY22 (%)	FY23 (%)
Male	Permanent	96.8%	97.3%	97.3%
	Fixed-term	3.2%	2.7%	2.7%
Female	Permanent	95.6%	96.1%	96.8%
	Fixed-term	4.4%	3.9%	3.2%
Gender diverse	Permanent	100.0%	100.0%	100.0%
	Fixed-term	0.0%	0.0%	0.0%
Undeclared or unknown	Permanent	100.0%	100.0%	100.0%
	Fixed-term	0.0%	0.0%	0.0%

¹ Some percentages shown in tables may not sum to 100% due to rounding.

Employee Data

Diversity of governance bodies and employees by age

	Age	Percentage by Age Range		
		FY21 (%)	FY22 (%)	FY23 (%)
All employees	<30	13%	13%	13%
	30-50	56%	55%	54%
	>50	28%	28%	30%
	Unknown	3%	3%	3%
Fonterra Management Team (FMT)	<30	0%	0%	0%
	30-50	75%	38%	40%
	>50	25%	63%	60%
	Unknown	0%	0%	0%
Fonterra Board	<30	0%	0%	0%
	30-50	9%	0%	0%
	>50	91%	100%	100%
	Unknown	0%	0%	0%

Diversity of employee categories by age

	Age	Percentage by Age Range		
		FY21 (%)	FY22 (%)	FY23 (%)
Senior Leaders	<30	0%	0%	0%
	30-50	57%	60%	60%
	>50	38%	36%	36%
	Unknown	5%	4%	4%
Managers	<30	6%	5%	4%
	30-50	66%	68%	67%
	>50	25%	23%	26%
	Unknown	3%	3%	3%
Supervisory & Professional	<30	18%	18%	18%
	30-50	58%	61%	61%
	>50	21%	19%	19%
	Unknown	3%	3%	3%
Operators, Techs, Drivers, Farm Workers	<30	14%	14%	15%
	30-50	47%	49%	47%
	>50	36%	34%	36%
	Unknown	3%	3%	3%

Diversity of governance bodies and employees by gender

	Gender	Percentage by Gender		
		FY21 (%)	FY22 (%)	FY23 (%)
All employees	Male	72%	71%	68%
	Female	28%	29%	32%
	Gender diverse	0%	0%	0%
	Undeclared	0%	0%	0%
Fonterra Management Team (FMT)	Male	75%	75%	50%
	Female	25%	25%	50%
Fonterra Board	Male	64%	64%	64%
	Female	36%	36%	36%

Diversity of governance bodies and employees by gender

	Gender	Percentage by Gender		
		FY21 (%)	FY22 (%)	FY23 (%)
Senior Leaders	Male	68%	64%	64%
	Female	32%	35%	35%
Managers	Male	62%	60%	58%
	Female	38%	40%	42%
Supervisory & Professional	Male	50%	49%	47%
	Female	50%	51%	53%
Operators, Techs, Drivers, Farm Workers	Male	83%	82%	81%
	Female	17%	18%	19%

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Employee Data

New hires and leavers by age and gender

	New hires by Age and Gender						Leavers by Age and Gender					
	FY21 (# / %)		FY22 (# / %)		FY23 (# / %)		FY21 (# / %)		FY22 (# / %)		FY23 (# / %)	
Aged <30	501	31.6%	626	31.6%	486	26.3%	314	17.3%	417	18.8%	321	16.2%
Aged 30-50	893	56.3%	1,052	53.2%	934	50.6%	917	50.5%	1,119	50.5%	690	34.8%
Age 50 +	169	10.7%	234	11.8%	219	11.9%	495	27.2%	606	27.4%	181	9.1%
Age unknown	22	1.4%	66	3.3%	207	11.2%	91	5.0%	72	3.3%	792	39.9%
Male	1,005	63.4%	1,222	61.8%	1,057	57.3%	1,194	65.7%	1,440	65.0%	1,241	62.6%
Female	579	36.5%	756	38.2%	789	42.7%	623	34.3%	771	34.8%	743	37.4%
Gender undeclared or unknown	1	0.1%	0	0.0%	0	0.0%	0	0.0%	3	0.1%	0	0.0%
Total new employees	1,585	9.0%	1,978	10.7%	1,846	10.9%	1,817	10.3%	2,214	11.9%	1,984	11.7%

New hires and leavers by regions

	New hires by Region						Leavers by Region					
	FY21 (# / %)		FY22 (# / %)		FY23 (# / %)		FY21 (# / %)		FY22 (# / %)		FY23 (# / %)	
New Zealand	866	54.6%	1,133	57.3%	1,231	66.7%	1,050	57.8%	1,431	64.6%	1,340	67.5%
Australia	251	15.8%	161	8.1%	204	11.1%	120	6.6%	178	8.0%	150	7.6%
Greater China	180	11.4%	134	6.8%	108	5.9%	234	12.9%	114	5.1%	104	5.2%
Brazil ¹	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Chile	94	5.9%	310	15.7%	52	2.8%	119	6.5%	242	10.9%	103	5.2%
Rest of Asia	153	9.7%	180	9.1%	200	10.8%	243	13.4%	191	8.6%	215	10.8%
Rest of World	41	2.6%	60	3.0%	51	2.8%	51	2.8%	58	2.6%	72	3.6%
Overall	1,585	9.0%	1,978	10.7%	1,846	10.9%	1,817	10.3%	2,214	11.9%	1,984	11.7%

¹ Our JV in Brazil is excluded from new hires and leavers analysis.

Employee Data

Turnover by reason

Reason	Number and Percentage Turn over by Reason					
	FY21 (# / %)		FY22 (# / %)		FY23 (# / %)	
Voluntary	1,168	6.6%	1,610	8.7%	1,492	8.8%
Involuntary	389	2.2%	346	1.9%	244	1.4%
Other (Contract end, Legal Retirement, or deceased)	260	1.5%	258	1.4%	248	1.5%
Total Turnover Rate	1,817	10.3%	2,214	11.9%	1,984	11.7%

Hiring from local communities

Global employees	Percentage of Senior Management		
	FY21	FY22	FY23
New Zealand	100%	100%	92%
Australia	92%	92%	91%
Brazil	100%	100%	100%
Chile	100%	100%	-
Greater China	89%	89%	88%

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Employee Data

Gender pay gap by country and by employee category – basic salary

Region	Employee Category	Mean			Median		
		FY21	FY22	FY23	FY21	FY22	FY23
New Zealand	Senior Leaders	0.85	0.81	0.89	0.93	0.90	0.99
	Managers	0.96	0.96	0.97	0.96	0.94	0.96
	Supervisory & Professional	0.90	0.92	0.91	0.87	0.88	0.89
	Operators, Techs, Drivers, Farm Workers	0.84	0.85	0.86	0.85	0.85	0.85
	Overall	0.97	0.96	0.98	0.96	0.95	0.96
Australia	Senior Leaders	0.98	0.97	1.06	0.78	0.86	0.93
	Managers	0.98	1.02	1.00	0.96	0.99	0.94
	Supervisory & Professional	0.85	0.91	0.88	0.86	0.84	0.87
	Operators, Techs, Drivers, Farm Workers	0.80	0.81	0.81	0.78	0.78	0.70
	Overall	0.99	1.03	0.99	0.97	1.02	0.95
Greater China	Senior Leaders	1.03	1.20	1.19	1.17	1.43	1.45
	Managers	1.04	1.05	1.01	1.11	1.06	1.06
	Supervisory & Professional	1.03	1.02	1.02	1.03	0.99	1.00
	Operators, Techs, Drivers, Farm Workers	1.05	1.13	–	1.09	1.09	–
	Overall	0.89	0.97	0.92	0.97	1.09	1.04
Brazil	Senior Leaders ¹	–	–	–	–	–	–
	Managers	1.03	1.01	1.00	1.08	0.94	0.94
	Supervisory & Professional	1.04	1.06	1.09	0.98	0.99	1.06
	Operators, Techs, Drivers, Farm Workers	0.89	0.85	0.83	0.95	0.85	0.67
	Overall	1.11	0.96	0.90	0.96	0.84	0.80
Rest of Asia	Overall	1.84	1.97	1.81	4.10	4.40	3.94
Rest of the World	Overall	1.38	1.30	1.41	1.89	1.86	1.88
Global	Senior Leaders	0.90	0.88	0.97	0.94	0.91	0.97
	Managers	0.97	0.97	0.98	0.96	0.95	0.97
	Supervisory & Professional	1.05	1.07	1.12	1.10	1.12	1.17
	Operators, Techs, Drivers, Farm Workers	0.89	0.87	0.81	0.83	0.83	0.82
	Overall	1.07	1.07	1.02	0.93	0.93	0.93

1 Where a breakdown of information represents a small number of employees, we omit this detail to protect the privacy of individuals.

Data reporting notes

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This section provides supporting guidance on the scope, definitions and approach used for the people and environmental data presented in this report.

In general, reporting covers the activities of Fonterra Co-operative Group Limited and joint ventures under Fonterra’s management control (see FS-60 for further details of subsidiaries).

The following sections identify the specific exceptions where data availability prevents this.

People Data Reporting

Scope

Our employee data is drawn from our global SAP-based employee data systems, primarily our MY Fonterra system, and from remuneration systems where required.

Numbers are generally reported for all fixed-term and permanent employees on a full-time equivalent (FTE) basis.

Gender pay gap is on headcount basis with pay compared on an FTE basis.

Turnover and new hires cover permanent employees on a headcount basis but exclude employees in our Brazilian joint venture.

There are no significant seasonal variations in the employee data reported. Casual staff contracted by Fonterra are excluded from these figures as this represents only a very small proportion of the regular workforce. Employees on leave of absence are also excluded.

An assessment has been completed of the scope of potential workers who are not employed by Fonterra, but whose work may be controlled by the organisation across categories such as contractors and third-party consultants. This has been excluded from these figures due to the small numbers and limited data available.

All analysis, other than turnover and new hires, is at 31st July 2023.

Definitions

TERM	DEFINITION
Significant locations of operation	Countries where more than 5% of our employees are located. Some items are reported for significant locations of operation only.
Employee categories	Our organisation has a banded approach to remuneration based on business roles.
–Senior Leaders	Bands 14 and above
–Managers	Bands 10-13
–Supervisory & Professional	Bands 3 ¹ -9
–Operators, Techs, Drivers, Farm Workers	Waged or equivalent workforce
Locally hired employees	Citizens or permanent residents of the given country.

1 Threshold varies according to country.

Hiring from local communities

To support the recruitment of senior management roles, we run talent forums across the different disciplines.

One of the aspects assessed when appointing senior management roles into countries where we have significant operations, is the composition of employees from local communities versus employees on international assignments. We recognise the value of a high representation from local communities but balance that with the opportunity for talent development from other countries. We review the composition and effectiveness of senior management teams on a regular basis.

'Senior Management' is defined as the most senior employee working in a country plus all direct reports to the senior manager but excluding employees working in a different country and non-management staff (e.g. Personal Assistants, Technical Assistants, other admin staff). The CEO and members of the Fonterra Management Team, who have regional responsibilities are excluded. For New Zealand, this means the multiple New Zealand-based managers reporting to the CEO and their direct reports are assessed.

New employee hires and employee turnover

The analysis of new employee hires and turnover is used to inform decision-making within our People and Culture team. For example, for diversity and inclusion, statistics are used on a 12-month rolling basis to assess implications to the make-up of the organisation and the achievement of specific targets.

During FY23 we completed the sale of the Chilean Soprole business and Hangu China farm. Due to the large number of employees they have been excluded from the turnover analysis.

Environmental Data Reporting

Reporting Period

The primary reporting period is for the Financial Year 2023 (FY23), 1 August 2022 – 31 July 2023.

To align with Australian regulatory reporting (NGERS), Australian data is reported for period 1 July 2022 – 30 June 2023.

Common principles

Baseline years

For our Scope 1 and Scope 2 emissions reduction target that we uplifted this year from a 30% to a 50% reduction by 2030, our baseline year is FY18 (1 August 2017 – 31 July 2018).

For our water reduction target of 15% by 2030, our baseline year is FY18 (1 August 2017 – 31 July 2018), to align with our emissions reduction target.

Data collection & aggregation

Wherever possible, data is sourced from a verifiable source. For energy, this is usually records from supplier invoicing. For water, this is from supplier invoicing where relevant, or from metering used to satisfy environmental resource permits. Data is aggregated and analysed via Excel.

Missing or delayed data

Where measured data is normally available for a given item in a given region, but it is not available for a given time period (e.g. one particular month), it is estimated based on the specific circumstances.

Where there is uncertainty about fuel sources and emissions factors, a conservative approach has been taken. For example, where a site purchases steam from a third party that generally uses biomass but relies on LPG as the back-up energy source, we have assumed that 20% of the input energy comes from the LPG.

If the data subsequently becomes available, the estimated value will be replaced with the actual and totals recalculated. If this difference is significant, prior year data will be restated in the next public reporting period.

Finished goods

Where an output from any factory is then subject to secondary processing, we only count the finished goods once for intensity purposes.

Recalculation Policy

Our policy is to recalculate base year and reported data from subsequent years, when any of the following situations arise:

- There are significant changes to our reporting boundaries, including as a result of acquisitions or divestments or when new or more reliable sources of information are identified.
- There are significant changes to a calculation methodology, including life cycle assessments or emission factors.
- We identify a significant error, or a number of errors that are collectively significant.

In these situations, the threshold for significance is when the estimated change in reported emissions for the given year represents more than 5%. When a restatement is applicable, we may also take the opportunity to update other less significant data for completeness and accuracy.

Any such recalculation will be indicated in reporting by appropriate footnotes and a description in the "Restatement of prior years" section.

Methodologies

Greenhouse gas (GHG) emissions

Scope

For our GHG reporting we have chosen to report on Scope 1 and 2 where we have operational control. For Scope 3 emissions, we have reported key categories. Excluded categories are explained on page 94). Farms supplying milk to us account for the largest portion of our emissions and fall within our sphere of influence, so we believe it is important to report these under Scope 3 emissions.

Fonterra directly operates a small number of farms in New Zealand and until April 2023 operated one farm in China, which has now been sold. For these farms, we have adopted the same approach as for other farms but allocated the emissions to Scope 1 and 2 where required.

Our GHG reporting applies the principles of the GHG Protocol. We also report our GHG emissions via the Carbon Disclosure Project (CDP), with our first submission completed in 2015.

Under Scope 1, refrigerant losses are included for New Zealand and Australia; carbon dioxide for packaging is included for New Zealand. The data for Scope 1 and 2 emissions associated with small offices around the world is immaterial and excluded.

All electricity emissions are reported using a location-based approach. Due to difficulty obtaining accurate residual emission factors from the energy suppliers we have opted not to publicly report a market-based approach. We have one manufacturing site in Europe which purchases a portion of their energy as certified zero-emission electricity, and estimate a reduction of less than 1% using a market-based approach.

Energy

Our use of energy dominates our Scope 1 and Scope 2 reporting. These figures include energy used by our manufacturing sites, main research centre, large corporate sites and our own milk collection transport fleet in New Zealand and Australia. It excludes energy used by some smaller offices and support facilities which are considered immaterial.

Energy used on the farms where we have operational control is excluded from our energy reporting because it is immaterial to our overall energy usage. The associated emissions from this energy use are already captured in our on-farm GHG emissions reporting based on the full lifecycle analysis.

Energy is sourced from electricity, purchased steam and purchased fuels. Fuels used include coal, natural gas, diesel, liquid petroleum gas (LPG), furnace oil, petrol and biofuels. Coal and natural gas are primarily used for process heating while liquid fossil fuels are primarily used for vehicles.

Based on the proportion of renewables used to generate the electricity and steam we purchase, and including the biofuels we directly use, we estimate that 16% of our total energy used in manufacturing comes from renewable sources.

Our ability to generate electricity through solar is increasing year-on-year around the world. Our Farm Source Retail Stores generated excess electricity from their solar PV installations. The total sold during FY23 was 516 GJ.

We are unable to report energy used for heating separate to that used for cooling but heating dominates our energy use.

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On farm

For on-farm information, the estimated emissions are reported using a lifecycle analysis (LCA) methodology, which considers the full on-farm carbon lifecycle, from 'cradle-to-farm gate' and provides an estimated kgCO₂-e/kg fat-and-protein-corrected milk (FPCM) factor for the given country. For each country where we collect milk, the total quantity of milk collected during the financial year is multiplied by the most recently available factor.

The extent of analysis required to complete an LCA means these cannot be completed for the current season within the reporting timetable. We complete an analysis for New Zealand milk each year because it dominates our on-farm emissions. For other countries we do this less frequently.

For this report, the most recently available LCA results are as follows: 2021/22 season for New Zealand; 2017/18 for Australia and Chile; and 2016/17 for our China farms.

For New Zealand LCA, we commissioned AgResearch to complete this analysis based on regional data from DairyNZ/LIC statistics, a DairyNZ DairyBase survey of 413 farms and Fonterra milk production data. Fonterra farm data was used to account for peatland GHG emissions as sensitivity analysis found the NZ-average data increased the dLUC allocation by an additional 11%.

For Australia LCA, this has been calculated based on data drawn from the 17/18 Dairy Farm Monitor Project Annual reports for Tasmania and Victoria. The data are reported for Tasmania and for all three Victorian dairy regions (Northern Victoria, South-west Victoria and Gippsland) which covers Fonterra's Australian milk pool.

For our China farms, we commissioned AgResearch to complete this analysis based on detailed data for all seven farms from our farm management systems. Only one of these farms remained under our operational control for a proportion of FY23 and we continue to apply the average footprint from the analysis.

For Chile LCA, we commissioned AgResearch to complete this analysis based on data from a sample of farms from the northern region supplying Soprole and the southern region supplying Prolesur.

For the smaller milk volumes purchased in Brazil and Venezuela we have used the average of the two lifecycle factors determined for Chile.

For the very small volumes sourced in Sri Lanka, the emission factor has been taken as the average for South Asia in 2015 from the UN FAO/GDP GHG emissions fact sheet.

The main methodology used is common across all LCA and conforms to IDF (2015) and LEAP (2015) guidelines. It considers Methane (CH₄), Nitrous oxide (N₂O) and Carbon dioxide (CO₂) arising from feed sources, animals, fertilisers, energy and land use change. For supplying farms, emissions are split between the milk and meat co-products, with only the milk component being counted. For the few farms that we manage, full emissions are allocated here. The LCA methodology includes emissions related to all on-farm activities and emissions related to supplementary feed, including emissions related to overseas production for PKE.

We have adopted IPCC AR6, with GWP factors of CO₂ = 1; N₂O = 273 and fossil CH₄ = 29.8 and biogenic CH₄ = 27. This means that our reported figures for New Zealand may be higher than figures reported in other publications that consider a New Zealand inventory only which still uses IPCC AR4 or AR5. For the older LCA results which had used an earlier version of IPCC, we have recalculated the overall footprint using the component gases so that all farm-related LCAs make use of IPCC AR6.



Adrian & Ian,
Northland

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The sources of the default factors were as follows:

CATEGORY	SOURCE	COMMENTS
Energy contents	International Energy Agency (IEA) "Energy Statistics Manual"	Electricity use has been converted to energy terms at 0.0036 GJ per kWh while fuel use has been converted on a gross calorific, or higher heating value, basis ¹ .
Electricity emission factors	Carbon Footprint Ltd, collated data from global sources	For FY23 data, these factors are applied as tabulated by country for the 2021 or 2022 calendar year, as this was the most recent complete set available. These factors are used for less than 5% of the electricity used and relate to less than 1% of manufacturing emissions. 2023_07_international_factors_release_10.xlsx
Electricity emission factors	IEA "Emission Factors (2019 edition)"	For prior years or where no other reliable data is available these factors have been applied as default values. They are as tabulated by country for the 2017 calendar year. These factors are used for less than 5% of the electricity used and relate to less than 1% of manufacturing emissions in a given year.
Fuels emission factors	UK Government GHG Conversion Factors for Company Reporting	These factors have been used for freight-related emissions calculations as a proxy in cases where more specific factors could not be identified. These factors are used for less than 5% of off-farm Scope 3 related emissions.
Energy/Fuels emission factors	Greenhouse Gas (GHG) tools library	This GHG library of information is utilised for default emission factors where no other reliable data is available. Emission_Factors_from_Cross_Sector_Tools_March_2017.xlsx

The sources used for the percentage of renewable energy in grid electricity were as follows:

COUNTRY	SOURCE
New Zealand	Ministry of Business, Innovation & Employment, Quarterly electricity generation and consumption.
Australia	Australian Energy Statistics 2022, Table O9: Australian electricity generation, by fuel type, for year ended 30 June 2023.
Other	International Renewable Energy Agency "Renewable Energy Statistics 2023"
Other	World Bank Data: Renewable electricity output (% of total electricity output) for years prior to FY22.

¹ Many countries report energy use in net calorific value (lower heating value) terms where the latent heat available in the water formed during combustion is excluded from the available energy. Typically, the gross values are about 5% higher than net values for solid and liquid fuels and up to 10% higher for gaseous fuels.

Manufacturing

For countries where energy contents and emission factors are well understood and supported by local regulations and/or reporting guidelines, the local factors have been applied. In other countries, if officially sanctioned factors are available, we have used them, otherwise internationally accepted default factors have been applied.

For thermal energy, the convention in New Zealand and Australia is to report energy totals in gross terms (higher heating value). Therefore, for consistency, we have adopted this approach for reporting across all countries.

The emission factors used for fuels and electricity apply a mix of IPCC Assessment Report AR4 and AR5 global warming potentials (GWPs) depending on the approach taken by reporting authorities in the respective countries. For manufacturing emissions the difference that occurs from using AR4 versus AR5 factors is immaterial.

Hydrofluorocarbons (HFCs) have been considered with AR5 global warming potential factors. Perfluorinated compounds (PFCs) and sulphur hexafluoride are not used or generated.

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Susan & Ben,
Auckland

Scope 3 Emissions

Refer to Our Performance on page SR-80 for the data we are reporting in Scope 3 broken down by categories.

This year, we undertook a re-screening exercise for our Scope 3 emissions as part of our preparation to submit our emission reduction target to the Science Based Target initiative. No significant changes were identified. We have obtained additional data of sufficient accuracy to improve the completeness of our reporting. We now estimate that our reported Scope 3 emissions represent more than 95% of our total Scope 3 emissions. The remaining 5% of emissions are not considered materially relevant to the reported inventory or the information necessary for decision-making purposes.

NAME

DETAILS

Category 1 –
Purchased goods
and services*Inclusions:*

This includes emissions related to purchasing raw milk from all supplying farms in New Zealand, Australia, Latin America and Sri Lanka. Farms supplying milk to us account for the largest portion of our emissions. Estimated emissions are calculated based on the quantity of milk purchased in each country and an emission factor for the given country, determined by assessments of the full carbon lifecycle from 'cradle-to-farm gate'.

For all regions except Latin America, emissions are also included for purchased dairy products (for resale or as ingredients), non-dairy ingredients, packaging and sub-contracted manufacture.

Emissions from purchased dairy products are calculated based on tonnes purchased by product type and applying an emissions factor for the product type as if that purchased product was source and manufactured in New Zealand. This uses the Fonterra Ingredients Carbon Footprint tool as audited by Toitū Envirocare under an ISO14067 standard to meet their carbonreduce certification.

Emissions from purchased non-dairy ingredients are estimated based on expenditure grouped to align with appropriate emission factors from the US EPA Supply Chain Factors Dataset v1.2 .

Emissions from purchased packaging are estimated based on purchased volumes of individual packaging elements from Fonterra records and emission factors from the Packaging Impact Quick Evaluation Tool. The tool uses a methodology consistent with ISO14067 and the emissions factors include end-of-life disposal emissions with any recycling credited as a 50:50 allocation. The full analysis for packaging was completed for the 12 months ending 30 Jun 2022. It is a complex process that cannot be repeated annually. Emissions are extrapolated for each financial year based on the tonnes of finished product.

Emissions from subcontracted manufacture relate to the third party processing of milk and semi-finished product for Fonterra where the on-farm emissions and emissions from any pre-processing have already been captured elsewhere in our reporting. The emissions are estimated based on expenditure and an emission factor from the US EPA Supply Chain Factors Dataset v1.2.

Exclusions:

For our operations in Latin America, all emissions associated with the purchasing of goods and services which are not related to raw milk are excluded.

For all other operations, emissions associated with the purchasing of goods and services which are not related to raw milk, dairy products, non-dairy ingredients, packaging or sub-contracted manufacturing and distribution are excluded (e.g. items retailed through Farm Source stores, consulting services and cleaning chemicals).

This year, screening using an expenditure-based approach and US EEIO emissions factors, estimated that the emissions excluded from this category were about 1% of Fonterra's total Scope 3 emissions and are therefore considered immaterial.

Category 2 –
Capital goods

This year, screening was undertaken based on a breakdown of capital goods spend and aligned emissions factors from US EEIO. The related emissions are estimated at less than 0.5% of Fonterra's total Scope 3 emissions and are therefore considered immaterial.

NAME	DETAILS
Category 3 – Fuel and energy related activities not included in Scope 1 or Scope 2	<p><i>Inclusions:</i></p> <p>For fuel and energy used in New Zealand and Australia, the reported emissions in this category include indirect emissions attributable to the extraction, production and transportation/distribution to the location of fuel use. This covers fuel burned to generate electricity, as well as gas and electricity distribution losses.</p> <p>The emissions are calculated using purchased quantities from supplier invoices and reports, and emissions factors from the NZ Ministry of the Environment guidance 2023, the Australian Government's NGERs factors, the NZ Emission Trading Scheme (for opencast mining) and the UK Government GHG Conversion Factors for Company Reporting workbook.</p> <p>For coal, which is only used in New Zealand, an allowance has been also included for energy use in the actual mining operation at 2% of the coal energy.</p> <p>Wood biofuel, which is only used in New Zealand, is almost all purchased in the form of pellets created from forestry by-product. Emissions from transportation to site are calculated based on tonnes purchased, distance moved and emissions factor for mode of transport.</p> <p>Fuel-related emissions to produce the pellets have been calculated using the WTT factor from the UK Government GHG Conversion Factors for Company Reporting workbook. This is likely to be slightly over-stated and will be updated when a more accurate local factor is available.</p> <p><i>Exclusions:</i></p> <p>For countries other than New Zealand and Australia, fuel and energy related activities not included in Scope 1 or Scope 2 are excluded from our reporting.</p> <p>This year, screening was undertaken based on the total energy used by these countries and the average fuel and energy related activities for New Zealand and Australia.</p> <p>The excluded emissions are estimated at less than 0.04% of Fonterra's total Scope 3 emissions and are therefore considered immaterial.</p>
Category 4 – Upstream transportation & distribution	<p><i>Inclusions:</i></p> <p>Emissions arising from the transportation of raw milk (our primary ingredients) from farm to factory is undertaken by our own fleet of milk tankers in New Zealand and Australia and the related emissions are included in Scope 1 reporting. The emissions reported here relate to in-bound and out-bound transportation and distribution services that are purchased by Fonterra.</p> <p>All international ocean and coastal freight under the control of our shipping partner Kotahi has been reported. This includes product exports from New Zealand, Australia, Europe and North America to the final destination port. We also report additional ocean freight from New Zealand by our consumer branded business and coastal freight in Australia.</p> <p>We make minimum use of air freight but data has been collected and reported for air freight arising from New Zealand and Australia.</p> <p>Emissions are also reported for product movements by land (road and rail) within New Zealand, Australia, Europe, North America and China.</p> <p>GHG emissions for ocean freight are provided by the shipping partners based on the Global Logistics Emissions Council (GLEC) Framework, using the globally accepted and endorsed Clean Cargo Working Groups (CCWG) methodology.</p> <p>For road, rail and air freight, emissions are calculated using actual tonne-kms and regional freight emission factors. Where an appropriate regional freight emissions factor is not available, the corresponding factor from the Ministry for the Environment guidance 2023 has been used.</p> <p><i>Exclusions:</i></p> <p>Data for in-country product transfers and distribution to port emissions for countries other than those listed in the inclusions above is unreliable. The excluded emissions (based on manufacturing volumes) are estimated to be less than 0.05% of Fonterra's total Scope 3 emissions and are therefore considered immaterial.</p>

NAME	DETAILS
Category 5 – Waste & wastewater	<p>This year, screening was undertaken for both waste and wastewater.</p> <p>The majority of our solid waste to landfill is a by-product of manufacturing, including packaging and personal protective equipment that cannot be reused or recycled. Emissions were estimated based on the tonnage of mixed solid waste going to landfill and the national average landfill emissions factor from the NZ Ministry for the Environment Guidance 2023.</p> <p>For wastewater treatment, the energy used by the wastewater treatment facilities at our manufacturing sites is included in our Scope 2 reporting. GHG emissions (methane and nitrous oxide) from wastewater treatment by external parties were estimated based on the volume of wastewater and the domestic wastewater emissions factor from the NZ Ministry for the Environment Guidance 2023.</p> <p>Combined, the excluded emissions are estimated at less than 0.03% of Fonterra's total Scope 3 emissions and are therefore considered immaterial.</p>
Category 6 – Business travel	Data has been collected and reported for business-related air travel, rental car, and hotel accommodation. This GHG emissions data has been provided by our nominated travel agents.
Category 7 – Employee commuting	This year, screening was undertaken based on all employees commuting a daily round trip of 40km, individually by private petrol vehicle. The related emissions are estimated at less than 0.2% of Fonterra's total Scope 3 emissions and are therefore considered immaterial.
Category 8 – Upstream leased assets	The only assets which Fonterra leases that are not already reported in our Scope 1 and 2 emissions are smaller properties around the world used for purposes such as sales offices and demonstration kitchens. This year, screening was undertaken using floor areas from records of leases and average building emission loads from a recent United Nations Environmental Programme report. The related emissions are estimated at less than 0.02% of Fonterra's total Scope 3 emissions and are therefore considered immaterial.
Category 9 – Downstream transportation & distribution	The majority of products sold by Fonterra are intermediate products, with many potential downstream applications and Fonterra is therefore unable to reasonably calculate the downstream emissions associated with the various end uses of the intermediate product. As per the guidance contained in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard, Fonterra is therefore able to exclude the set of downstream emission categories dependent on products sold from its reporting.
Category 10 – Processing of sold products	This year, screening was undertaken based on full Life Cycle Assessments completed for liquid milk consumer products sold in New Zealand and consumer butter sold in the USA, some additional public footprint data, and then scaled to annual production volumes. The emissions from the excluded downstream transportation and distribution, processing, use and end-of-life treatment of sold products is estimated to represent less than 2.5% of Fonterra's total Scope 3 emissions.
Category 11 – Use of sold products	
Category 12 – End-of-life treatment of sold products	
Category 13 – Downstream leased assets	Fonterra leases two properties to third parties which are used for manufacturing purposes. Based on the nature of the lessor's activities, the emissions associated with these are estimated at less than 0.02% of Fonterra's total Scope 3 emissions and are therefore considered immaterial.
Category 14 – Franchises	<p>Fonterra has a small number of franchisees in New Zealand to distribute products locally. Fonterra purchases the electricity for product storage by the franchisees and the associated emissions are accounted for our under our Scope 2 reporting.</p> <p>This year, screening was undertaken for their transportation emissions based on the distance travelled by a sample of franchisees and extrapolated. The related emissions are estimated at less than 0.01% of Fonterra's total Scope 3 emissions and are therefore considered immaterial.</p>
Category 15 – Investments	Nearly all equity investments held by Fonterra fall under our management control and therefore the emissions are reported in our Scope 1 and 2 reporting. Emissions associated with the remaining equity investments are considered immaterial.

Water use and discharge

Scope

We report water use and wastewater discharge globally for the manufacturing sites where we have operational control. The data is reported using an inventory method, and separates out identifiable volumes which we provide to third parties for their use under our consent or other agreements.

We have a target to achieve a 15 percent reduction in water withdrawal associated with our manufacturing operations by 2030. For this target we exclude volumes recorded as non-essential use, specifically, rainwater harvested by our Indonesian factory (for gardening and other external purposes) and water provided to third parties under agreement.

A small number of water withdrawal and discharge locations are excluded from our reporting. We have assessed each of these individually and the associated volumes and potential impacts are considered immaterial. In total, these locations are estimated to account for less than 1% of our total water volumes.

We also report our water data via the Carbon Disclosure Project (CDP), with our first submission completed in 2020.

Water discharge by destination

We do not discharge any volumes of wastewater directly to groundwater. Under regulatory conditions we irrigate some wastewater in Australia and New Zealand to land. Given the options available to meet GRI reporting guidelines we use groundwater as the closest match to irrigation to land.

Water quality – Total Dissolved Solids

Total Dissolved Solids (TDS) is a standard indicator of water quality globally. A representative or median result is used to categorise the quality of a water source or wastewater discharge, as 'fresh' ($\leq 1,000$ mg/L TDS) or 'other' ($>1,000$ mg/L) for the purposes of reporting.

Most of our manufacturing sites are in New Zealand where TDS is not commonly used as a measure of water quality. In FY22, we commenced a TDS surveillance testing programme to improve the accuracy of the categorisation of our water sources and discharges. For locations where TDS data is unavailable, alternative information has been assessed by internal subject matter experts to estimate water source and wastewater discharge quality. For example, representative conductivity (EC) measurements can be converted using a correlation ratio derived from research for fresh water or typical dairy effluent to estimate a TDS equivalent.

The correlation ratios we have used are: $k = 0.55$ for freshwater and $k = 0.64$ for dairy effluent.

Equation: $TDS (mg/l) = \text{Correlation ratio } (k) * EC (\mu S/cm)$

Water quality – Chemical oxygen demand

Chemical oxygen demand (COD) is a common water quality measure in the dairy industry and used by many of our manufacturing sites. We have therefore chosen to report on discharge water quality using COD.

Where biological oxygen demand (BOD) results are used rather than COD, we have converted the BOD results to COD using a conversion factor derived from research into typical compositions for wastewater from dairy manufacturing sites ($COD = BOD/0.6$).

Water quality sampling frequency varies between sites and destination of wastewater but is in line with the requirements of relevant regulations or permits. At some sites it is tested internally to a procedure approved by the relevant authority while at other sites it is analysed by external laboratories.

Aggregation of global wastewater quality data

For each site outlet, the overall COD result for the reporting period is calculated as an average from the individual test results for that outlet. The average is generally calculated as a median but in some cases a mean is used.

To aggregate these into global results per discharge destination, a weighted average is calculated based on the volume discharged for each overall COD result.

If a facility provides a volume but is unable to provide the matching COD or BOD, that volume has been excluded from the global aggregation calculation.

Water in areas of water stress

Using the Aqueduct water risk atlas¹ we have identified four of our manufacturing facilities as being in areas considered under current water stress. Our threshold recognises baseline water stress, where the current indication is high or extremely high. When prioritising actions, we also consider factors such as water quality and regulatory or reputational risk.

Water Storage

Water storage facilities are one method for improved water management. By collecting water when it is plentiful, it can be stored for future use during dryer periods. The data reported (see page SR-78) reflects the change in significant storage facilities, such as lagoons, at the end of the reporting year. The impact of precipitation and evaporation is not accounted for.

¹ Aqueduct is a peer reviewed global water risk mapping tool provided by the World Resources Institute (WRI) www.wri.org/data/aqueduct-water-risk-atlas

Data changes

Acquisitions and Divestments

During FY23 we divested our Chilean Soprole business and one remaining farm in China, both of which have been within scope of our environmental reporting in prior years. The environmental data from these businesses remains included in our reporting for FY23 for the time that the businesses were under our operational control (detailed in the table below).

For reporting progress against targets, we have adopted the approach recommended by the GHG Protocol. This means that, where the target depends on a baseline value in a given financial year, we have adjusted the baseline value and all subsequent years to reflect acquisition and divestment of the businesses and reported progress on a like-for-like basis (i.e. as if we had never owned that business or always owned the business).

BUSINESS	DATA
Soprole (divestment)	31/03/2023
Hangu China farm (divestment)	09/04/2023

Restatements of prior year results

Scope 3 emissions on-farm have been restated for all years since the 14/15 season to reflect the findings of the latest LCA assessment for milk sourced in New Zealand during the 2021/2022 season (see page SR-28). This latest LCA adopted the latest IPCC AR6 GWP factors (splitting methane GWP into fossil and non-fossil factors) so for consistency, all on-farm LCAs have been recalculated to use IPCC AR6 (see page SR-91). The LCA changes were also applied to the small number of farms where we have operational control leading to a restatement of Scope 1 and 2 emissions. At the same time we recategorised the emissions associated with land use change on our Fonterra owned farms in prior years from Scope 3 to Scope 1. The combined impact of these changes has meant a decrease of approximately 1% for on farm emissions in any given season.

Scope 3 emissions for prior years have also been expanded to include elements not previously calculated. The additional data includes emissions allocated to Scope 3, Categories 1, 3 and 4. Please refer to the Scope 3 reporting notes in this section of the report for further details. This improvement in data quality results in an increase of approximately 1.7M tCO₂-e across all years. We now estimate that our reported Scope 3 emissions represent more than 95% of our total Scope 3 emissions.



Mohi,
Bay of Plenty

Stakeholder engagement & materiality assessment

For personal use only

Determining what's important

In FY21, we refreshed our materiality assessment. Starting from the results of previous assessments, we identified potential topics of importance based on industry guidance and reports, customer reports and emerging issues derived from risk assessments and media coverage.

This long list of topics was assessed and clustered into a set of topics at a common level of granularity for further analysis.

The relative importance of the topics to our stakeholder groups was determined by a combination of specific surveying, findings of specific engagement workshops and interviewing owners of existing relationships. We engaged directly with more than 400 individual stakeholders, who in turn represented many more from their respective stakeholder group. The findings for each stakeholder group were combined into an overall ordered list of importance, treating all stakeholder groups on an equal basis.

We also assessed the significance of our impact on society for each topic by considering the positive and negative impact of our activities against five criteria: the extent of our impact (i.e. local, regional, global), the severity of our impact, the duration of our impact, Fonterra's ability to influence this impact and the likelihood of the impact occurring.

Using the combination of importance to stakeholders and the significance of our impact, we generated an order list of topics that was discussed with our Sustainability Advisory Panel and approved by the Fonterra Management team.

The final findings were also reviewed with and supported by external stakeholders, including dairy sector representatives in New Zealand and Australia and a sustainable business organisation.

We reaffirmed this list in late 2022 through an internal review to understand relative impacts and emerging topics. The outcome of this assessment was considered and agreed by the Board. In recognition of the high interrelationship between biodiversity and soil health as a result of the review we have combined them into one topic closer to the top of the list. This change in position indicates the required additional focus to ensure we are meeting expectations and driving positive outcomes in relation to this topic.

This materiality assessment process was conducted by Sustainability Professionals from the Fonterra Sustainability Team with prior experience of conducting materiality assessments, dairy farming, and product manufacturing, with the reaffirmation process being conducted alongside Fonterra's Strategy and Optimisation team.

Material topics

Topic	Scope	Stakeholder groups that raised the topic most strongly	Our Response
Ensuring the food safety and quality of the products we deliver.	All food products we sell, including ingredients, foodservice and consumer products.	All except Iwi and NGOs.	See Food safety and quality on page SR-24 See Working with farmers on page SR-57
Adapting to the effects of climate change , while mitigating our impacts.	Our contribution to climate change from the activities in our value chain, including sourcing, farming, manufacturing and distribution; and the potential impact on those activities arising from predicted climate change.	All	See Climate change on page SR-28
Using water responsibly, including water quality, availability and disposal.	The water used by, and the potential impact on water quality arising from, our manufacturing sites and the farms which supply us with milk.	All except Investors and Vendors	See Land and water on page SR-42
Protecting the health and safety of people at work , including their wellbeing.	The health and safety of employees and contractors working at Fonterra sites and visitors to those sites. The wellbeing of our employees and farmers. Influencing the health and safety at work on supplying farms and the other businesses which provide us with goods and services.	Employees Iwi Vendors	See Health, safety and wellbeing on page SR-16
Protecting animal health and welfare within our supply chain, including caring for our cows and responsible use of antibiotics	All dairy animals on farms directly or indirectly supplying fresh milk to Fonterra.	Customers Consumers Employees	See Animal wellbeing on page SR-38
Supporting the livelihood of thousands of people through meaningful employment and sustainable income creation , including the milk price for our farmers	Local economies in the locations where we operate and source milk, goods and services from, including our impact on the national New Zealand economy.	Farmers Government Iwi	See Investing in people on page SR-10 See Employee data on page SR-83
Protecting and enhancing biodiversity and the underlying ecosystem services we rely upon such as soil health and the impact of deforestation	The direct impact of our operations and influencing best-practice on our supplying farms, and the indirect impact through procurement of goods, including procurement of animal feed by our farmers.	Governments Farmers NGOs	See Land and water on page 42 See Working with vendors on page SR-68

Material topics

Topic	Scope	Stakeholder groups that raised the topic most strongly	Our Response
Contributing to nutrition and health through the products and information we deliver, including obesity and under-nutrition	The nutritional profile, impact and accessibility of our products, and our role in promoting healthy, balanced diets.	Investors	See Nutrition and health on page SR-20
Maintaining ethical business practices fundamental to the way we work, including anti-corruption and fair competition	All activities undertaken by, or on behalf of, Fonterra, in all markets.	Vendors Iwi	See Ethical business practices on page SR-63
Using responsible procurement to influence environmental, social and economic performance along our supply chain	All direct procurement of goods and services.	Iwi	See Working with farmers on page SR-57 Working with vendors on page SR-68
Protecting the employment rights and working conditions of our people, including diversity and inclusion, women's empowerment, and learning and development.	All Fonterra permanent and temporary employees, and those working at our sites	Customers and consumers	See Investing in people on page SR-10
Minimising post-consumption waste , including product packaging and food waste.	All Fonterra consumer branded products and packaging of ingredients products	No stakeholder group raised this particularly highly.	See Packaging and waste on page SR-51

For reporting, we have focussed our disclosure on those topics that rated medium or above for importance to stakeholders or significance of impact. The table above lists these topics, in order, and where we cover our response in this report. For each topic, we have assessed and defined the scope of our impact and identified which stakeholder groups raised the topic most strongly.

Protecting the **human rights** of individuals impacted by our business actions, including modern slavery, did not make the materiality threshold for inclusion in this report but we recognise our responsibility to care for the human rights of people directly or indirectly impacted by our operations and decisions. Rather than manage human rights as a standalone topic, our approach

is to embed our respect of human rights across our range of policies and standards including our Code of Business Conduct, See page G&S-08. This means our main activities are already covered in our reporting: see Investing in people page SR-10, Health, safety and wellbeing page SR-16, Working with vendors page SR-68 and our [Modern Slavery Statement](#).

GRI Content Index

STATEMENT OF USE Fonterra Co-operative Group Ltd has reported the information cited in this GRI content index for the period 1 August 2022 to 31 July 2023 with reference to the GRI Standards.

GRI 1 USED GRI 1: Foundation 2021

GRI Standard	Disclosure	Location		GRI Standard	Disclosure	Location	
GRI 2: General Disclosures 2021	2-1 Organizational details	Fonterra Co-operative Group Limited. Ownership and Headquarters. See SR-107 About us. See AR-04	X ¹	GRI 2: General Disclosures 2021 (continued)	2-16 Communication of critical concerns	Ethical business practices. See SR-64 Principle 1: Ethical standards. See G&S-08	X
	2-2 Entities included in the organization's sustainability reporting	Financial Statements. See FS-60 Data reporting notes. See SR-88	X		2-17 Collective knowledge of the highest governance body	Principle 2: Board composition & performance. G&S-10	X
	2-3 Reporting period, frequency and contact point	About this report. See SR-02 sustainability@fonterra.com	X		2-18 Evaluation of the performance of the highest governance body	Principle 2: Board composition & performance. G&S-10	X
	2-4 Restatements of information	Our performance. See SR-73 Data reporting notes. See SR-88	X		2-19 Remuneration policies	Investing in people. See SR-02 Remuneration report. G&S-26	X
	2-5 External assurance	About this report. See SR-02 Assurance statement. See SR-106	X		2-20 Process to determine remuneration	Remuneration report. See G&S-26	X
	2-6 Activities, value chain and other business relationships	How we create value. See AR-11 Creating value for stakeholders. See AR-12	X		2-22 Statement on sustainable development strategy	Our three strategic choices. See AR-02	X
	2-7 Employees	Employee data. See SR-83	X		2-23 Policy commitments	Refer to each material topic in this report. See our Modern Slavery Statement. MS-11 See policies on our website	X
	2-9 Governance structure and composition	Principle 2: Board composition & performance. See G&S-10 Principle 3: Board committees. See G&S-13	X		2-24 Embedding policy commitments	People and culture. See SR-10 Nature. See SR-27 Working together. See SR-56	X
	2-10 Nomination and selection of the highest governance body	Principle 2: Board composition & performance. See G&S-10	X		2-25 Processes to remediate negative impacts	Non-discrimination. See SR-14 Ethical business. See SR-64 Effective reporting and monitoring of grievance mechanisms. See MS-13	X
	2-11 Chair of the highest governance body	Principle 2: Board composition & performance. See G&S-10	X		2-26 Mechanisms for seeking advice and raising concerns	Principle 1: Ethical standards. See G&S-08 Ethical business. See SR-64	X
	2-12 Role of the highest governance body in overseeing the management of impacts	Principle 3: Board committees. See G&S-13	X		2-27 Compliance with laws and regulations	Health safety and wellbeing. See SR-19 Nutrition and health. See SR-22 Ethical business practices. See SR-64	X
	2-13 Delegation of responsibility for managing impacts	Principle 3: Board committees. See G&S-13	X		2-28 Membership associations	Memberships. See SR-62	X
	2-14 Role of the highest governance body in sustainability reporting	About this report. See SR-02 Principle 4: Reporting & disclosure. See G&S-18	X		2-29 Approach to stakeholder engagement	Creating value for stakeholders. See AR-12 Stakeholder engagement and materiality assessment. See SR-99	X
	2-15 Conflicts of interest	Ethical business practices. See SR-64 Principle 1: Ethical standards. See G&S-08	X		2-30 Collective bargaining agreements	Investing in people. See SR-10	X

¹ X - Within scope of assurance.

GRI Standard	Disclosure	Location	
GRI 3: Material Topics 2021	3-1 Process to determine material topics	Stakeholder engagement and materiality assessment. See SR-99	X
	3-2 List of material topics	Responding to what's important. See SR-07	X
	3-3 Management of material topics	Refer to each material topic within this report.	X
Economic Topic Disclosures			
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	About us. See AR-04 Doing good together. See AR-15 Remuneration. See G&S-26	
GRI 202: Market Presence 2016	202-2 Proportion of Senior Management hired from the local community	Employee data. See SR-83	X
GRI 205: Anti-corruption 2016	205-3 Confirmed incidents of corruption and actions taken	Anti-corruption. See SR-65	X
GRI 206: Anti-competitive Behaviour 2016	206-1 Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	Legal compliance. See SR-65	X
Environmental Topic Disclosures			
GRI 302: Energy 2016	302-1 Energy consumption within the organization	Our performance. See SR-79	X
	302-3 Energy intensity	Our performance. See SR-36	X
	302-4 Reduction in energy consumption	Our performance. See SR-79	X
GRI 303: Water and Effluents 2018	303-1 Interactions with water as a shared resource	Land and water. See SR-42	
	303-2 Management of water discharge-related impacts	Improving water stewardship. See SR-44	
	303-3 Water withdrawal	Our performance. See SR-75	X
	303-4 Water discharge	Our performance. See SR-76	X
	303-5 Water consumption	Our performance. See SR-78	X
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	Our performance. See SR-79	X
	305-2 Energy indirect (Scope 2) GHG emissions	Our performance. See SR-79	X
	305-3 Other indirect (Scope 3) GHG emissions	Our performance. See SR-79	X
	305-4 GHG emissions intensity	Our performance. See SR-80	X
GRI 308: Supplier Environmental Assessment 2016	308-2 Negative environmental impacts in the supply chain and actions taken	Working with farmers. See SR-57	X

GRI Standard	Disclosure	Location	
Social Topic Disclosures			
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	Employee data. See SR-83	X
	401-3 Parental leave	Diversity, equity and inclusion. See SR-11	
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system	Health, safety and wellbeing. See SR-16	
	403-2 Hazard identification, risk assessment, and incident investigation	Health, safety and wellbeing. See SR-16	
	403-3 Occupational health services	Health, safety and wellbeing. See SR-16	
	403-4 Worker participation, consultation, and communication on occupational health and safety	Health, safety and wellbeing. See SR-16	
	403-5 Worker training on occupational health and safety	Health, safety and wellbeing. See SR-16	
	403-6 Promotion of worker health	Health, safety and wellbeing. See SR-16	
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Health, safety and wellbeing. See SR-16	
	403-8 Workers covered by an occupational health and safety management system	Health, safety and wellbeing. See SR-16	
	403-9 Work-related injuries	Health, safety and wellbeing. See SR-16	
GRI 404: Training and Education 2016	404-2 Programs for upgrading employee skills and transition assistance programs	Learning and development at Fonterra. See SR-12 Supporting the wellbeing of employees and their whānau. See SR-17	
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	Employee data. See SR-83 Diversity, equity and inclusion. See SR-11	X
	405-2 Ratio of basic salary and remuneration of women to men	Gender pay ratio. See SR-14	X
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	Non-discrimination. See SR-14	X
GRI 415: Public Policy 2016	415-1 Political contributions	Responsible political behaviour. See SR-66	
GRI 416: Customer Health and Safety 2016	416-1 Assessment of the health and safety impacts of product and service categories	Food safety and quality. See SR-24	X

SASB Content Index

While we do not claim alignment with SASB Reporting Standards, the following index is provided as alternative approach to finding common disclosures associated with the SASB Food & Beverage – Meat, Poultry & Dairy Standard.

REF	Topic Title	Reference
FB-MP-000.A	Location of operations	About us. See page AR-04
FB-MP-110a.1	Gross global Scope 1 emissions.	Our performance. See page SR-79
FB-MP-110a.2	Discussion of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets	Climate change. See page SR-28 Our performance. See page SR-78
FB-MP-130a.1	(1) Total energy consumed (2) Percentage grid electricity (3) Percentage renewable	Climate change. See page SR-28 Our performance. See page SR-79
FB-MP-140a.1	(1) Total water withdrawn, (2) Total water consumed, percentage of each in regions with High or Extremely High Baseline Water Stress	Land and water. See page SR-42 Our performance. See page SR-78
FB-MP-140a.3	Number of incidents of non-compliance with water quality permits, standards, and regulations	Environmental compliance. See page SR-67
FB-MP-160a.3.	Animal protein production from confined animal feeding operations	None
FB-MP-250a.2.	Percentage of supplier facilities certified to a Global Food Safety Initiative (GFSI) food safety certification program	Food, safety and quality. See page SR-26
FB-MP-250a.3.	(1) Number of recalls issued (2) Total weight of products recalled	Food, safety and quality. See page SR-26
FB-MP-250a.4.	Discussion of markets that ban imports of the entity's products	Nutrition and health. See page SR-22
FB-MP-320a.1.	(1) Total recordable incident rate (TRIR) (2) Fatality rate	Health, safety and wellbeing. See page SR-19

Assurance statement

INDEPENDENT ASSURANCE STATEMENT

To: The Stakeholders of Fonterra Co-operative Group Limited

Introduction and Objectives of Work

Bureau Veritas New-Zealand Ltd ("Bureau Veritas") was engaged by Fonterra Co-operative Group Limited ("Fonterra") to undertake a limited assurance engagement on selected subject matter information ("the Information") presented in the Fonterra 2023 Sustainability Report ("the Report"). This Assurance Statement applies to the related information included within the scope of assurance described below.

Scope of Limited Assurance

The scope of assurance consisted of a review of the disclosures made by Fonterra within the Report and the associated underlying systems, processes, and performance applicable to the sites and operations under which Fonterra has operational control for the period of 1st August 2022 to 31st July 2023.

The complete list of assured disclosures is referred to within the GRI Index of the Report.

Our assurance engagement does not extend to any other information included in the Report or information in respect of earlier periods.

Limited Assurance Conclusion

On the basis of our procedures as described under "Methodology" and the evidence we have obtained, we provide limited assurance that nothing has come to our attention:

- to indicate that the statements reviewed within the scope of our assurance engagement are inaccurate and the information included therein is not fairly stated.
- that causes us to believe that the information, within the scope of our assurance engagement, is not prepared, in all material respects, in accordance with the criteria indicated under "Understanding how Fonterra has Prepared the Information".

It is our opinion that Fonterra has established systems for the collection, aggregation and analysis of relevant information and quantitative data.

Understanding how Fonterra has prepared the Information

The Report was prepared with reference to the GRI Standards including appropriate considerations of the reporting principles and additional requirements as listed in GRI 1: Foundation 2021.

Fonterra's Responsibilities

Management of Fonterra was responsible for:

- Selecting and establishing suitable criteria for preparing the Report and information subject to our limited assurance;
- Preparing the information in accordance with the criteria; and
- Designing, implementing and maintaining internal controls over information relevant to the preparation of the Report that is free from material misstatement, whether due to fraud or error.

Our Responsibilities

Bureau Veritas was responsible for:

- Planning and performing the engagement to obtain limited assurance about whether the information included within the scope of assurance is free from material misstatement, whether due to fraud or error;
- Forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- Reporting our conclusion.

Bureau Veritas was not involved in the drafting of the Report and our independence has not been compromised.



Assurance statement

Methodology

Our limited assurance engagement was performed in accordance with International Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements other than Audits or Reviews of Historical Financial Information* issued by the International Auditing and Assurance Standards Board, and informed by Bureau Veritas' standard procedures and guidelines for external verification of sustainability reports.

Our work was planned and executed in a manner designed to produce a limited level of assurance and to provide a sound basis for our conclusions. We undertook the following activities:

- Review of the suitability of the criteria used as the basis for preparing the information subject to assurance;
- Interviews and follow-up communication with relevant individuals;
- Review of documentary evidence produced by Fonterra representatives;
- Audit of performance data and factual information including source verification; and
- Review of Fonterra's processes for identification, aggregation and analysis of relevant information, report content and performance data.

Limitations and Exclusions

Excluded from the scope of our work is any assurance of information relating to:

- Activities outside the defined reporting period;
- Statements of commitment to, or intention to undertake future actions by Fonterra;
- Statements of position, opinion, belief and/or aspiration by Fonterra;
- Financial data audited by an external third party; and
- Other sites and/or activities not included in the scope.

This independent assurance statement should not be relied upon to detect all errors, omissions or misstatements that may exist within the Report.

Statement of independence, impartiality and competence

Bureau Veritas is a global leader in Testing, Inspection and Certification ("TIC") services. The Group's mission is to reduce its clients' risks, improve their performance and help them innovate to meet the challenges of quality, health, safety, hygiene, environmental protection and social responsibility. Leveraging its renowned expertise, as well as its impartiality, integrity and independence, Bureau Veritas has helped build trust between companies, public authorities and consumers for almost 200 years.

Bureau Veritas has implemented a Code of Ethics across the business to maintain high ethical standards among its personnel in their day to day business activities. We are particularly vigilant in the prevention of conflicts of interest.

No member of the assurance team has a business relationship with Fonterra, its Directors or Managers beyond that required of this assignment. We have conducted this assurance engagement independently and there has been no conflict of interest.

The assurance team was selected based on its extensive Industry Sector knowledge and experience in conducting independent verification, validation and assurance of Environmental Social and Governance (ESG) information and associated systems and processes.

Jeremy Leu
General Manager – Certification Pacific



18th September 2023
Bureau Veritas New Zealand Ltd



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Fonterra Co-operative Group Limited

109 Fanshawe Street
Auckland Central
Auckland 1010
New Zealand

Headquarters

Fonterra Centre

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Auckland 1010
New Zealand

Fonterra Co-operative Group Limited
Private Bag 92032
Auckland 1010
New Zealand

Phone +64 9 374 9000

Email: sustainability@fonterra.com

Ownership

Fonterra Co-operative Group Limited is a New Zealand dairy co-operative company and its farmer shareholders are the suppliers of milk to Fonterra in New Zealand. Farmer shareholders are required to hold a number of shares in Fonterra linked to the amount of milk they supply to the Co-operative each season. Sharemilkers, contract milkers and farm lessors of a farm supplying Fonterra are also able to join and hold Fonterra shares as 'associated shareholders'. There is the ability for farmer shareholders who have ceased supplying milk to Fonterra to transfer shares to 'permitted transferees', being their relatives and related parties. The exercise of the powers of Fonterra's shareholders is governed by the Companies Act 1993, the Co-operative Companies Act 1996, and Fonterra's constitution.

Disclaimer

This report contains some forward-looking statements, targets and projections relating to Fonterra Co-operative Group Limited (Fonterra) and its subsidiaries (the Fonterra Group) that are based on the beliefs of the Fonterra Group's management as well as assumptions made by and information currently available to the Fonterra Group's management.

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

While all reasonable care has been taken in the preparation of this report, none of Fonterra or any of its respective subsidiaries, affiliates and associated companies (or any of their respective officers, employees or agents) (Relevant Persons) makes any representation, assurance or guarantee as to the accuracy or completeness of any information in this report or likelihood of fulfilment of any forward-looking statement, target or projection or any outcomes expressed or implied in any forward-looking statement, target or projection. The forward-looking statements, targets and projections in this report reflect views held only at the date of this report. None of the forward-looking statements, targets or projections in this report shall be construed as profit or revenue forecasts.

Accordingly, no-one should place reliance on any forward-looking statements, targets or projections in this report. All forward-looking statements, targets and projections in this report are qualified by reference to the cautionary statements set forth in this section.

Statements about past performance are not necessarily indicative of future performance. Except as required by applicable law or any applicable Listing Rules, the Relevant Persons disclaim any obligation or undertaking to update any information in this report.

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

Non-GAAP measures

Fonterra uses several non-GAAP measures when discussing financial performance. These measures include normalised profit after tax, normalised EBIT, EBIT, normalised earnings per share, normalisation adjustments and total Group measures. Total Group measures present the combined financial performance of the Group's continuing and discontinued operations. Non-GAAP financial measures are not defined or specified by NZ IFRS.

Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They are used internally to evaluate the underlying performance of business units and to analyse trends.

These measures are not uniformly defined or utilised by all companies. Accordingly, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS. Non-GAAP measures are not subject to audit unless they are included in Fonterra's audited Financial Statements.

Please refer to the Non-GAAP Measures section in Fonterra's 2023 Annual Review for further information about non-GAAP measures used by Fonterra, including reconciliations back to NZ IFRS measures. Definitions of non-GAAP measures used by Fonterra can be found in the glossary included within Fonterra's Business Performance Report.

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Fonterra Governance & Statutory Disclosures 2023

Pūrongo Mana Whakahaere me te Puakanga ā-ture Te Mātāpuna





James & Yiging,
Palmerston North

About this report

This report covers the activities of Fonterra Co-operative Group Limited for the year ended 31 July 2023 (FY23).

It introduces our Board of Directors and includes our Corporate Governance Statement and Remuneration Report.

It also details the Directors' disclosures, information regarding security holders, and other statutory disclosures.

COVER
Yiging,
Palmerston North

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OUR 2023 SUITE OF REPORTS

[Annual Review 2023](#)
(Referenced as AR)

[Financial Statements 2023](#)
(Referenced as FS)

[Business Performance Report 2023](#)
(Referenced as BP)

[Sustainability Report 2023](#)
(Referenced as SR)

[Governance & Statutory Disclosures 2023](#)
(Referenced as G&S)

[Modern Slavery Statement 2023](#)
(Referenced as MS)

[Farmgate Milk Price Statement 2023](#)
(Referenced as MP)

OUR REPORTS ARE AVAILABLE FROM FONTERRA.COM/NZ/EN/INVESTORS.HTML



Board of Directors

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Peter McBride

Elected 2018, last re-elected 2021

Board responsibilities: Elected Director, Chairman, Member of the People, Culture and Safety Committee, the Disclosure Committee, the Governance Development Programme Committee, and the LTA Review Committee (a non-permanent Committee). Fonterra appointed Director of Fonterra Farmer Custodian Limited.

Peter became Chairman in November 2020. He is the Chief Executive Officer of Trinity Lands Limited, a dairy and kiwifruit operation largely based in the Waikato, and is the Managing Director of Ellett Beach Farms Joint Venture. Peter is a Director of Sequal Holdings Limited and its subsidiaries, and is a member of the New Zealand China Council and the Zespri Global Supply Advisory Board.

Peter was previously the Chairman and a Director of Zespri Group Limited and other related companies. He was also previously a Director of the New Zealand International Business Forum and the Zespri China Advisory Board.

B. Horticulture, PG Dip Com Agribusiness



Clinton Dines

Appointed 2015

Board responsibilities: Appointed Director, Member of the Audit, Finance and Risk Committee, the Co-operative Relations Committee and the People, Culture and Safety Committee.

Clinton lived and worked in China for 36 years, 21 of which as President of BHP Billiton's China business. He has extensive experience as a senior executive in China and Asia businesses, including global manufacturing and commodity businesses. He has had an active career as a Non-Executive Director, currently serving on the Boards of the Port of Newcastle, Sky Renewables Pty Limited and Zanaga Iron Ore Company Limited.

Clinton was Executive Chairman of Caledonia Asia from 2010 to 2013, an investment group in Asia, and is a Partner in Moreton Bay Partners, a strategic advisory firm based in Brisbane. He is an Adjunct Professor at Griffith University's Asia Institute and is a Member of the Griffith University Council.

BA (Modern Asian Studies, Griffith), CIM, INSEAD



Brent Goldsack

Elected 2017, last re-elected 2020

Board responsibilities: Elected Director, Member of the Audit, Finance and Risk Committee, the Co-operative Relations Committee, the Sustainability and Innovation Committee and the LTA Review Committee (a non-permanent Committee).

Brent had a 25-year career in both New Zealand and abroad in various corporate advisory roles, including being a Partner at PwC for more than 12 years. He is a fellow of the Chartered Accountants of Australia and New Zealand. He currently Chairs the Board of Waitomo Group Limited and Better Eggs Limited and is a Director of Rabobank NZ Limited and Power Farming Holdings Limited.

Brent is actively involved as a shareholder of two dairy operations in the Waikato. In addition to his strong financial skills and knowledge, Brent has particular expertise in Fonterra's Farmgate Milk Price and the drivers of the Co-operative's earnings.

BCA, FCA



Leonie Guiney

Elected 2018, last re-elected 2021

Board responsibilities: Elected Director, Member of the Audit, Finance and Risk Committee, the Milk Price Panel and the People, Culture and Safety Committee.

Leonie was elected to the Fonterra Board in 2018, after previously serving on the Board from 2014 to 2017.

Leonie has worked in the agriculture sector for more than 25 years in a number of positions, including lecturer of Dairy Production at Lincoln University, consultant on the BNZ Growth Programme for farmers and has held roles with Golden Vale Dairy Co-operative in Ireland, Livestock Improvement Corporation and FarmRight South Island.

Leonie lives and farms at Fairlie in South Canterbury and is a director and shareholder of seven South Canterbury farms and Bobby Square Limited.

BAgrSci

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Bruce Hassall

Appointed 2017

Board responsibilities: Appointed Director, Chair of the Audit, Finance and Risk Committee, Member of the Disclosure Committee, and an observer on the Milk Price Panel.

Bruce is a Chartered Accountant and has had a 35-year career at PwC, including holding the position of Chief Executive Officer of the New Zealand practice from 2009 to 2016. Bruce is Chairman of The Farmers Trading Company Limited, Prolife Foods Limited and Fletcher Building Limited.

Bruce was previously a Director of the Bank of New Zealand and a member of the University of Auckland Business School Advisory Board. He was a founding Board Member of the New Zealand China Council. Bruce has extensive experience in financial reporting, information system processes, risk management, business acquisitions, capital raising and IPOs across both listed and private companies.

BCom, FCA (CAANZ)



Holly Kramer

Appointed 2020

Board responsibilities: Appointed Director, Chair of the People, Culture and Safety Committee, and Member of the Sustainability and Innovation Committee.

Holly has more than 30 years of extensive governance, management and product/marketing experience. She was Chief Executive Officer of major Australian retailer Best & Less. She has also held senior executive roles at Telstra Corporation, Ford Motor Company (in the US and Australia) and Pacific Brands.

Holly is currently a Director on the Boards of Woolworths, ANZ Banking Group, the GO (Goodes-O'Loughlin) Foundation and agritech start-up NBryo Limited. She is also the Pro-Chancellor of Western Sydney University and a Member of the Bain Advisory Group. Holly's previous governance roles include the Boards of Abacus Property Group, Australia Post, Endeavour Group, Nine Entertainment Corporation, AMP Limited, Lendi and Telstra Clear (NZ) and The Ethics Centre.

Holly and her husband live on a small rural property in the Southern Highlands, NSW, where they raise beef cattle.

BA, MBA



Andy Macfarlane

Elected 2017, last re-elected 2022

Board responsibilities: Elected Director, Chair of the Co-operative Relations Committee, Member of the Sustainability and Innovation Committee and the Governance Development Programme Committee, and Fonterra appointed Director of FSF Management Company Limited.

Andy was a farm management consultant for 38 years and is a past President of the New Zealand Institute of Primary Industry Management (NZIPIM). He is a Director of ANZCO, chairs the SFFF Plantain Project and Edgewater Hotel Lake Wanaka and is a member of the International Farm Management Association (IFMA). Andy is a previous Director of Ngai Tahu Farming Limited and AgResearch, past chair of Deer Industry New Zealand, and served on the council of Lincoln University for 12 years.

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

B.Agr.Sc



John Nicholls

Elected 2018, last re-elected 2021

Board responsibilities: Elected Director, Member of the Co-operative Relations Committee and the Disclosure Committee, and Fonterra appointed Director of FSF Management Company Limited.

An experienced company director, John is the current chair of MHV Water, New Zealand's largest intergenerational irrigation co-operative.

As the owner of several mid-Canterbury dairy farms forming part of the Rylib Group, John is highly focused on investing in and mentoring the next generation of farmers in New Zealand and on safeguarding the sustainability of farming for the long term. He brings professionalism, cost consciousness and a strategic mindset to governance, ensuring that business operations align with core strategy and are consistently adding value.

John served on the Fonterra Co-operative Council from 2009 to 2011.

B.Agr, PG AgrSci

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Cathy Quinn

Elected 2020

Board responsibilities: Elected Director, Chair of the Disclosure Committee and the LTA Review Committee (a non-permanent Committee), Member of the Audit, Finance and Risk Committee, and the People, Culture and Safety Committee.

Cathy has a number of governance roles having previously enjoyed a 30+ year career as a commercial and corporate lawyer with MinterEllisonRuddWatts. She has significant expertise in governance, equity capital markets, mergers and acquisitions and private equity services. Amongst the numerous awards she has won, Cathy was made an Officer of the New Zealand Order of Merit for services to law and women in 2016.

Cathy is a director and indirect shareholder of Thistlehurst Dairy Limited, based in the Waikato. Key commercial Boards that Cathy serves on are Fletcher Building and Rangatira. Cathy chairs the Boards of Tourism Holdings and Fertility Associates and is the Pro-Chancellor of the Council of Auckland University. She was previously on the advisory Board at New Zealand Treasury, the New Zealand Securities Commission and New Zealand China Council.

ONZM, LLB



Scott St John

Appointed 2016

Board responsibilities: Appointed Director, Member of the Audit, Finance and Risk Committee, the Disclosure Committee and the Sustainability and Innovation Committee.

Scott was the Chief Executive Officer of First NZ Capital (FNZC) for 15 years, stepping down from that role in early 2017. Scott is the Chair of Fisher and Paykel Healthcare and serves on the Board of ANZ Bank New Zealand, Mercury NZ Limited and NEXT Foundation.

Scott served on the Council of the University of Auckland from 2009 to 2021, including as Chancellor from 2017 to 2021. His other previous roles have included Chairman of the Securities Industries Association, and membership of both the Capital Markets Development Taskforce and the Financial Markets Authority Establishment Board.

BCom, Diploma of Business



Alison Watters

Elected 2022

Board responsibilities: Elected Director, Chair of the Sustainability and Innovation Committee and Member of the Co-operative Relations Committee.

Alison has more than 20 years experience governing a range of entities including non-profit organisations, small and medium enterprises, and large global commercial companies. Alison has in-depth experience in, and understanding of, research and development and applied innovation in relation to ingredient development and human nutrition.

Alison is currently a Director of Livestock Improvement Corporation, Meteorological Service of New Zealand Limited (MetService) and Totally Vets Limited, and is a Board member of the National Science Challenge "High Value Nutrition". Alison and her family own a 510 cow, fifth generation dairy farm in the Wairarapa.

BAgrSc (hons), PhD

Information about the Fonterra Management Team can be found in the [Annual Review 2023](#).

For personal use only Corporate Governance Statement

We recognise the critical role governance plays in the success of our Co-operative. Fonterra's Board of Directors, the Co-operative Council and the Fonterra Management Team (FMT) are committed to achieving the highest standard of corporate governance, and have developed a governance framework to reflect Fonterra's unique characteristics as a globally competitive New Zealand based dairy co-operative.



Compliance with best practice governance standards

Our governance framework takes into consideration contemporary standards in New Zealand and Australia, including the principles in the NZX Corporate Governance Code, and is regularly reviewed and updated to align with best practice.

We focus on governance in a way that promotes:

- the interests of key stakeholders, including farmer shareholders, unit holders, debt investors, employees, customers, governments and the communities we operate in;
- our purpose, values and strategy;
- transparency and meaningful engagement to provide key stakeholders with the information they need to assess Fonterra's performance;
- effective risk management and compliance to meet Fonterra's business objectives and legal requirements; and
- an appropriate balance between the roles and responsibilities of the Board and FMT.

This corporate governance statement is current as at 31 July 2023 and has been approved by the Board. It has been prepared in accordance with the NZX Corporate Governance Code dated 1 April 2023.

Principle 1: Ethical Standards

Code of ethics

We believe that creating an environment that inspires our people to act responsibly and with integrity and transparency is integral to our Co-operative's purpose and delivery of our strategy.

Fonterra's Code of Business Conduct, The Way We Work, provides detail on our values, expected behaviour and conduct, and our position across a wide range of internal and external operating practices. It is fundamental to our business and reflects the expectation that our Board of Directors and employees globally should consistently maintain high ethical standards of behaviour. We have adopted a Global Ethical Behaviour Policy and Standard to underpin the Code and reinforce our commitments and expectations.

The Board is also guided by the Board Code of Conduct, undertaking the responsibility of leading by example and nurturing an environment where integrity and accountability are key.

The Board Code of Conduct and The Way We Work are available on fonterra.com, together with our other core global policies. These documents, along with Fonterra's employment agreements, set out clear expectations for our people regarding ethical behaviour, including:

- the requirement for the highest standards of integrity, honesty and transparency;
- how to deal with conflicts of interest;
- the use of corporate information, assets and property;
- competition and antitrust;
- procedures for giving and receiving gifts;
- procedures for whistle blowing; and
- how to manage breaches of The Way We Work.

All of our global policies and The Way We Work are also available on MilkyWay, the Fonterra intranet for employees. All Fonterra managers are required to introduce new employees to these core expectations during their induction programme. In addition, the annual e-learning and certification process reiterates and supports our people's ongoing awareness and understanding of the Fonterra Global Policy Framework, including our commitments and expectations regarding ethical behaviour. In the financial year ended 31 July 2023 (FY23), this certification was completed by nearly 5,000 employees, being over 98% of its target audience of Fonterra's people leaders, managers and other key roles.

All employees are required to record actual or potential conflicts using the Fonterra Conflict of Interest Register and mitigating actions must be approved by their managers. Fonterra also maintains a Gift and Entertainment Register, where employees must record all gifts given or received, above a nominal level, including hospitality and entertainment with third parties. Employees are also required to declare external governance appointments prior to accepting the position (and new employees are required to declare existing appointments). In certain situations, such appointments will require approval from FMT.

We fund an independently administered whistleblowing hotline (The Way We Work Hotline), facilitated by Deloitte, that provides all of our stakeholders globally with a confidential and anonymous channel (by phone, email, mail, or online) to report concerns about serious wrongdoing or behaviour that does not meet the standards described in The Way We Work. Disclosures are investigated by a Fonterra team not involved in the substance of the concern (the Internal Audit team, other specialist teams or, where appropriate, an external investigator) before appropriate action is taken. Timely updates are made available to the whistle-blower through the hotline. The legislative requirements that must be followed in relation to whistleblowing (referred to as protected disclosures) are outlined in Fonterra's Global Ethical Behaviour Standard.

In FY23, 32 disclosures were made to The Way We Work Hotline. 21 disclosures were made by people based in New Zealand and 11 came from other countries.

Employee Assistance Programme

We provide a free and confidential Employee Assistance Programme where employees can seek guidance and counselling in any area of concern in their personal or working life. It provides independent professional support to address issues such as anxiety, grief and work-related stress. Targeted support is also available to assist employees dealing with workplace change and restructuring.

Securities Trading Policy

We have adopted a Securities Trading Policy and Standard that together detail the rules for trading in:

- shares, capital notes, retail bonds, units, derivatives, and any other listed securities of Fonterra or the Fonterra Shareholders' Fund; and
- any swap contract, contract for difference, futures contract or options contract that settles to the Fonterra Farmgate Milk Price.

The policy applies to all Directors, employees and contractors of Fonterra globally, as well as members of the Co-operative Council and the Milk Price Panel, and is in addition to legislative prohibitions on insider trading in New Zealand and Australia. All Fonterra Directors comply with the legislative requirements for disclosing interests in listed voting securities of Fonterra and its related companies.

Our Securities Trading Policy and Standard are available on [fonterra.com](https://www.fonterra.com).



Rajiv,
Auckland

Principle 2: Board Composition & Performance

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Board Charter

The Board Charter includes details about the Board's role, responsibilities, obligations, composition and procedures including the Chair's election and role, the Board's relationship with management, incident management engagement, training provided to Directors, and the process for assessing the Board's performance. The Board Charter is reviewed regularly and is available on fonterra.com.

Board appointments

Fonterra's Constitution provides for a maximum of 11 Directors, with up to seven Directors elected by farmer shareholders (Elected Directors) and up to four Directors appointed by the Board (Appointed Directors). The Board is currently reviewing its size and composition and is consulting with shareholders on potential changes to be voted on at this year's Annual Meeting.

All Directors enter into written agreements establishing the terms of their appointment.

The Board is committed to building its capabilities, ensuring a good balance of experience on the Board, and maintaining the highest standards of governance in accordance with best practice. To achieve this, the Board has developed a list of attributes that all Directors must be able to demonstrate and a list of skills that the Board believes are required to effectively govern a complex, globally competitive New Zealand dairy co-operative with diverse stakeholders. The attributes and skills lists are reviewed annually and updated as required.

Using the skills list, the Board develops a skills matrix by assessing the required weighting of each skill given the Board's current priorities and the external operating environment, against the aggregate skills of the current Board. The skills matrix is used to identify the skills to be targeted each year as part of the Elected Director election process and when selecting Appointed Directors. The attributes, skills list, skills matrix and the year's targeted skills are published annually as part of the Elected Director election process, to assist potential candidates in assessing their suitability and to assist our farmer shareholders when assessing the candidates put forward for election.

Elected Director selection process

The Elected Director selection process involves a three-member Independent Assessment Panel (IAP) that assesses and recommends appropriate candidates to be put to our farmer shareholders for election. The members of the IAP are independent of Fonterra and are jointly appointed by the Board and the Co-operative Council. In addition to the candidates assessed and recommended by the IAP, there is a non-assessed candidate process where candidates can put themselves forward for election as Elected Directors with the support of 35 shareholders.

Elected Directors are elected by postal ballot and online voting by our farmer shareholders. The voting packs circulated to all farmer shareholders with voting entitlements include biographical information on each candidate including relevant skills and experience. The Elected Director elections are overseen by the Co-operative Council.

Appointed Director selection process

Appointed Directors are selected to enable the Board to access the skills and competencies needed to lead an enterprise of our size, global reach and complexity. They are independent and bring perspectives, experience and skills to complement and enhance the attributes and skills provided by the Elected Directors.

The People, Culture and Safety Committee oversees the process for identifying and recommending potential Appointed Directors. Prior to appointment by the Board, the Fonterra Shareholders' Fund Board is consulted. The Appointed Directors are ratified by farmer shareholders at the next Annual Meeting held following their appointment.

Changes to Fonterra Board members

The following changes were made during FY23, all in November 2022:

- Elected Director Andy Macfarlane was re-elected to the Board;
- Elected Director Alison Watters was elected to the Board; and
- Elected Director Donna Smit retired from the Board.

Director rotation

At each Annual Meeting, one-third of the Elected Directors retire from their position on the Board. The Elected Directors who retire are those who have served the longest since their last election.¹

Disclosures

Information about the experience, length of service, independence and attendance at Board and Committee meetings of each Director is disclosed on [pages 4 to 6](#) and [15](#) of this report.

The ownership interests of each Director are disclosed at [page 39](#) of this report.

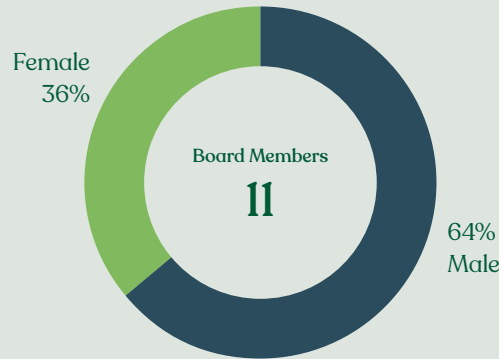
¹ Where the application of these rules would cause an Elected Director to serve a term exceeding three years, then that Director must also retire from office.

Diversity & inclusion

Information about our Diversity and Inclusion Policy, and performance against our targets and objectives across senior leadership can be found in the Investing in People section of the [Sustainability Report 2023](#), and the policy is published on fonterra.com.

As the majority of Directors are elected by our farmer shareholders through an independent process, the Board has not adopted formal Board gender targets in 2023. The Board is, however, committed to addressing the gender composition of the Board through the appointment of Appointed Directors, building a pipeline of diverse Directors through the Fonterra Governance Development programme and through the Elected Director election process.

The gender composition of the Board did not change between 2022 and 2023, as shown below:

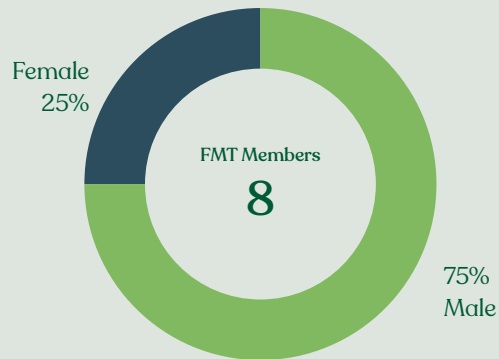


as at 31 July 2022



as at 31 July 2023

The gender composition of the FMT¹ is shown below:



as at 31 July 2022



as at 31 July 2023

¹ Fonterra's 'Officers' for the purposes of the NZX Corporate Governance Code.

² This includes Mr Fraser Whineray, who held the position of Chief Operating Officer until 31 July 2023.

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Ongoing training

Following appointment to the Board, Directors undertake an induction programme to familiarise themselves with Fonterra and our global business. Areas covered include:

- business strategy and planning;
- an overview of key financial metrics to monitor business performance;
- an overview of material areas of the Fonterra business, including through meetings with key executives and visits to key offshore markets, where possible; and
- our Constitution and governance framework.

Directors are expected to keep themselves informed of changes and trends in the business, Fonterra's environment and markets, and the economic, political, social and legal climate generally. Directors are encouraged to attend external development and training courses and the Board holds training and workshops on relevant subjects each year. The Board is also provided with regular strategic readings and Directors are expected to keep up to date with governance trends. Board visits to our manufacturing sites and global businesses occur regularly.

Performance assessment

Directors formally assess the performance of the Board, and the Board reviews each Committee's performance against its Charter. A regular programme of peer review of individual Directors occurs as part of an ongoing Director development programme.

There is a requirement under our Constitution for the Board to provide the Co-operative Council with quarterly reporting on Fonterra's consolidated and key business unit operations for review and discussion. For FY23 and future years Fonterra reports its performance via an Integrated Scorecard, which is published annually with key performance targets. The Board also responds to an annual Letter of Expectations from the Co-operative Council, which is published in the Co-operative Council's annual report.

The Board is responsible for reviewing the Chief Executive Officer's performance.

Director independence

The Fonterra Shareholders' Market Listing Rules (FSM Rules) require us to have at least two Independent Directors, defined in the FSM rules as a Director who is not an 'employee' of Fonterra or who has no 'disqualifying relationship'.

A Director has a disqualifying relationship where they have a direct or indirect interest, position, association or relationship that could reasonably influence, or reasonably be perceived to influence, in a material way, the Director's capacity to bring an independent view to decisions relating to the Co-operative, to act in Fonterra's best interests and to represent the interests of our shareholders generally. The FSM Rules contain specific examples of what may give rise to a disqualifying relationship.

Elected Directors must be qualified as farmer shareholders under section 12.3 of our Constitution and are therefore not considered independent.

Appointed Directors cannot be shareholders and are expected to maintain independence for the length of their term.

Fonterra currently has four Appointed Directors. As at 31 July 2023, Clinton Dines, Bruce Hassall, Holly Kramer and Scott St John each did not have (and continue not to have) any disqualifying relationship in relation to Fonterra and are therefore Independent Directors.

Our Constitution allows for up to four independent Appointed Directors, out of a maximum of 11 Board members. Accordingly, the Board does not consist of a majority of independent directors.

Conflict management arrangements

There are conflict management arrangements in place to record any actual or potential conflicts of interest of Directors, and Directors are expected to proactively advise the Co-operative of any potential conflicts.

Division of roles

Under our Constitution, the Chair must be an Elected Director and is therefore not independent. This reflects our structure as a co-operative company. Peter McBride, who is an Elected Director, is the Board-elected Chair.

The Chair and Chief Executive Officer roles at Fonterra are not exercised by the same individual.

Principle 3: Board Committees

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We have a number of permanent Board Committees, and the membership and purpose of each permanent Committee is detailed here. Additional Committees are formed when it is efficient or necessary to facilitate decision-making by providing for a sub-group of Directors to focus on particular areas and to develop recommendations to the Board.

Committees have standard 'Terms of Reference', and each permanent Committee has a charter, which defines the scope and responsibilities of that Committee and is reviewed by the Board regularly. The charters of the permanent Committees are available on fonterra.com. The papers considered by the Committees, and the minutes for each of the Committees' meetings, are provided to the Board for review.

The following changes were made to permanent Committees during FY23:

- the Sustainability and Innovation Committee was established; and
- the Divestment Review Committee was disbanded, following completion of Fonterra's material divestment programme.

Committee or Group	Membership as at 31 July 2023	Purpose
Audit, Finance and Risk Committee	Bruce Hassall¹ (Chair) Clinton Dines¹ Brent Goldsack Leonie Guiney Cathy Quinn Scott St John¹	To assist the Board in fulfilling its corporate governance responsibilities relating to: <ul style="list-style-type: none"> – our financial management and internal control frameworks, financial reporting, climate risk reporting, audit activities, capital markets matters, and funding activities; and – our management and monitoring of allocated Group risks including Food Safety and Quality, Innovation, Market Access and Geopolitical, Liquidity and Funding, Milk Supply, Regulatory, Commodity Price, Foreign Exchange and Interest Rate, Supply Chain and Manufacturing, Information Technology, Cybersecurity, Legal and Compliance, Climate Change and Licence to Operate.
Co-operative Relations Committee	Andrew Macfarlane (Chair) Clinton Dines¹ Brent Goldsack John Nicholls Alison Watters	<ul style="list-style-type: none"> – To support strong and effective engagement between the Co-operative and farmer shareholders and assist the Board in the management of our relationships with key external stakeholders and community initiatives. – To review our Co-operative Principles periodically, assist the Board in fulfilling its corporate governance responsibilities relating to the supply of milk from Fonterra suppliers and aspects of milk pricing, seek to resolve supplier complaints before reference to the Milk Commissioner and undertake activities relating to the annual Fonterra Co-operative Council elections. – To assess the rules relating to shareholding, and the risk management policy as referred to in the Constitution.
Disclosure Committee	Cathy Quinn (Chair) Bruce Hassall¹ Peter McBride John Nicholls Scott St John¹	<ul style="list-style-type: none"> – To oversee our continuous disclosure obligations, including by considering the materiality of information and making judgements on other information where it may not be material but its disclosure would benefit the market. – To review and approve the materials for release relating to the Interim and Annual Results and Quarterly Business Updates, including the Annual Review Report, the Business Performance Report and the Sustainability Report.

1 Independent Director.

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Penelope, Hawkes Bay

Committee or Group	Membership as at 31 July 2023	Purpose
Milk Price Panel	<p>David Pilkington^{2,3} (Chair)</p> <p>Leonie Guiney</p> <p>Bill Donaldson⁴</p> <p>Prof. Hamish Gow^{2,5}</p> <p>Ming Lim-Pollard^{2,5}</p> <p>Fred Ohlsson^{2,4}</p> <p>Bruce Hassall¹ (observer)</p>	<ul style="list-style-type: none"> – To provide assurances to the Board as to the governance of the Milk Price and the Milk Price Manual, and the proper application of the Milk Price Principles. – The Milk Price Panel does not determine the Farmgate Milk Price, as this is a decision reserved for the Board.
People, Culture and Safety Committee	<p>Holly Kramer¹ (Chair)</p> <p>Clinton Dines¹</p> <p>Leonie Guiney</p> <p>Peter McBride</p> <p>Cathy Quinn</p>	<p>To assist the Board in fulfilling its corporate governance responsibilities relating to:</p> <ul style="list-style-type: none"> – our management of health, safety and wellbeing (including promoting a safe and healthy working environment for all Fonterra employees, contractors and members of the public as required); – the recruitment, retention, remuneration and development of Directors, executives and other employees; and – optimising our culture to deliver high performance.
Sustainability and Innovation Committee	<p>Alison Watters (Chair)</p> <p>Holly Kramer¹</p> <p>Andrew Macfarlane</p> <p>Brent Goldsack</p> <p>Scott St John¹</p>	<p>To assist the Board in fulfilling its corporate governance responsibilities relating to:</p> <ul style="list-style-type: none"> – reviewing and overseeing the sustainability aspects of our strategy, including reviewing our key sustainability metrics, commitments and targets and monitoring our performance against them; and – reviewing our innovation strategy and approach to our intellectual property portfolio, and monitoring performance against agreed metrics.

1 Independent Director.

2 Independent Member (as defined in the Fonterra Shareholders' Market Rules).

3 Approved by the Minister of Agriculture under subsection 150E(1)(b) of the Dairy Industry Restructuring Act 2001.

4 Nominated by the Co-operative Council.

5 Nominated by the Minister of Agriculture under subsection 150E(1)(a) of the Dairy Industry Restructuring Act 2001.

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Board and Committee attendance

	BOARD		AUDIT, FINANCE AND RISK COMMITTEE		CO-OPERATIVE RELATIONS COMMITTEE		DISCLOSURE COMMITTEE		DIVESTMENT REVIEW COMMITTEE ¹		MILK PRICE PANEL		PEOPLE, CULTURE AND SAFETY COMMITTEE		SUSTAINABILITY AND INNOVATION COMMITTEE ²	
	ELIGIBLE TO ATTEND	ATTENDANCE	ELIGIBLE TO ATTEND	ATTENDANCE	ELIGIBLE TO ATTEND	ATTENDANCE	ELIGIBLE TO ATTEND	ATTENDANCE	ELIGIBLE TO ATTEND	ATTENDANCE	ELIGIBLE TO ATTEND	ATTENDANCE	ELIGIBLE TO ATTEND	ATTENDANCE	ELIGIBLE TO ATTEND	ATTENDANCE
Clinton Dines	15	11	3	2	6	6	–	–	3	3	–	–	5	5	–	–
Brent Goldsack	15	13	6	6	6	5	–	–	3	3	3	3	–	–	2	2
Leonie Guiney	15	15	3	3	3	3	–	–	–	–	4	4	5	5	–	–
Bruce Hassall	15	15	6	6	–	–	5	4	3	2	7 ⁵	7	4 ⁶	2	–	–
Holly Kramer	15	14	3	3	–	–	–	–	–	–	–	–	5	5	2	2
Andrew Macfarlane	15	13	–	–	6	6	–	–	–	–	–	–	4	3	2	2
Peter McBride	15	15	–	4 ⁷	–	–	5	5	–	–	–	–	5	5	–	–
John Nicholls	15	14	–	–	6	6	5	5	–	–	–	–	–	–	–	1 ⁸
Cathy Quinn	15	15	6	6	–	1 ⁸	5	4	3	3	3 ⁶	2	–	–	–	–
Donna Smit ³	4	4	1	1	–	–	–	–	–	–	–	–	–	–	–	–
Scott St John	15	15	6	6	–	–	5	5	3	3	5	5	–	–	2	2
Alison Watters ⁴	11	10	–	–	3	2	–	–	–	–	–	–	–	1 ⁸	2	2

1 Disestablished in March 2023.

2 Established as a new Board Committee in February 2023.

3 Retired in November 2022.

4 Elected as a Director in November 2022.

5 Eligible to attend as a member until July 2023, then as an observer thereafter.

6 Eligible to attend as an observer until February 2023.

7 Attended as Chair of the Board.

8 Attended as an observer.

Audit, Finance and Risk Committee

The Audit, Finance and Risk Committee comprises three Appointed Directors and three Elected Directors. The Committee is chaired by Bruce Hassall, who is an independent Appointed Director and a Fellow of the New Zealand Institute of Chartered Accountants.

Independent Directors – Audit, Finance and Risk Committee and People, Culture and Safety Committee

The membership of the Audit, Finance and Risk Committee and People, Culture and Safety Committee is not comprised of a majority of independent Appointed Directors.

Under the FSM Rules, the Audit, Finance and Risk Committee is not required to comprise of a majority of Appointed Directors. There is currently no headroom for the Co-operative, based on having 11 Directors, to have more than four independent Appointed Directors, as the Elected Directors fill each of the seven positions open to them (and as noted on page 12 of this report, the Elected Directors are not considered independent). Given this, it is difficult for us to appoint a majority of Appointed Directors to these Committees without excluding Elected Directors or significantly increasing the workload of the Appointed Directors.

We do not consider that this is a significant issue, as the Audit, Finance and Risk Committee and the People, Culture and Safety Committee are chaired by independent Appointed Directors.

Employees only attend Audit, Finance and Risk Committee and People, Culture and Safety Committee meetings at the invitation of the respective Committee.

Milk Price Panel

The Dairy Industry Restructuring Act 2001 (DIRA) requires that the Chair and a majority of the members of the Milk Price Panel are independent. In addition, the Dairy Industry Restructuring (Fonterra Capital Restructuring) Amendment Act 2022 (DIRA Amendment Act) amended DIRA to, amongst other things:

- require that the independent Chair of the Milk Price Panel have no “meaningful association” with Fonterra or a shareholder, and be approved by the responsible Minister under DIRA; and
- increase the number of members on the Milk Price Panel nominated by the responsible Minister under DIRA from one to two.

Currently, the Panel has six members:

- David Pilkington, independent Chair with no “meaningful association” with Fonterra and approved by the Minister;
- Prof. Hamish Gow, independent Ministerial nominee;
- Ming Lim-Pollard, independent Ministerial nominee;
- Fred Ohlsson, independent Co-operative Council nominee;
- Bill Donaldson, Co-operative Council nominee; and
- Leonie Guiney, an Elected Director.

Bruce Hassall, an independent Appointed Director, stood down from the Milk Price Panel on 10 July 2023 when Ming Lim-Pollard's appointment took effect and has since been attending Panel meetings as an observer.

We intend to seek shareholder approval at our Annual Meeting in November 2023 to amend our Constitution to increase the size of the Milk Price Panel from six to seven members, to accommodate the additional appointments under the DIRA Amendment Act and to enable an independent Appointed Director to re-join the Panel.

Nominations committee

The People, Culture and Safety Committee fulfils the role of a nominations committee in respect of Appointed Directors. The election and selection process for Elected Directors and Appointed Directors is explained under Board Appointments on page 10 of this report.

Takeover offer

The Board does not believe that it is necessary to establish protocols for a takeover offer, given our co-operative structure and the thresholds on share ownership in our Constitution.

Governance of sustainability

Board of Directors

As part of their governance duties, our Board of Directors have visibility and oversight of sustainability and climate-related risks and opportunities. The Board approves, and is ultimately responsible for, our overall sustainability strategy, initiatives, frameworks, targets, metrics and policies.

The Board monitors progress against and oversees achievement of, sustainability and climate-related metrics and targets.

In 2018, Fonterra appointed an external Sustainability Advisory Panel, to provide our Board and management with independent sustainability insights. This includes perspectives on Fonterra's climate strategy, targets and initiatives. The Panel meets twice a year to review and provide feedback on our strategy and sustainability performance.

Various Board sub-committees take on governance responsibility for elements of sustainability that align to their particular areas of oversight, as set out below.

1. Sustainability and Innovation Committee

Formed in 2023 and oversees the innovation, sustainability and climate aspects of Fonterra's strategy. This includes:

- reviewing our sustainability and climate-related initiatives and investment, frameworks, targets, metrics, and policies and recommending them to the Board for approval; and
- once approved, monitoring their strategic integration into the business and our performance against them.

2. Co-operative Relations Committee

Assists the Board and management in developing and building relationships with key external stakeholders regionally, nationally and globally, recommending actions as appropriate, including environmental and other policy positions. It provides oversight and monitoring of climate risk and sustainability initiatives in relation to on-farm practices, associated change management and regional community initiatives.

3. Audit, Finance and Risk Committee

Assists the Board in fulfilling its corporate governance responsibilities relating to management and monitoring of enterprise-wide risks. It has responsibility for oversight and monitoring of climate risk and of other sustainability related group risks (in conjunction with other Board Committees where appropriate), including climate-related financial disclosures.

4. People, Culture and Safety Committee

Responsible for reviewing and approving Fonterra's global remuneration strategy, including the measures and weightings of any incentive plan components in respect of climate risk and sustainability.

Fonterra Management Team (FMT) and climate leaders

Our **Chief Executive Officer** (CEO) has responsibility to manage and deliver the Co-operative's strategy and performance. This includes management of our strategic choice to be a leader in sustainability and responsibilities associated with climate-related risk and opportunities. The CEO provides a monthly report to the Board, which includes reporting against 'Climate Change' as a Group Risk.

Accountability for individual elements of sustainability performance cascades through the organisation and is integrated into the Group Short-Term Incentive scheme for permanent employees. The related Key Performance Indicators cover our environmental, economic and social performance.

Whilst the wider FMT monitors and discusses sustainability initiatives and endorses content to go to the Board at monthly meetings, the following FMT members have significant responsibilities related to sustainability and climate:

- the **Chief Operating Officer** and the **Managing Director Strategy & Optimisation**, who help integrate sustainability and climate into strategy and business planning;
- the **Managing Director Co-operative Affairs**, who is responsible for our farmer-facing services, corporate sustainability and management of climate-related governance and risk; and
- the **Chief Financial Officer**, who aligns our reporting on climate-related risks and opportunities with standards and considers financial implications of climate-related risks and opportunities in financial planning, capital allocation, and financial reporting.

The FMT reviews an integrated scorecard on a monthly basis, which shows performance against targets including greenhouse gas emissions, Farm Environment Plans and water use, as well as a summary of key workstreams relating to the delivery of Fonterra's strategic aim to be a leader in sustainability.

Various members of management with climate-related responsibilities from around Fonterra report to members of the FMT and form part of a Sustainability Activation Steering Committee and Climate Risk Steering Committee.

Principle 4: Reporting & Disclosure

Continuous disclosure

We are committed to promoting well-informed and efficient markets in our shares, units issued by the Fonterra Shareholders' Fund and debt securities. The Board has approved a Global Disclosure Policy to facilitate its compliance with the NZX Listing Rules and FSM Rules regarding continuous disclosure and to govern our communications with investors and market participants. The Global Disclosure Policy and the associated Global Disclosure Standard are available on fonterra.com.

Fonterra and the Manager of the Fonterra Shareholders' Fund have entered into an arrangement to co-operate with each other and take all steps reasonably required to ensure that information to be disclosed by either of them under the FSM Rules and the listing rules of the NZX or the ASX (as the case may be) is disclosed simultaneously to the FSM, the NZX Main Board and the ASX. We simultaneously disclose relevant information on the ASX on behalf of the Fonterra Shareholders' Fund.

Website disclosure

Our key governance documents are available on our website fonterra.com for investors and other interested stakeholders to view, including our Code of Business Conduct (The Way We Work), key corporate policies and the Board and Committee Charters.

We do not have a Director Remuneration Policy for the reasons noted on [page 35](#) under 'Director Remuneration'.

Financial and non-financial reporting

We are guided by international best practice and, reflecting the core role of sustainability within our strategy, are on a journey towards more integrated reporting.

In the 2023 Annual Review and suite of supporting reports, we provide coverage of both financial and non-financial matters. Non-financial reporting includes coverage of social, environmental and governance matters and we cover these in a concise and integrated way within our Annual Review. Supporting our Annual Review is an integrated suite of reports that provide further detailed information according to the stakeholder's interest. For example, governance details are provided in this Governance and Remuneration Report, financial performance details are provided

in the Financial Statements and Business Performance Report, and further details on our sustainability activities and performance are covered in the Sustainability Report.

Our Sustainability Report was prepared with reference to the Global Reporting Initiative (GRI) Standards and is independently assured. We have adopted this internationally recognised reporting framework to help users of our sustainability performance information more easily compare our disclosed information and performance with others. To remain aligned with leading practices, we will continue to monitor the emergence of global standards and local regulatory requirements (for example, from the International Sustainability Standards Board and the New Zealand External Reporting Board) and will comply with new reporting obligations. We have been preparing voluntary climate-related disclosures, with the aim of releasing these later this calendar year.

We have released our fourth Modern Slavery Statement to meet the regulatory disclosure requirements in the Australian Modern Slavery Act 2018. The Statement sets out the actions taken by Fonterra to address modern slavery risks in its business and supply chain during FY23. We will monitor the introduction of new legislation in New Zealand to address modern slavery, which was signalled by the New Zealand Government in July 2023.

Principle 5: Remuneration

The 'Remuneration Report' on page 26 of this report details Fonterra's remuneration framework, strategy, and governance processes for its employees and Directors.

Principle 6: Risk Management

Risk management framework

The Board, supported by the Audit, Finance and Risk Committee, has responsibility for overseeing the implementation of our purpose-built risk management framework.

Our Risk Appetite Statement specifies the amount of risk we are willing to take or accept in pursuit of our strategy. It indicates the parameters within which we will conduct our operations. Our approach is to respect and minimise risk to people and the capital associated with our business; whilst accepting and managing an increased degree of risk in areas where it is appropriate, and in pursuit of our strategy.

Fonterra's Global Risk Management Policy and Standard are aligned to the Australian/New Zealand Risk Management Standard "AS/NZS ISO31000:2018 Risk management – Principles and Guideline". They outline our risk management principles and accountabilities, and set out the requirements for managing and reporting risk across our business. They are designed to embed a positive risk culture and co-operative-wide risk management capability, including establishing a consistent approach to identifying, controlling, monitoring, and reporting on our key risks and risk position.

Our Risk Management Framework supports the implementation of risk management practices across the Co-operative and is aligned with the three lines model. Our first line is our people. Managers and individual business units hold clear risk management responsibilities, including requirements to comply with external obligations as well as our Global Policy standards. Our second line consists of the risk management practices and assurance processes delivered by our Group and Specialist Functions, supporting a consistent best-practice approach to risk management across the business. Third line independent assurance and oversight is provided by a dedicated internal audit function, taking a risk-based approach to the control

environment and review of key business activities, and providing reporting to the FMT and to the Board via the Audit, Finance and Risk Committee.

Continuous monitoring of the risk environment occurs as part of our integrated business planning process, specific technical risk councils and audit outcomes, with a focus on the key risks faced globally in implementing our business strategy. As part of its risk management responsibility, the Board and the Audit, Finance and Risk Committee receive regular reports of our Group Risk Appetite position and the measures in place to identify and manage the impact of emerging risks. The Board and the People, Culture and Safety Committee also receive regular reports on the health, safety and wellbeing of our people as part of our risk management framework.

Our Group Risk Appetite settings were reviewed in FY23 to clarify the acceptable levels of risk in pursuit of our long-term strategy. The table on the next page sets out the key risks and provides an overview of our mitigation activities in FY23.

COVID-19

Our response to the global COVID-19 outbreak was first initiated in January 2020. As with many businesses, the pandemic had varying levels of impact across the Co-operative, including our supply chain and within the global markets in which we operate.

To maintain the continuity of our operations during FY23, several control measures, including promoting and facilitating better understanding and access to the COVID-19 vaccine, were put in place to mitigate risks to our operations. Due to the reduction in acute disruption, we have de-escalated formal management of the response. While there is risk related to the ongoing impact of, and global recovery from the COVID-19 pandemic, this is being effectively managed by business-as-usual teams and processes.

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Key risk	Risk description	Risk mitigations
Climate Change	The risk that the efficiency and continuity of Fonterra's milk supply and operations is disrupted due to an increased prevalence and severity of both physical and transitional climate impacts.	Our emissions reduction targets express the key climate activities across the Co-operative's value chain to help retain our leading low carbon dairy position. Development of our climate risk programme and disclosure requirements actively identifies climate-related risks and potential mitigations to build a resilient Co-op. Ongoing engagement with stakeholders on climate activities remains a priority.
Commodity Price, Foreign Exchange and Interest Rate	The risk that market price volatility, including foreign exchange, interest rates and commodities, is not appropriately responded to, adversely impacting revenue and/or earnings.	Established governance framework including oversight from the Financial Risk Committee and the Audit, Finance and Risk Committee. Regular review of relevant policies, standards, and procedures to maintain a robust control framework. Review and approval of annual Exposure Management Plans and financial trading limits. Regular review of foreign exchange and interest rate exposures and approval of the hedging plan. Regular review of dairy and non-dairy portfolios, and ongoing market exposure assessments.
Cybersecurity	The risk that the Co-operative's ability to maintain the confidentiality, integrity or availability of critical business assets and information is compromised due to unauthorised access to systems and/or a data breach.	Implementation of ongoing cyber programme to build defence by improving capability to detect, protect, respond, restore and recover from cyber incidents. Ongoing activity to improve cyber awareness and ensure that our staff are a key part of cyber defence. Active engagement with key strategic partners, industry groups and government agencies to share information and work together to help keep Fonterra cyber safe.
Environmental Sustainability	Failure to enact measures to mitigate the impact (or perceived impact) of Fonterra's activities on the environment.	Resourcing plans to make progress against our environmental targets. Refer to the Sustainability Report for Fonterra's sustainability goals and performance. Proactive engagement with industry, Iwi, government, and regulators.
Food Safety and Quality	The risk that Fonterra supplies unsafe food (or food that is perceived to be unsafe), or product that is of sub-standard quality.	Our Global Quality Management framework provides that the purchase, supply, production and release of food is aligned with global regulatory standards as a minimum. Our global third-party sourcing network undergoes specific food safety and quality audits by specialists from Fonterra. External global regulatory bodies undertake independent audits of our global management system, and manufacturing and distribution footprint.
Health, Safety and Wellbeing	Failure to manage the health, safety and wellbeing of the Co-operative's people in the workplace.	A rigorous Process Safety Assessment (PSA) methodology to enable us to understand our significant hazards, their credible risks, and how best to control them. Engaging employees in the development of good work practices, the systematic review of hazards, and to develop risk management plans to improve their safety. Robust investigations of events and implementation of preventative actions. Reporting of events, near misses and hazards in the enterprise wide Digital Ecosystem incident management tool. Protect health from workplace exposures, prevent health harm through proactive health education, and promote a healthy work and life balance.

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Key risk	Risk description	Risk mitigations
Information Technology	Failure to establish, maintain and safeguard an appropriate information technology (IT) and data management framework, that maintains the confidentiality, integrity and availability of Fonterra's data, systems and supply chain.	Ongoing implementation of risk reduction programmes to improve stability, reliability and resilience of our IT landscape. Investment in software and hardware including the Future Business Systems programme and Data and Insights roadmap. Implementation of the Information Management programme to improve management and protection of data.
Innovation	Inability to innovate effectively to respond to market trends and disruptions.	Insights and outputs from strategic development and implementation processes feed directly through to integrated innovation forums. Proactive engagement and partnership with industry, research institutions and government on new technology and innovations.
Legal and Compliance	Failure to manage or respond to changes in Fonterra's Legal and Compliance obligations, within the markets in which Fonterra operates.	Annual Employee Policy Commitment (including certification of compliance with Fonterra Legal and Compliance policies and standards). Annual maturity assessment of compliance management processes aligned to key policies and standards. Regular legal and compliance training (both broad based and market/function specific), accessible legal and compliance guidance, and reporting systems and processes. Support and advice from internal Legal, Regulatory and Trade Strategy teams, supplemented by specialist external support as required.
Licence to Operate	The risk that Fonterra's engagement with, and treatment of, the communities and environment where Fonterra operates is ineffective and/or fails to consider societal impacts, stakeholder interests, and/or legal and regulatory obligations.	Our guiding philosophy - Good Together - bringing together our purpose, values, and strategy. Community engagement and social impact programmes aligned to the Co-operative's purpose. Active stakeholder engagement programme in New Zealand and key international markets. Achievement of key environmental and other relevant targets. Continuous oversight and escalation processes relating to resource consents.
Liquidity and Funding	Unable to access sufficient funds to meet financial obligations, and/or insufficient financial flexibility to take advantage of opportunities.	Established financial assurance framework including oversight from the Financial Risk Committee. Active management of debt, working capital, and cashflow forecasting. Regular review of relevant policies, standards, and procedures to maintain a robust control framework.
Market Access / Geopolitical	The risk that changes within global markets, including economic volatility, geopolitical instability, market access and market concentration adversely impacts business operations, reputation and sales.	Trade strategy, insights and intelligence, advocacy, and government/industry engagement. Active centralised portfolio management with product portfolio plans that capture a diverse global demand pool. Multimarket, diverse product and channel offerings with specific strategies in place to support.

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Key risk	Risk description	Risk mitigations
Milk Supply	Inability to retain optimal milk supply driven by disruption (e.g. biosecurity/weather event), competitor activity, unfavourable returns and/or adverse regulatory settings.	<p>Delivery against strategic milestones and commitments, and strong financial performance which provides sustainable value for our farmer shareholders.</p> <p>Comprehensive activity focused on winning and retaining milk, and supporting our farmer shareholders to maximise high-quality sustainable New Zealand milk.</p> <p>Flexible capital structure and farmer-focused risk/cashflow management tools which attract the next generation of farmers to supply Fonterra.</p>
People	The risk that leadership, organisational culture, behaviour and people management practices are inadequate or insufficiently agile.	<p>Continued delivery of programmes to strengthen organisational culture, talent, leadership development, future capabilities, strategic workforce planning, and people and culture (P&C) foundations and technology systems.</p> <p>Implementation of the new P&C operating model to improve strategic business partnering, support high priority P&C initiative deployment, and provide direction to, and guidance for, effective self-service and people leader support.</p> <p>Embedding diversity, equity and inclusion across all relevant facets of our high priority initiatives.</p>
Regulatory	Failure to manage or respond to changes in the regulatory environment in which Fonterra and its farmers operate.	<p>Proactive engagement with government officials and regulators, and monitoring of policy and regulatory changes.</p> <p>Support and advice from Legal, Government Affairs, Regulatory and Trade Strategy teams across Fonterra, and supplemented by specialist external support as required.</p>
Strategic Decision	Sub optimal strategy that does not empower Fonterra's innovation and sustainability ambitions, enable opportunity, leverage its competitive advantage and/or provide improved business performance.	Organisational strategy system generates continuous insights and provides regular reviews of the beliefs and assumptions which underpin the strategy for consideration by the FMT and the Board.
Strategic Execution	Sub optimal execution of strategic initiatives, and/or failure to adapt to changes in the Co-operative's operating environment.	<p>Strategy and Optimisation represented on the FMT, with oversight of integrated, continuous strategic development and implementation.</p> <p>Strategic implementation business partnership approach to support the development of strategically aligned plans, delivered in line with expectations.</p> <p>Strategic deployment milestones and decision points are integrated into management systems and business planning.</p> <p>Annual review and reconciliation of business activity and results against strategic expectations and targets.</p>
Supply Chain and Manufacturing	The risk that Fonterra's ability to maintain or operate the assets within its end to end supply chain is disrupted, delayed or reduced.	<p>Reliable and efficient collection, treatment and distribution of milk.</p> <p>Strong focus on global supply chain management: implementing resilience strategies to mitigate impacts of global shipping and local supply chain disruption.</p> <p>Established, robust business continuity plans to address identified manufacturing and supply chain risks.</p>

Principle 7: Auditors

Auditor framework

The Audit, Finance and Risk Committee is responsible for making recommendations to the Board regarding the appointment of the external auditor. It reviews the independence of the auditor, external audit fees, terms of engagement and the annual audit plan.

The external auditor is appointed by our farmer shareholders at the Annual Meeting. KPMG has been appointed as Fonterra's external auditor for four consecutive years, and the fees paid to KPMG for the year ended 31 July 2023 are detailed in [Note 4 \(page 29\) of the Financial Statements](#). The lead external audit partner must be rotated at least every five years.

Fonterra's Group Audit Independence Policy and Standard enable the auditor to carry out its statutory audit role in a manner where its independence is not impaired or could be perceived to be impaired. This Policy and Standard set out the types of services that the auditor may undertake, those the auditor may only undertake with the approval of the Audit, Finance and Risk Committee, and those that are not permitted.

All non-audit services to be undertaken by the auditor require approval by the Chief Financial Officer or the Director Group Finance (or a delegate). Regardless of the nature of the services proposed, any engagements exceeding a total of NZD200,000 must be approved by the Audit, Finance and Risk Committee.

The Chair of the Audit, Finance and Risk Committee communicates regularly with the external auditor and the Audit, Finance and Risk Committee meets with the external auditor without Fonterra's management at least twice a year.

Annual Meeting

The external auditor attends Fonterra's Annual Meeting and is available to answer questions from farmer shareholders in relation to the audit.

Internal audit

We have an internal audit function that provides independent and objective assurance to both the Audit, Finance and Risk Committee and management on the adequacy of risk management, control and governance processes.

Our internal audit approach is based on the principle of line management responsibility for risk and controls. Fonterra's management are responsible for implementing, operating and monitoring the system of internal controls to provide reasonable assurance of achieving business objectives.

Fonterra's Internal Audit team is responsible for:

- delivering a reasonable degree of assurance, as determined by the Audit, Finance and Risk Committee, over business risk;
- assisting the business with special reviews or investigations; and
- complying with the internal audit methodology.

The appointment and removal of the Chief Internal Auditor (CIA) is subject to the approval of the Audit, Finance and Risk Committee.

The CIA develops the annual internal audit plan, which is endorsed by the Audit, Finance and Risk Committee, and is accountable for its implementation. The Audit, Finance and Risk Committee regularly monitors progress of the implementation of the internal audit plan.

Principle 8: Shareholder Rights & Relations

Website and disclosure

Our website (fonterra.com) provides investors and interested stakeholders access to financial and operational information and key corporate governance information about Fonterra as an issuer.

Information regarding our performance, annual and half-year financial results, Director changes, and other significant matters, is disclosed to the market through the NZX and ASX in accordance with relevant laws and listing rules. All media and market releases are also available on fonterra.com.

Co-operative Council

One of the Board's most important relationships is with the Co-operative Council. The Council, Fonterra's representative body established under the Constitution, is independent of the Board. As at 31 July 2023, the Council comprised 25 farmer shareholders elected as Councillors, representing the interests of all members of the Co-op in 25 wards across New Zealand. There was also one appointed Councillor. The functions of the Council are set out in the Constitution. The Council publishes an annual report, commenting on its activities and the Board's response to the Council's Letter of Expectations. The Council's annual report is emailed to all members of the Co-operative and made available on the [Farm Source™ website](https://fonterra.com).

The Council, Board and Fonterra's management have a working interface document which sets out the principles to facilitate the working partnership between the Board, the Council and Fonterra's management and the way operational issues will be dealt with by the Board and the Council.

The working interface document is available on the Farm Source™ website.

The Council and the Board meet regularly, as do the Chairs of the Board and the Council.

Engaging with our farmer shareholders

We are looking to continuously improve the way we engage with our farmer shareholders with the aim of keeping them well informed about key topics that are relevant to them – including where we're at and where we're headed as a Co-operative. There's a sense of belonging and connection that comes with being part of a Co-op, and fostering that is an important part of what we do.

We have a team responsible for evolving and implementing our farmer engagement plan. They oversee a diverse range of communications channels such as the [Farm Source™ website](https://fonterra.com), which enables farmer shareholders, their employees and business partners to connect with Fonterra and access information and tools on milk production and quality, online statements, relevant news and weather. Farmer shareholders are given the option to receive communications from us electronically.

The My Co-op app provides up-to-date news and information from across the Co-operative and the industry, including Milk Price announcements, upcoming events, their Farm Source Rewards balance and updates from the Chair and Chief Executive Officer. Meanwhile, the On Farm app provides daily milk production and quality information, comparisons against last season volumes, tanker movements, and summary reports of key milk performance information for the last 30 days. Local Farm Source teams are in regular contact with farmers in their area, and there's also the Farmer Support Team available 24/7 on 0800 65 65 68.

We arrange face-to-face and online meetings throughout the year with farmer shareholders as well as other key groups such as sharemilkers, contract milkers, farm lessors, farm workers and rural professionals to have two-way communication on relevant topics.

Regular emails from the Chair, Chief Executive Officer, Group Director Farm Source and Regional Heads are also used to keep our farmers informed, and we issue a monthly Global Dairy Update to provide an overview of the global dairy market and our performance.



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Margaret & Michael,
Southland

Annual and Special Meetings

The Board views the Annual Meeting of farmer shareholders, which is held at a different venue around New Zealand each year, as an opportunity to communicate directly with our farmer shareholders. The meetings are designed to encourage participation from our farmers, with appropriate time provided for farmer shareholders to raise issues or ask questions from the floor. The Chief Executive Officer attends the Annual Meeting.

Our Constitution describes the process whereby a farmer shareholder can raise a proposal for discussion or resolution at the next meeting of farmer shareholders at which the farmer shareholder is entitled to vote.

Fonterra endeavours to send notices of annual or special meetings to farmer shareholders at least 20 working days prior to the relevant meeting. Due to the need to consider and include the details of shareholder proposals received by Fonterra this is not always possible, however at a minimum, notices are sent to farmer shareholders and published on fonterra.com at least 10 working days before the meeting in line with Fonterra's Constitution and the Companies Act 1993 (Companies Act).

Our 2023 Annual Meeting will be hybrid, allowing farmer shareholders to join either online or in person.

We held a Special Meeting on 26 July 2023 for shareholders to approve the capital return, which was fully virtual to help simplify and expedite the capital return process. The materials released for the meeting included an online meeting guide, providing details on how to access the meeting, vote, ask questions and seek technical help.

Voting

Shareholders have the right to vote on major transactions (as defined in the Companies Act 1993) as well as other major decisions that may change the nature of Fonterra as prescribed by the FSM Rules. In particular, FSM Rule 4.1.1 restricts Fonterra from entering into any transaction (or series of related transactions) which would significantly change, indirectly or directly, the nature of Fonterra's business or involve a gross value above 50% of the average market capitalisation of Fonterra, unless the transaction(s) is approved by (or is conditional on the approval of) Fonterra's shareholders.

In accordance with the co-operative nature of Fonterra, voting is based on the quantity of milk solids supplied to Fonterra, backed by shares and is not on the principle of one vote per share.

We do not have provisions in our Constitution requiring us to offer any further share issues to existing farmer shareholders on a pro rata basis, given the nature of our co-operative structure and shareholding requirements.

Remuneration Report

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Message from the People, Culture & Safety Committee Chair – Holly Kramer

Dear Shareholders

On behalf of the Board, I am pleased to present Fonterra's remuneration report for the financial year ended 31 July 2023.

The role of the People, Culture and Safety Committee

The remuneration of Fonterra's Chief Executive Officer (CEO) and Fonterra Management Team (FMT) is governed by the People, Culture and Safety Committee (PCSC). The PCSC assists the Board in fulfilling its corporate governance responsibilities relating to remuneration, recruitment and retention of Directors, the CEO and the FMT. The PCSC also oversees and provides counsel on Fonterra's People Strategy, including key priorities and milestones, as well as Fonterra's progress on health and safety, culture, wellbeing, talent and leadership activities and diversity/inclusion initiatives.

Some of the key decisions and reviews through FY23 included approval of the remuneration of the CEO and FMT, approval of the Short-Term Incentive (STI) payments for FY22 and measures and targets for FY23, review of the People and Culture annual plan, and CEO and FMT succession.

People, Culture and Safety throughout FY23

To accelerate progress toward our long-term targets, we announced changes to the FMT throughout the year. This saw the appointment of Komal Mistry-Mehta to the role of Chief Innovation and Brand Officer, Emma Parsons to Managing Director Strategy and Optimisation, and Judith Swales to CEO Global Markets, following the consolidation of the APAC and AMENA business units. In FY23 Neil Beaumont was appointed to the role of Chief Financial Officer, bringing with him significant global experience.

As signalled in our FY22 Corporate Governance Statement, a new Long-Term Incentive plan (LTI) was introduced in FY23. The plan aims to reward the delivery of sustainable outcomes for all shareholders through the introduction of Alignment Rights. Our aim is to ensure the reward experience of our leaders is also aligned with that of our farmers. Those eligible for Alignment Rights are our Enterprise Leaders which includes the CEO, FMT and their senior direct reports who are deemed to have the greatest ability to have a long-term impact on the Co-operative's performance. More information on this plan can be found on [page 29](#) of this report.

Through FY23 we have also made positive progress towards lifting female representation in our leadership teams, with participation now the highest it has ever been. We also increased our investment in leadership capability, supported with the formal assessment of our leaders and the creation of development plans to build succession depth. We also completed a review to better understand and improve the experiences and representation of our Māori staff across Aotearoa and are now in the implementation phase, with a focus on leadership development. More information on these programmes can be found in the Sustainability Report 2023.

We were pleased to see a continued downward trajectory in the number of serious harm injuries, from eight in FY22 to five in FY23. That said, our ambition remains for all our people to return home safely every day, and this remains a focus for all our people across the Co-operative in FY24.

FY23 performance and remuneration outcomes

Our senior leaders' STI is aimed at delivering exceptional results against our annual goals, which are aligned with our three strategic choices. A portion of this incentive is also based on Farmgate Milk Price (FGMP) to support alignment with our farmer shareholders. The remuneration outcomes for FY23 reflect both a strong business performance and a softening of the Farmgate Milk Price. The FGMP in FY23 did not meet the target and has therefore resulted in a zero payout on this measure in the STI plan. All other measures have performed favourably resulting in achievement at 88.4% for the FY23 STI plan.

Looking ahead

Each year we review our STI plan with the objective of it driving the right outcomes for the Co-operative and confirming that it continues to align with our long-term strategy. For FY24, we will be incorporating a customer measure into our STI plan and will continue to evolve how we measure innovation across our Innovation Blueprint.

In FY24, we will maintain our new LTI plan and make the second grant of Alignment Rights to our senior leaders, further supporting attraction and retention and alignment to farmer outcomes.



Holly Kramer

People, Culture & Safety Committee Chair

Employee Remuneration

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Remuneration Strategy

Fonterra's remuneration strategy has been designed to align to and support our purpose, values, and the delivery of our three strategic choices. These are the foundation of the Co-operative and the lens through which all behaviours, decisions and choices are made.

Our Purpose

Our Co-operative,
Empowering people
To create goodness
for generations.

You, me,
us together
Tātou, tātou

Our Values

Co-operative spirit

Do what's right

Make it happen

Challenge
boundaries

Our Strategic Choices

Focus on Aotearoa
New Zealand Milk



Be a leader in
sustainability



Be a leader in
dairy innovation
& science



Our Remuneration Principles

Attract and retain key experience,
expertise and knowledge

Reflect individual contribution



Align employees with sustainable
prosperity for farmers via Co-op
returns and farm gate milk price;
and strength and value of the Co-op

Reward collaboration to deliver the
most value from each litre of milk
for dollar of capital invested

Support Fonterra values



Be simple and transparent

Have robust governance



Remuneration framework FY23

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The details included in this section relate to the remuneration framework in place for FY23.

Employee remuneration

The Co-operative's remuneration framework is designed to attract and retain talent, and motivate and recognise the role our people play in the success of Fonterra. It is aimed at supporting our strategy, purpose, and values.

Fonterra's remuneration framework for salaried staff includes base salary, benefits (KiwiSaver, superannuation and insurance where applicable), and variable remuneration (incentives).

Fonterra's remuneration packages are benchmarked against comparable companies in relevant markets, using information obtained from independent remuneration consultants. Adjustments to remuneration packages may occur on a cyclical basis, such as an annual salary review, or on an as-needed basis, for example to recognise promotions, or address internal relativity (including gender pay).

The framework is designed to take into account budget targets and restraints, market conditions, internal equity (including gender pay), and governance factors such as local legislation, as well as individual performance.

Enterprise Leader remuneration

Senior employees, who are deemed to have the greatest ability to have a long-term impact on the Co-operative's performance, are defined as Enterprise Leaders. This group generally includes the CEO, FMT, and their senior direct reports.

The components of the remuneration package of Enterprise Leaders are set out in the table to the right and includes the LTI plan called Alignment Rights introduced in FY23.

The remuneration package and any incentive payments made following the completion of the financial year, to the CEO and eligible FMT, are approved by the People, Culture and Safety Committee (PCSC) (and in the case of the CEO, the Board) at its discretion. The PCSC retains absolute discretion in respect of payments for all incentive schemes.

Total Remuneration

	Fixed Remuneration	Short-Term Incentive	Alignment Rights
How it works	<p>Consists of base salary and benefits (KiwiSaver, superannuation and insurance where applicable).</p> <p>Reviewed annually based on performance and behaviours.</p> <p>Set based on capability, experience, performance, internal relativity (including gender pay), and external relativity with the applicable country or region.</p>	<p>Calculated based on achievement against a Fonterra Group Scorecard which aligns to our three strategic choices and key people measures. It is comprised of financial and non-financial ESG measures. In FY23, an individual multiplier was introduced (in the range of 0.8x to 1.2x) for the CEO and FMT to be applied to the STI outcome of each individual to recognise and reward individual performance and contribution.</p> <p>Achievement is determined over a one-year performance period (1 August – 31 July, aligned to Fonterra's financial year).</p> <p>The Group Scorecard is capped at 125% of on-target opportunity. For the CEO and FMT with the individual multiplier, total incentive opportunity is capped at 150%. CEO on-target opportunity is 72% of Base Remuneration.</p> <p>Eligible FMT and other Enterprise Leaders on-target opportunity is between 25% and 60% of Base Remuneration.</p>	<p>The value of the Alignment Rights will increase or decrease in value relative to sustainable farmer prosperity and Co-operative value over a six-year period.</p> <p>50% of the Alignment Rights is based on the performance of a Co-operative share on the Fonterra Shareholders' Market (FSM) over the six-year period. The remaining 50% is based on the change in on-farm profitability per hectare over the six-year period as measured through the DairyNZ Economic Survey.</p> <p>CEO grant value is 48% of Base Remuneration.</p> <p>Eligible FMT and other Enterprise Leaders grant value is between 20% and 40% of Base Remuneration.</p>
What it does	<p>Attracts and retains key talent in the markets in which Fonterra operates.</p>	<p>Aligns Enterprise Leaders on delivering exceptional results over both the short and long term for farmer shareholders.</p>	<p>Aligns Enterprise Leaders with the financial interests of Fonterra's farmer shareholders.</p>
Benchmarking & market positioning	<p>The remuneration packages of Enterprise Leaders are benchmarked against the external market using comparable companies in the applicable country or region.</p> <p>Benchmarking of the CEO and FMT's remuneration packages is conducted using an independent remuneration consultant appointed by the PCSC and is based on a comparator group of companies similar in size, complexity and operational scope. Fonterra aims to pay Fixed Remuneration and Total Remuneration of the CEO and FMT in the range of the 50th to 65th percentile of the comparator benchmark peer group.</p>		

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Short-term incentive FY23

The STI is a critical component of our remuneration framework. It is aimed at motivating, aligning and rewarding performance over a 12-month business performance cycle and comprises financial and non-financial ESG measures.

The measures included in the scheme align with Fonterra's three strategic choices – focus on Aotearoa New Zealand milk, be a leader in sustainability, and be a leader in dairy innovation and science, as well as key people-related measures. Each year these measures are reviewed to align with our longer-term strategic targets.

The FY23 measures include:

- Group Return on Capital, Farmgate Milk Price, Global cost of quality failure
- Greenhouse gas emissions, and Water Improvement Plans
- Value from innovation
- Health and safety, and leadership gender diversity

Long-term incentive FY23

The LTI called Alignment Rights was introduced in FY23 and is aimed at aligning the financial interests of Fonterra's Enterprise Leaders with that of the Co-operative's farmer shareholders.

Alignment Rights are comprised of two separate measures, each equally weighted at 50%. The first measure is called the Co-operative Unit and the second is the Farm Unit. Further detail on these respective measures and the rationale for inclusion in the scheme is provided in the table below.

The performance period of the plan is typically six years. After completion of the performance period, a cash payment will be made based on the performance of the Co-operative Unit and the Farm Unit. The first grant of Alignment Rights, including the value of the Co-operative Unit and Farm Unit at grant, was approved by the PCSC and awarded in FY23.

Prior to the introduction of Alignment Rights, the CEO and certain members of the FMT participated in the Executive Incentive Plan (EIP). This plan included a deferred component payable three years after grant subject to a performance hurdle. The last grant made under the EIP was for FY22 performance. Recognising the longer performance period of six years under the Alignment Rights plan, those transitioning from the EIP plan (including the CEO) have shorter performance periods for the first two grants. These shorter performance periods are no less than four years.

Measure	Weighting	Further detail & rationale for measure
Co-operative Unit	50%	<p>The value of the Co-operative Unit will go up or down based on the performance of a Co-operative share.</p> <p>Dividend equivalent payments and other cash distributions will be made during the performance period to replicate the returns received for a Co-operative share.</p> <p>The Co-operative Unit is designed to replicate the returns a farmer shareholder receives and incentivises Enterprise Leaders to focus on the long-term performance of a Co-operative share.</p>
Farm Unit	50%	<p>The Farm Unit is based on the three year average of on-farm profitability per hectare as measured through the DairyNZ Economic Survey. The value of the Farm Unit will go up or down based on on-farm profitability.</p> <p>No dividend equivalent payments or other cash distributions are made on the Farm Unit.</p> <p>The Farm Unit is designed to replicate the change in on-farm profitability over the performance period and incentivises Enterprise Leaders to focus on those factors that influence on-farm profitability for our farmer shareholders.</p>

Chief Executive Officer Remuneration

The following section of the remuneration report sets out the remuneration structure, pay mix, and remuneration earned and received by the CEO for FY23.

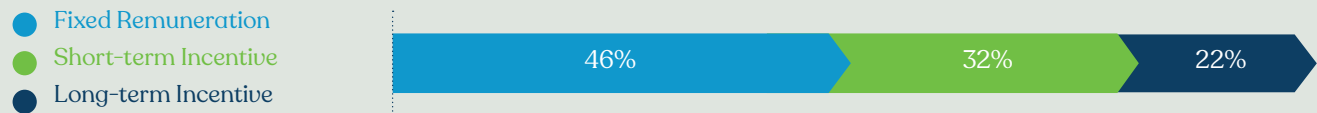
CEO remuneration components and performance period

The diagram below sets out the remuneration structure and delivery timing for the CEO. The same performance periods apply for all Enterprise Leaders.



CEO pay-mix

The remuneration pay-mix graph below shows the percentage of each remuneration element that makes up the CEO's on-target remuneration opportunity for FY23.



¹ Eligible for dividend equivalent payments and other cash distributions during the performance period. These would be paid annually to support alignment though the performance period.

² Recognising the longer performance period of six years under the Alignment Rights plan, those transitioning from the EIP plan (including the CEO) have shorter performance periods for the first two grants. The first grant made to the CEO in FY23 comprises two equally weighted tranches. The first tranche has a performance period of four years, and the second tranche has a performance period of five years.

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Total CEO remuneration paid

Total remuneration paid reflects the remuneration in the period it is received, rather than the performance period to which payment relates.

Miles Hurrell has held the role of CEO for the full financial year.

His annual salary as at 31 July 2023 is \$2,380,500. The pay for performance component paid in FY23 was for the FY22 plan year and relates to the 70% portion of the EIP that is paid in cash directly following the end of the financial year. The FY22 EIP achievement was 109% resulting in a payment of \$2,105,880 with a further 30% or \$902,520 deferred until 2025, subject to the performance hurdle being met. If the performance hurdle is not met, no payment will be made for the 30% deferred.

From FY23, the EIP was replaced with a LTI plan called Alignment Rights focused on sustainable prosperity for farmers, and Co-operative value. Further information on Alignment Rights can be found on page 29 of this report. The remuneration earned by Mr Hurrell in FY23 for this Alignment Rights plan is set out in the section to the right.

The total remuneration received by Mr Hurrell in FY23 was \$4,607,582 as shown in the table below.

FIXED REMUNERATION		PAY FOR PERFORMANCE	TOTAL REMUNERATION PAID IN FY23
Salary	Benefits ¹	EIP paid	
\$2,367,501	\$134,201	\$2,105,880 ²	\$4,607,582

1 Employee Superannuation contribution on salary and EIP.

2 The value of EIP represents the non-deferred component of the FY22 EIP Plan.

Total CEO remuneration earned

Total remuneration earned aligns remuneration outcomes with the performance period in which the remuneration is earned, providing what Fonterra believes is a more transparent indication of pay for performance.

The FY23 STI achievement for Mr Hurrell was \$1,666,655, based on a Group Scorecard outcome of 88.4% and an individual multiplier of 1.1.

Alignment Rights awarded to Mr Hurrell during FY23 were comprised of two tranches equally weighted at a total value at allocation of \$1,142,640 (48% of Base Remuneration), which will be recognised over the service period to 30 September 2025 (adjusted for movements in fair value). The first tranche has a payment date of 30 September 2026, and the second tranche has a payment date of 30 September 2027. The amounts in the table below represent the fair value of the pro-rata amounts earned by Mr Hurrell in FY23.

Fonterra believes its reporting approach to total CEO remuneration earned provides the right balance of transparency and disclosure while accurately reflecting the outcomes for FY23.

	FY23
FIXED REMUNERATION	
Salary	\$2,367,501
Benefits ¹	\$121,025
PAY FOR PERFORMANCE	
Short-Term Incentive	\$1,666,655
Long-Term Incentive	
Alignment Rights granted payable as cash after 4 years (Tranche 1) ²	\$121,880
Alignment Rights granted payable as cash after 5 years (Tranche 2) ²	\$116,411
Dividend Equivalent Payments and cash distributions ³	\$121,557
FY20 EIP Performance Multiplier adjustment ⁴	\$474,552
TOTAL REMUNERATION EARNED IN FY23	\$4,989,581

1 Employer Superannuation contribution on salary and Short-Term Incentive.

2 202,595 Co-operative Units granted at \$2.82. 211 Farm Units granted at \$2,700. At the payment dates (30 September 2026 for Tranche 1 and 30 September 2027 for Tranche 2) payment on Co-op Units will be made based on the 12-month Volume Weighted Average Price of a Co-operative share on the FSM, and payment on Farm Units will be made based on the 3-year average Owner Operator Dairy Operating Profit/ha as published by DairyNZ Economic Survey. Total amounts awarded relating to these two tranches was \$1,142,460 which will be recognised over the service period to 30 September 2025, adjusted for movements in fair value. Amounts above represent the fair value of the pro-rata amounts earned in FY23.

3 Dividend equivalent payments and cash distributions on Co-op Units will be made on an annual basis during the performance period, based on the returns received by FSM shareholders. No dividend payments or cash distributions are made on Farm Units. Amount above is exclusive of the final dividend for FY23 which will appear in FY24 earnings.

4 The deferred component of the FY20 EIP shown above was subject to a performance hurdle of Group ROC over Milk Price WACC. Based on achievement against the performance hurdle, maximum payment was achieved, resulting in a modifier of 150% on the value accrued in FY20 (\$949,104). The amount shown above represents the modifier amount recognised during FY23.

Employee remuneration over \$100,000

Fonterra operates in a number of countries where remuneration market levels differ widely. During the year ended 31 July 2023, the number of employees, not being Directors of Fonterra, who received remuneration incentives and other benefits (including superannuation and allowances etc) exceeding \$100,000 was as follows:

REMUNERATION RANGE (\$)	NEW ZEALAND HEAD OFFICE ¹	REGIONAL NEW ZEALAND ¹	OFFSHORE ²	CESSATIONS ³	TOTAL
\$100,000 - \$110,000	65	2203	150	97	2515
\$110,000 - \$120,000	74	1563	181	64	1882
\$120,000 - \$130,000	59	845	189	49	1142
\$130,000 - \$140,000	48	792	213	36	1089
\$140,000 - \$150,000	58	549	221	23	851
\$150,000 - \$160,000	46	260	191	15	512
\$160,000 - \$170,000	38	157	113	18	326
\$170,000 - \$180,000	50	131	105	16	302
\$180,000 - \$190,000	47	97	78	16	238
\$190,000 - \$200,000	43	76	62	9	190
\$200,000 - \$210,000	39	59	53	7	158
\$210,000 - \$220,000	31	51	38	7	127
\$220,000 - \$230,000	28	37	48	3	116
\$230,000 - \$240,000	27	24	39	6	96
\$240,000 - \$250,000	27	13	35	4	79
\$250,000 - \$260,000	18	22	21	5	66
\$260,000 - \$270,000	21	12	25	7	65
\$270,000 - \$280,000	15	16	18	6	55
\$280,000 - \$290,000	12	14	20	5	51
\$290,000 - \$300,000	5	6	12	4	27
\$300,000 - \$310,000	17	11	17	4	49
\$310,000 - \$320,000	6	5	18	4	33
\$320,000 - \$330,000	4	3	13	1	21
\$330,000 - \$340,000	8	6	12	2	28
\$340,000 - \$350,000	7	2	12	1	22
\$350,000 - \$360,000	8	2	5	5	20
\$360,000 - \$370,000	3	2	12	4	21
\$370,000 - \$380,000	8	3	11	3	25
\$380,000 - \$390,000	8	2	8	1	19
\$390,000 - \$400,000	3	3	5	1	12
\$400,000 - \$410,000	4	1	10	1	16
\$410,000 - \$420,000	3	3	5	1	12
\$420,000 - \$430,000	4	2	3	1	10
\$430,000 - \$440,000	4	1	5	3	13
\$440,000 - \$450,000	4	1	6	1	12
\$450,000 - \$460,000	2	1	3	0	6
\$460,000 - \$470,000	2	2	5	0	9

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REMUNERATION RANGE (\$)		NEW ZEALAND HEAD OFFICE ¹	REGIONAL NEW ZEALAND ¹	OFFSHORE ²	CESSATIONS ³	TOTAL
\$470,000	\$480,000	2	1	7	0	10
\$480,000	\$490,000	4	0	1	0	5
\$490,000	\$500,000	2	0	2	2	6
\$500,000	\$510,000	0	0	4	1	5
\$510,000	\$520,000	0	0	1	0	1
\$520,000	\$530,000	0	1	1	1	3
\$530,000	\$540,000	2	0	2	0	4
\$540,000	\$550,000	0	2	3	0	5
\$550,000	\$560,000	0	0	2	0	2
\$560,000	\$570,000	1	0	1	2	4
\$570,000	\$580,000	2	0	2	2	6
\$580,000	\$590,000	0	0	2	1	3
\$590,000	\$600,000	1	0	1	0	2
\$600,000	\$610,000	1	0	3	1	5
\$610,000	\$620,000	1	0	4	1	6
\$620,000	\$630,000	1	0	5	0	6
\$630,000	\$640,000	0	0	2	0	2
\$640,000	\$650,000	1	0	1	1	3
\$650,000	\$660,000	0	0	0	2	2
\$660,000	\$670,000	0	0	3	0	3
\$670,000	\$680,000	0	0	1	1	2
\$680,000	\$690,000	2	0	2	0	4
\$690,000	\$700,000	1	0	1	0	2
\$700,000	\$710,000	0	0	4	0	4
\$710,000	\$720,000	1	0	0	0	1
\$720,000	\$730,000	1	0	0	0	1
\$730,000	\$740,000	0	0	2	0	2
\$740,000	\$750,000	1	0	0	0	1
\$750,000	\$760,000	1	0	1	1	3
\$760,000	\$770,000	2	0	0	0	2
\$770,000	\$780,000	0	0	1	0	1
\$780,000	\$790,000	0	1	0	0	1
\$810,000	\$820,000	0	0	2	1	3
\$850,000	\$860,000	0	0	0	2	2
\$870,000	\$880,000	1	0	0	0	1
\$890,000	\$900,000	1	0	0	0	1
\$910,000	\$920,000	0	0	0	1	1

REMUNERATION RANGE (\$)		NEW ZEALAND HEAD OFFICE ¹	REGIONAL NEW ZEALAND ¹	OFFSHORE ²	CESSATIONS ³	TOTAL
\$920,000	\$930,000	1	0	0	0	1
\$950,000	\$960,000	2	0	0	0	2
\$980,000	\$990,000	2	0	0	0	2
\$1,010,000	\$1,020,000	0	0	1	1	2
\$1,030,000	\$1,040,000	0	0	1	0	1
\$1,040,000	\$1,050,000	0	0	0	1	1
\$1,130,000	\$1,140,000	0	0	1	0	1
\$1,190,000	\$1,200,000	0	0	0	1	1
\$1,220,000	\$1,230,000	0	0	2	0	2
\$1,230,000	\$1,240,000	1	0	1	0	2
\$1,300,000	\$1,310,000	0	0	1	0	1
\$1,310,000	\$1,320,000	0	0	1	0	1
\$1,380,000	\$1,390,000	0	0	1	0	1
\$1,490,000	\$1,500,000	1	0	0	0	1
\$1,540,000	\$1,550,000	0	0	0	1	1
\$2,770,000	\$2,780,000	0	0	1	0	1
\$2,830,000	\$2,840,000	0	0	1	0	1
\$2,870,000	\$2,880,000	0	0	0	1	1
\$3,840,000	\$3,850,000	0	0	0	1	1
\$4,560,000	\$4,570,000	0	0	0	1	1
\$4,600,000	\$4,610,000	1	0	0	0	1
Totals		883	6,982	2,034	457	10,356

The number of employees who received remuneration, incentives, and other benefits exceeding \$100,000 varies from year to year. This number is impacted by a variety of factors including incentive payments, overtime paid, termination entitlements, and remuneration increases provided in each respective year.

Exchange rates for those employees paid in currencies other than New Zealand dollar can also impact employees either meeting or missing the threshold of \$100,000.

1 Includes employees employed in New Zealand during the reporting period.
 2 Includes employees employed in an offshore operation during the reporting period. Amounts paid in foreign currency have been converted at the average conversion rate for the period. As Fonterra has a significant offshore population, the number of offshore employees exceeding the fixed figure of \$100,000 increases if the New Zealand dollar currency weakens significantly. Should the New Zealand dollar strengthen against those markets' currencies, these same individuals may not be reported in future lists.
 3 Cessations include employees that have been terminated or retired during the reporting period, this includes employees in businesses divested part way through the financial year. The amounts paid to former employees include salary and bonuses for the current period, prior period bonuses that have been paid in the current period and termination entitlements including those arising from employment arrangements entered into by legacy companies prior to the formation of Fonterra.

Within New Zealand, employees who received remuneration, incentives, and other benefits (including superannuation and allowances etc) exceeding \$100,000 were based throughout the country as follows:

	TOTAL
Auckland	1,330
Bay of Plenty	278
Canterbury	1,098
Manawatu-Wanganui	510
Northland	364
Rest of New Zealand	162
Southland	491
Taranaki	1,019
Waikato	2,613
New Zealand Total	7,865

In addition to being a significant employer in New Zealand, Fonterra also has employees in markets around the world. Those who received remuneration, incentives, and other benefits (including superannuation and allowances etc) exceeding \$100,000 were based in markets around the world as follows:

	TOTAL
Australia	1,094
Europe	131
Greater China	301
Latin America	48
New Zealand	7,865
Rest of Asia	307
Rest of World	70
United States	83
Cessations	457
Global Total	10,356

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Jess, Penelope & Holli,
Hawkes Bay

Director Remuneration

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Our Constitution modifies the Board’s discretion to set remuneration of Elected Directors. The Directors’ Remuneration Committee, comprising six shareholders elected in accordance with our Constitution, makes recommendations for shareholder approval as to the level of Elected Directors’ fees. Elected Directors are those Directors elected by shareholders in accordance with clauses 12.2 and 33.4 of our Constitution.

The members of the Directors’ Remuneration Committee as at 31 July 2023 were Conall Buchanan (Chair), Ellen Bartlett, John Gregan, Glenn Holmes, Stephen Silcock and Richard Stalker.

Directors and employees only attend Directors’ Remuneration Committee meetings at the invitation of the Committee.

Given the arrangements outlined above, we do not have a specific policy for remuneration of Directors.

At the Annual Meeting of shareholders held on 10 November 2022, shareholders approved, on the recommendation of the Directors’ Remuneration Committee, the following amounts of remuneration to apply to Elected Directors from the date of that Annual Meeting of shareholders.

Chair	\$470,000 per annum
Directors	\$191,000 per annum
Discretionary additional payments to the Chair of permanent Board Committees (except when that person is the Chair of the Board or is the Chair of the Audit, Finance and Risk Committee)	\$36,000 per annum
Discretionary additional payment to the Chair of the Audit, Finance and Risk Committee	\$50,000 per annum

The Board has approved payment of the discretionary additional payments, at the rates outlined above.

The Board has discretion to set the remuneration of Appointed Directors, with such remuneration not required to be approved at the Annual Meeting. The Board has historically remunerated Appointed Directors at the same level as Elected Directors, in line with Directors’ Remuneration Committee recommendations, and this approach was taken by the Board for FY23.

The People, Culture and Safety Committee and the Chair of the Board have the discretion to allocate a discretionary pool of up to \$150,000 per annum to remunerate Directors for additional duties, workload and responsibilities. In FY23, the People, Culture and Safety Committee and the Chair of the Board of Directors have approved payments from the discretionary pool to recognise the additional workload undertaken by those Directors who were members of three or more Board Committees during that period (excluding Board Committees they collected a Chair fee for).

Fees paid by subsidiary or associate companies in respect of Fonterra Directors or employees appointed by Fonterra as Directors of those companies are payable directly to the Co-operative.

The total remuneration and value of other benefits (not including superannuation contributions, if applicable) received by each Director in the period from 1 August 2022 to 31 July 2023 are below:

	BOARD FEES	COMMITTEE CHAIR FEES	DISCRETIONARY POOL	TOTAL REMUNERATION (\$)
Clinton Dines	189,323	–	10,000	199,323
Brent Goldsack	189,323	–	10,000	199,323
Leonie Guiney	189,323	–	10,000	199,323
Bruce Hassall (Chair of the Audit, Finance and Risk Committee)	189,323	45,808	25,000	260,131
Holly Kramer (Chair of the People, Culture and Safety Committee)	180,660 ¹	35,637	–	224,460
Andrew Macfarlane (Chair of the Co-operative Relations Committee)	189,323	35,720	10,000	235,043
Peter McBride (Chair of the Board of Directors)	465,808	–	10,000	475,808
John Nicholls	189,323	–	10,000	199,323
Cathy Quinn (Chair of the Disclosure Committee)	189,323	35,720	10,000	235,043
Donna Smit	51,772 ²	–	–	51,772
Scott St John	189,323	32,720 ³	10,000	232,043
Alison Watters (Chair of the Sustainability and Innovation Committee) ⁴	138,108 ²	15,000	–	153,108

¹ Ms Kramer's fees vary for this period due to her remuneration being received a month in arrears.

² Indicates a part year.

³ Mr St John ceased to be Chair of the Milk Price Panel in June 2023.

⁴ The Sustainability and Innovation Committee was formed in February 2023.

Directors' Disclosures

Fonterra
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Barlass Farm,
Canterbury

Disclosures of Directors' interests

In accordance with section 140(2) of the Companies Act, the Directors have made the following general disclosures of interest during FY23.

Brent Goldsack	<i>Kiwi Transactions Limited (ceased March 2023)</i>	<i>Chair and Director</i>
	<i>The Hills Golf Club Limited (ceased July 2023)</i>	<i>Director</i>
Leonie Guiney	CJ Grazing Limited	Director and Indirect Shareholder
	Guiney Family Trust	Trustee and Beneficiary
Holly Kramer	<i>Abacus Property Group (ceased November 2022)</i>	<i>Independent Non-executive Director</i>
	ANZ Group Holdings Limited (with effect from 1 August 2023)	Independent Non-executive Director
	Australia and New Zealand Banking Group Limited (with effect from 1 August 2023)	Independent Non-executive Director
	NBryo	Director
	Pollination	Senior Advisor
	<i>The Ethics Centre (ceased February 2023)</i>	<i>Independent Non-executive Director</i>
Andrew Macfarlane	Pencarrow Farm Limited ¹	Director and Shareholder
Peter McBride	Elliot Trust	Advisor
	Karaka Gold	Director and Shareholder
	Fonterra Farmer Custodian Limited	Director and Shareholder
John Nicholls	<i>Fonterra Farmer Custodian Limited (ceased November 2022)</i>	<i>Director and Shareholder</i>
	<i>G & K Duckett Trust (ceased March 2023)</i>	<i>Trustee</i>
	FSF Management Company Limited	Director
Alison Watters	Agriculture Resources Limited	Joint Shareholder
	Aginvest Holdings Limited	Joint Shareholder
	Livestock Improvement Corporation Limited	Director
	LIC Agritechnology Company Limited	Director
	Meteorological Service of New Zealand Limited	Director
	National Science Challenge High Value Nutrition	Board Member
	Totally Vets Limited	Director
	Taumata Island Dairy Limited	Joint Shareholder as a Trustee and Beneficiary of Taumata Trust

¹ Additional to his previously disclosed interest in respect of 'Pencarrow Farm Limited' (which has changed its name to 'Pencarrow Investments Limited').

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Use of information by Directors

During FY23, there were no notices from Directors requesting to disclose or use information received in their capacity as Directors which would not otherwise have been available to them.

Indemnity and insurance

Fonterra has given indemnities to, and has effected insurance for, Directors and executives of Fonterra and its related companies, in accordance with section 162 of the Companies Act, and clause 35 of Fonterra's Constitution which, except for specific matters that are expressly excluded, indemnify and insure Directors and executives against monetary losses as a result of actions undertaken by them in the course of their duties. Among the matters specifically excluded are penalties and fines that may be imposed for breaches of law.

New disclosures of Director's interests in securities

The following new disclosures of holdings of Fonterra securities were made by Directors during FY23.

DIRECTOR	TYPE OF SECURITY	TOTAL NUMBER OF SECURITIES	DATE DISCLOSED
Alison Watters	Co-operative shares	234,737	14 November 2022 (Initial Disclosure)
Alison Watters	Units	9,317	14 November 2022 (Initial Disclosure)

Disclosure of Directors' interests in securities transactions

Directors disclosed, pursuant to section 148(2) of the Companies Act and section 297 of the Financial Markets Conduct Act 2013, that they (or their associated persons) acquired or disposed of a relevant interest in financial products as follows:

DIRECTOR	TYPE OF TRANSACTION	NUMBER OF SECURITIES ACQUIRED	NUMBER OF SECURITIES DISPOSED	CONSIDERATION (NZD)	DATE OF TRANSACTION
Andrew Macfarlane	Co-operative shares	40,000	–	119,200	24 March 2023
Brent Goldsack	Co-operative shares	–	47,972 ¹	–	24 March 2023
John Nicholls	Units	–	930	3,144	26 April 2023
	Co-operative shares	–	137,164 ²	–	1 May 2023
	Co-operative shares	5,000	–	13,600	2 May 2023
Leonie Guiney	Co-operative shares	10,000	–	30,000	20 March 2023
	Co-operative shares	45,200	–	133,444	23 March 2023
	Co-operative shares	100,000	–	275,000	8 May 2023
	Co-operative shares	160,681 ³	160,681 ³	–	29 June 2023
Peter McBride	Co-operative shares	37,152	–	110,097	20 March 2023
	Units	83,767	–	285,950	20 March 2023
	Co-operative shares	223,289	–	681,026	21 March 2023
	Units	30,000	–	102,789	21 March 2023
	Co-operative shares	393	–	1,159	22 March 2023
	Units	9,677	–	30,579	22 March 2023
	Co-operative shares	17,972	–	53,017	23 March 2023
	Units	5,962	–	19,198	23 March 2023
	Units	307	–	1,004	24 March 2023

¹ Consideration as part of farm sale which took place on 1 June 2022.

² Effective disposal through ceasing to hold an interest in a shareholding entity.

³ Transfer between related entities.

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Disclosure of Directors' interests in securities transactions

DIRECTOR	TYPE OF TRANSACTION	NUMBER OF SECURITIES ACQUIRED	NUMBER OF SECURITIES DISPOSED	CONSIDERATION (NZD)	DATE OF TRANSACTION
Peter McBride	Co-operative shares	32,000	–	95,360	27 March 2023
	Co-operative shares	159,122	–	462,854	5 April 2023
	Co-operative shares	330,878	–	971,531	6 April 2023
	Co-operative shares	18,449	–	53,871	11 April 2023
	Co-operative shares	69,453	–	203,263	12 April 2023
	Co-operative shares	233,982	–	686,067	13 April 2023
	Co-operative shares	154,018	–	446,223	14 April 2023
	Co-operative shares	70,000	–	200,200	17 April 2023
	Co-operative shares	13,000	–	36,100	18 April 2023
	Co-operative shares	15,000	–	41,250	19 April 2023
	Co-operative shares	420	–	1,172	20 April 2023
	Co-operative shares	75,000	–	202,500	26 April 2023
	Co-operative shares	249,000	–	687,530	28 April 2023
	Co-operative shares	41,000	–	111,680	2 May 2023
	Co-operative shares	137,551	–	366,946	3 May 2023
	Co-operative shares	25,743	–	70,543	8 May 2023
	Co-operative shares	20,000	–	55,400	9 May 2023
	Co-operative shares	37,620	–	103,455	11 May 2023
	Co-operative shares	46,862	–	130,720	12 May 2023
	Co-operative shares	95,010	–	266,028	15 May 2023
	Co-operative shares	76,700	–	222,628	17 May 2023
	Co-operative shares	40,000	–	116,100	18 May 2023

Other transactions

There were no transactions by Directors (or their associated persons) in Capital Notes, Retail Bonds or Wholesale Bonds reported during the period from 1 August 2022 to 31 July 2023.

Quoted Financial Products

In accordance with Rule 2.7.1(d) of the FSM Rules, the following table identifies the Quoted Financial Products in which each Director has a relevant interest (defined in the Financial Markets Conduct Act 2013) as at 31 July 2023:

	FSF UNITS ¹	CO-OPERATIVE SHARES
Brent Goldsack	3,493	409,843
Leonie Guiney	–	1,354,024
Andrew Macfarlane	147,041	1,965,990
Peter McBride	129,713	9,309,934
John Nicholls	–	2,083,000
Cathy Quinn	–	444,280
Alison Watters	9,317	234,737

¹ Units issued by the Fonterra Shareholders' Fund may be converted to Co-operative shares.

To qualify as an Elected Director under the Fonterra Constitution, a person must be a shareholder, a shareholder of a company that is a shareholder, a member of a partnership that is a shareholder, or have a legal or beneficial interest in, or a right or entitlement to participate directly in the distributions of, a body corporate that is a shareholder of Fonterra. All current Elected Directors have relevant interests in Co-operative shares.

Given the variety of ways that farmer shareholders can organise their interests, it is possible for Fonterra Elected Directors to have an interest in Co-operative shares without this being a relevant interest as defined in the Financial Markets Conduct Act 2013, and those interests are not disclosed above.

Other Disclosures

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Sushmitha,
Auckland

Shareholder information

Twenty largest recorded share holdings as at 31 July 2023¹

NAME	NUMBER OF SHARES	% OF SHARES
Fonterra Farmer Custodian Limited	107,410,984	6.67
Trinity Lands Limited	2,190,614	0.13
Lowcliffe Dairies Limited	1,208,600	0.07
NZ Rural Property Trust Nominees Limited - Shenstone	1,110,761	0.06
Anne Maureen Janson & Carrol Garth Janson	1,110,000	0.06
Ellis-Lea Farms (2000) Ltd ²	1,035,000	0.06
Singletree Dairies 2013 Limited	1,012,776	0.06
E F Deadman Ltd	998,052	0.06
Cumberland Dairy Farm Limited	980,258	0.06
Silverdale Farm Ltd	972,679	0.06
Fortitude Farm Limited	962,764	0.05
Southern Pastures (Manako Farm) Limited Partnership	962,757	0.05
Coringa Park Dairies Limited	944,423	0.05
Twin Terraces Ltd	937,354	0.05
Stewart Partnership Ltd	922,500	0.05
Arlanda Limited	920,033	0.05
Moffitt Dairy Ltd	910,713	0.05
Rangitata Dairies Limited Partnership T/A Rangitata Dairies	902,623	0.05
McBain Farms Ltd	867,790	0.05
Gerrit Jan Hendrik Amtink & Gerritje Johanna Amtink	860,066	0.05

¹ The FSM Rules, which reflect the rules of the NZX Main Board, require that Fonterra's annual report contain the names and holdings of persons having the 20 largest holdings of Co-operative shares on the register of Fonterra as at a date not earlier than two months before the date of the publication of the annual report. There is a separate requirement in the FSM Rules to disclose in the annual report those persons who have a 'relevant interest' (as defined in the Financial Markets Conduct Act 2013) in Co-operative shares in excess of five per cent (a 'substantial holding'), where this information has been provided to Fonterra. Accordingly, the list of the 20 largest holdings of Co-operative shares is not required to show, and does not purport to show, the top 20 holdings of 'relevant interests' in Co-operative shares which may be owned or controlled by a person or entity and their associated entities. Other people or entities may have 'relevant interests' in a greater number of Co-operative shares than those listed above. However, it is not possible for Fonterra to accurately determine those interests, nor is it a requirement of the FSM Rules for those interests to be reported in the annual report, except where Fonterra has been advised that a person has a 'relevant interest' in excess of the five per cent threshold.

² Includes Co-operative shares held in respect of a farm which has ceased supplying milk to Fonterra via the listed entity.

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Substantial product holders

According to notices given under the Financial Markets Conduct Act 2013, as at 31 July 2023, the substantial product holders in Fonterra and their 'relevant interests' are noted below. The total number of Co-operative shares on issue as at 31 July 2023 was 1,609,244,669.

SUBSTANTIAL PRODUCT HOLDERS	NUMBER OF VOTING SECURITIES	DATE OF MOST RECENT NOTICE
Fonterra Farmer Custodian Limited	111,816,183	30 July 2018
FSF Management Company Limited	111,735,183	30 July 2018

More than one 'relevant interest' can exist in the same voting financial products. Fonterra Farmer Custodian Limited holds Co-operative shares for the Fonterra Shareholders' Fund (Fund), of which FSF Management Company Limited is the Manager. These two notices therefore refer to substantially the same Co-operative shares. The Custodian also holds some Co-operative shares for the Registered Volume Provider in respect of the Fund.

Distribution of shareholders and holdings as at 31 July 2023

FROM – TO	HOLDER COUNT	%	HOLDING QUANTITY	%
1 – 50,000	1,296	13.79	31,939,164	1.98
50,001 – 100,000	2,363	25.14	181,831,408	11.30
100,001 – 200,000	3,179	33.82	451,543,409	28.06
200,001 – 400,000	2,034	21.64	556,971,770	34.61
400,001 and over	528	5.62	386,958,918	24.05
Total	9,400	100	1,609,244,669	100

Bondholder information

Distribution of FCG050 \$100 million Retail Bond holders as at 4 August 2023

FROM – TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000 – 9,999	9	3.91	65,000	0.07
10,000 – 49,999	157	68.26	3,666,000	3.67
50,000 – 99,999	28	12.17	1,674,000	1.67
100,000 – 999,999	22	9.57	7,190,000	7.19
1,000,000 and over	14	6.09	87,405,000	87.40
Total	230	100	100,000,000	100

Co-operative status

In accordance with section 10 of the Co-operative Companies Act 1996 (the Co-operative Companies Act), the Directors of Fonterra unanimously resolved on 24 August 2023 that Fonterra was, for the year ended 31 July 2023, a co-operative company. The opinion was based upon the fact that:

- Throughout that period the principal activities of Fonterra have been the activities stated in clause 1.3 of Fonterra's constitution:
 - the manufacture and sale of butter, cheese, dried milk, casein, or any other product derived from milk or milk solids supplied to Fonterra by its shareholders;
 - the sale to any person of milk or milk solids supplied to Fonterra by its shareholders;
 - the collection, treatment, and distribution for human consumption of milk or cream supplied to Fonterra by its shareholders.
- Each of Fonterra's principal activities are co-operative activities (as defined in section 3 of the Co-operative Companies Act).
- Throughout that period, not less than 60 per cent of the voting rights attaching to shares in Fonterra have been held by transacting shareholders (as defined in section 4 of the Co-operative Companies Act).

Current credit rating status

S&P Global Ratings' long-term rating for Fonterra is A- with a rating outlook of stable. Fitch Ratings' long-term rating is A with a rating outlook of stable. Retail Bonds have been rated the same as Fonterra's long-term rating by both S&P Global Ratings and Fitch Ratings.

Exchange rulings and waivers

NZX Regulation (NZXR) ruled that Fonterra's Capital Notes (FCGHA) were debt securities as defined in the NZX Main Board/Debt Market Listing Rules (Listing Rules). This means that, where Capital Notes were quoted on NZX's Debt Market, Fonterra was not required to comply with certain Listing Rules which apply to an issuer of quoted equity securities.

Fonterra's Capital Notes were redeemed in full by Fonterra on 10 July 2023.

NZX trading halts

No trading halts were placed on Fonterra securities by NZX in FY23.

From market open on 15 August 2023 until market close on 17 August 2023, an administrative trading halt was applied to Fonterra's securities on the FSM. The trading halt was required to implement the capital return to Fonterra shareholders.

Stock exchange listings

Fonterra's Co-operative shares are listed and quoted on the FSM (operated by NZX Limited for Fonterra) under the code 'FCG'. Fonterra has one retail bond listed and quoted on the NZDX under the code 'FCG050'. Fonterra also has a Euro Medium Term Note Programme listed on the Singapore Stock Exchange.

As at 31 July 2023, there were 1,609,244,669 Co-operative shares on issue.

Donations

Donations of \$1,638,300 were made by Fonterra and its subsidiaries during FY23.

This does not include other amounts paid in relation to sponsorship or partnership arrangements.

Subsidiary company directors

The following companies were subsidiaries of Fonterra as at 31 July 2023. Directors as of this date are listed below. Those who resigned during the year are denoted with an R, and Alternate Directors are denoted with an A.

New Zealand

Assessment Labs Limited	B K Connolly, J Swales
Canpac International Limited	B M Ryan, P D Wynen
Dairy Industry Superannuation Scheme Trustee Limited	M A Apiata-Wade, B J Kerr, T P McGuinness, R Price (R), S E Pinny, D W C Scott, A K Williams, P D Wynen
Fonterra (Delegated Compliance Trading Services) Limited	G A Duncan, S D T Till
Fonterra (International) Limited	G A Duncan, C E Rowe
Fonterra (Kotahi) Limited	R G Carlyle (R), F S Whineray (R), M R Cronin, A L Palairet
Fonterra (Middle East) Limited	G A Duncan, C E Rowe
Fonterra (New Zealand) Limited	G A Duncan, C E Rowe
Fonterra (North Asia) Limited	G A Duncan, S D T Till
Fonterra Brands (New Zealand) Limited	B Henshaw, J Swales
Fonterra Commodities Limited	G A Duncan, B M Turner
Fonterra Dairy Solutions Limited	G A Duncan, R McNickle
Fonterra Equities Limited	G A Duncan, S D T Till
Fonterra Finance Corporation Limited	G A Duncan, S D T Till
Fonterra Ingredients Limited	G A Duncan, B M Ryan
Fonterra LATAM Brands Limited	A J Cordner, G A Duncan
Fonterra Nutrition Science GP Limited	R Barrangou, M R Cronin, W F Liao, K Mistry-Mehta
Fonterra Limited	M R Cronin, F S Whineray (R), A van der Nagel
Fonterra PGGRC Limited	G A Duncan, J P Hill
Fonterra TM Limited	G A Duncan, S D T Till
Glencoal Energy Limited	G A Duncan, P D Wynen
Kotahi GP Limited	D G Boulton, R G Carlyle (R), B M Ryan, F S Whineray (R), M R Cronin, A L Palairet
Kowbucha Limited	P J Hill, K Mistry-Mehta
Lactanol Limited	G A Duncan, B M Ryan
Milktest GP Limited	R J Allen (R), P J van Boheemen, P G Brown, G B McCullough, R G Townshend, T A Winter, C J Rutherford
MyMilk Limited	C W Fergusson (R), M R Cronin, K F Shaw
New Zealand Dairy Board	G A Duncan, C E Rowe
New Zealand Milk (International) Limited	G A Duncan, R M Kennerley (R), C E Rowe
New Zealand Milk Brands Limited	G A Duncan, S D T Till

New Zealand

NZAgbiz Limited	R J Allen (R), A Douglas, G A Duncan
RD1 Limited	R J Allen (R), A Douglas, G A Duncan
SAITL Limited	G B McCullough, T A Winter
Tangshan Dairy Farm (NZ) Limited	M R Cronin, G A Duncan
Whareroa Co-Generation Limited	G A Duncan, P D Wynen

Overseas

Anchor Insurance Pte. Limited [Singapore]	G A Duncan, S S Herbert (R), C E Rowe, H N Toh (A), N Weerasooriya
Annum (Malaysia) Sdn. Bhd. [Malaysia]	A B Murray, R M Kennerley (R), F Quak, S S Rapaka (R), V Tang (R), G Thiagarajan, S W Yeo
Australasian Food Holdings Pty. Limited [Australia]	R J Dedoncker, G A Duncan
Bonland Cheese Trading Pty. Limited. [Australia]	R J Dedoncker, G A Duncan
Dairy Partners Americas Brasil Limitada [Brazil]	S Aparecido Flavio, F Carvalho Goncalves, T B Ernesto Barretto, F Liani, R de Oliveira Carrelas, L L Rangel
Dairy Partners Americas Nordeste-Produtos Alimenticios Limitada [Brazil]	S Aparecido Flavio, F Carvalho Goncalves, T B Ernesto Barretto, M G Guerreiro Pinheiro (R), F Liani, R de Oliveira Carrelas, L L Rangel
Dairymas (Malaysia) Sdn Bhd [Malaysia]	A B Murray, R M Kennerley (R), F Quak, S S Rapaka (R), V Tang (R), G Thiagarajan, S W Yeo
Darnum Park Pty. Limited. [Australia]	R J Dedoncker, G A Duncan
Fonterra (Beijing) Farm Management Consulting Company Limited [China]	A Aggarwal, G A Duncan, G Yuan
Fonterra (Brasil) Limitada [Brazil]	R F Aracil Filho, B de Luca Zanatta
Fonterra (Canada), Inc. [Canada]	R J Allen, G A Duncan, B Kipping, A Geraghty, J H Lees (R)
Fonterra (China) Limited [Hong Kong]	M R Cronin, G A Duncan
Fonterra (CIS) Limited Liability Company [Russian Federation] (In Liquidation)	E Grishina (R)
Fonterra (Europe) Coöperatie U.A. [Netherlands]	M Bones, T Bosch (R), M Boyd (R), G A Duncan, D Krabbe
Fonterra (France) SAS [France]	M Bones, T Bosch (R)
Fonterra (Ing.) Limited [Mauritius]	A Aggarwal, T Chow, C Thomas
Fonterra (Japan) Limited [Japan]	K Kumagai, K Kumagai, A Okuyama, Y Saito, J Swales, R Whiteman, K A Wickham (R)
Fonterra (Korea) Limited Liability Company [Korea]	G A Duncan, Y Saito
Fonterra (Logistics) Limited [United Kingdom]	M Boyd, G A Duncan, T Mackett

Subsidiary company directors (continued)

Overseas

Fonterra (Mexico) S.A. de C.V. [Mexico]	L Barona Mariscal (A), F R Camacho (A), G A Duncan, E P G R Gil (R), J A Del Rio
Fonterra (SEA) Pte. Ltd. [Singapore]	R Kumar (R), R Lawn, J Mueller-Leiendecker
Fonterra (Thailand) Limited [Thailand]	R Kumar (R), R Lawn, K Vunthanadit
Fonterra (USA) Inc. [United States]	R J Allen, N R Christiansen, G A Duncan, A Geraghty, J H Lees (R)
Fonterra Australia Pty. Ltd. [Australia]	R J Dedoncker, G A Duncan
Fonterra Brands (Asia Holdings) Pte. Ltd. [Singapore]	S Arfelt Rajamand (R), S Goh (R), D Luo, C Y Nee, J Swales
Fonterra Brands (Australia) Pty. Ltd. [Australia]	R J Dedoncker, G A Duncan
Fonterra Brands (Far East) Limited [Hong Kong]	A Aggarwal, G A Duncan
Fonterra Brands (Guangzhou) Ltd. [China] (in liquidation)	T T Lye, P A Turner, K A Wickham
Fonterra Brands (Hong Kong) Limited [Hong Kong]	A Aggarwal, W Y Chan (R), G A Duncan, S T Y Lam
Fonterra Brands (Malaysia) Sdn Bhd [Malaysia]	A B Murray, R M Kennerley (R), F Quak, S S Rapaka (R), V Tang (R), G Thiagarajan, S W Yeo
Fonterra Brands (New Young) Pte. Ltd. [Singapore]	A Aggarwal, L Dan, S Goh (R), Y Li, C Lin, Y Lin, J Ling
Fonterra Brands (Singapore) Pte. Ltd. [Singapore]	D Luo, S Goh (R), C Y Nee, C C Pheng, J Swales
Fonterra Brands (Thailand) Ltd. [Thailand]	P Chaychotcharoen (R), G A Duncan, G Julcampa, R M Kennerley (R), S Nitkitjatorn, S Totana (R), G Tucker
Fonterra Brands (Viet Nam) Company Limited [Vietnam]	A B Murray, S Arfelt Rajamand (R), R M Kennerley (R), V Sivaraja
Fonterra Brands Indonesia, PT [Indonesia]	D M Irfani, C A Salinas Robeson, G Thiagarajan (R), Y Wigneswaran
Fonterra Brands Lanka (Private) Limited [Sri Lanka]	M F Faizal, A B Murray, R M Kennerley (R), T Salpitikorala, V Sivaraja
Fonterra Brands Manufacturing Indonesia, PT [Indonesia]	A B Murray, M A Nasution, C A Salinas Robeson, T A B Siswanto, G Thiagarajan (R), Y Wigneswaran
Fonterra Brands Myanmar Co. Ltd. [Myanmar]	G A Duncan, S Nitkitjatorn, C D Wickramanayake
Fonterra Brands Phils. Inc. [Philippines]	R Cook, C Ferrer (R), R L Ibit, R M Kennerley (R), R A Mendoza, A B Murray, G Santiago, M J S Magsajo
Fonterra Chile SpA [Chile]	A J Cordner, G A Duncan, J P Egaña Bertoglia (A), R Lavados McKenzie (A), R Sepúlveda Seminario

Overseas

Fonterra Commercial Trading (Shanghai) Company Limited [China]	A Aggarwal, G A Duncan, L Han
Fonterra Egypt Limited [Egypt]	A Anwar (R), G A Duncan
Fonterra Europe Manufacturing B.V. [Netherlands]	D Krabbe, B M Ryan
Fonterra Europe Manufacturing Holdings B.V. [Netherlands] (in liquidation)	M Boyd (R), G A Duncan (R)
Fonterra Foodservices (USA), Inc. [United States]	R J Allen, N R Christiansen, G A Duncan, J H Lees (R)
Fonterra Global Business Services Asia Sdn Bhd [Malaysia]	S S Rapaka (R), M B Suzari, V Tang (R), G Thiagarajan
Fonterra Hangu (HK) Limited [Hong Kong]	G A Duncan, G Yuan
Fonterra India Private Limited [India]	A Aggarwal, H D Gowans, S G Mathews
Fonterra Ingredients Australia Pty. Ltd. [Australia]	R J Dedoncker, G A Duncan
Fonterra Investments Pty Ltd [Australia]	R J Dedoncker, G A Duncan
Fonterra Milk Australia Pty. Ltd. [Australia]	R J Dedoncker, G A Duncan
Fonterra Nutrition Science (US) Limited	N R Christiansen, G A Duncan
Fonterra Tangshan Dairy Farm (HK) Limited [Hong Kong]	G A Duncan, G Yuan
Fonterra Venezuela, S.A. [Venezuela] (in Liquidation)	G A Duncan, F C Ortega Becea (R)
Key Ingredients, Inc. [United States]	R J Allen, N R Christiansen, G A Duncan, J H Lees (R), A Geraghty
Kotahi Logistics Australia Pty Limited [Australia]	D Ross, S Allan, R Howell
Milk Products Holdings (North America) Inc. [United States]	R J Allen, N R Christiansen, J H Lees (R), A Geraghty
New Tai Milk Products Co. Ltd. [Taiwan]	A Aggarwal, T Chow, C Lee, G Lee, K Lee, C Thomas
New Zealand Milk (Australasia) Pty. Ltd. [Australia]	R J Dedoncker, G A Duncan
New Zealand Milk (Barbados) Ltd. [Barbados]	N R Christiansen, G A Duncan
New Zealand Milk Products (Ethiopia) SC [Ethiopia]	A B Abubeker, M B Abubeker, M Boyd, C Ebbett (R), M Woodward
Newdale Dairies (Private) Limited [Sri Lanka]	M F Faizal, R M Kennerley (R), A B Murray, T Salpitikorala, V Sivaraja
NZMP Fonterra Nigeria Limited [Nigeria]	G A Duncan, G Amade
United Milk Tasmania Pty. Limited [Australia]	R J Dedoncker, G A Duncan

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Bojan & Ian,
Te Awamutu

Fonterra Governance & Remuneration Report 2023
Pūrongo Mana Whakahaere me te Puakanga ā-ture Te Mātāpuna

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Fonterra Modern Dairy Statement 2023
Pūrongo Ponogatanga Moroki Te Mātāpuna



Drysdale Farm,
Hawkes Bay

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About this report

This report covers the activities of Fonterra Co-operative Group Limited for the year ended 31 July 2023 (FY23) and is one supporting document to Fonterra's integrated suite of reports.

This is our fourth Modern Slavery report (our first was in 2020) and we intend to continue this type of reporting on an annual basis, focusing on continual improvement. This 2023 Modern Slavery Statement is prepared in accordance with the Australian Modern Slavery Act 2018.

COVER
Barnes Farm,
Curio Bay

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OUR 2023 SUITE OF REPORTS

[Annual Review 2023](#)
(Referenced as AR)

[Financial Statements 2023](#)
(Referenced as FS)

[Business Performance Report 2023](#)
(Referenced as BP)

[Sustainability Report 2023](#)
(Referenced as SR)

[Governance & Statutory Disclosures 2023](#)
(Referenced as G&S)

[Modern Slavery Statement 2023](#)
(Referenced as MS)

[Farmgate Milk Price Statement 2023](#)
(Referenced as MP)

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



Introduction

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At Fonterra, people matter – in our workforce, in our supply chain, and in the communities in which we operate. We believe that everyone has value and the right to be treated with respect and dignity, regardless of background or circumstances.

Our approach to addressing Modern Slavery is part of our commitment to human rights. We recognise our responsibility to respect human rights and our ability to contribute to positive human rights outcomes. In our effort to achieve this, we are always working to foster a culture which supports internationally recognised human rights and seeks to avoid complicity in human rights abuse.

In line with the UN Guiding Principles on Business and Human Rights, Fonterra's commitments are based on the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organization Declaration on Fundamental Principles and Rights at Work.

Our commitments (embodied in our internal policies and standards) include seeking to provide safe, secure, and non-discriminatory working environments, good working conditions, providing for the right to freedom of association and collective bargaining, prohibiting forced labour and child labour (including modern slavery), and prohibiting bribery and corruption.

We also consider the potential impact of our operations on local communities, and we require our supply chain to uphold human rights in their operations through our Supplier Sustainability Code of Practice. The following statement sets out the actions taken by Fonterra to address modern slavery risks in our business and supply chain for the financial year ending 31 July 2023 (FY23).

In this statement, Fonterra reports on its actions to assess and address modern slavery risks associated with its operations, including its employment practices and the protections provided for workers. Furthermore, this statement also outlines how Fonterra is assessing and addressing modern slavery risks within its supply chains, including the efforts with supply partners to mitigate this risk. Finally, this statement contains our own assessment of the effectiveness of such actions required under s16(1) of the Australian Modern Slavery Act 2018.

This statement was approved by the Fonterra Board of Directors on 20 September 2023.



Miles Hurrell
 Chief Executive Officer



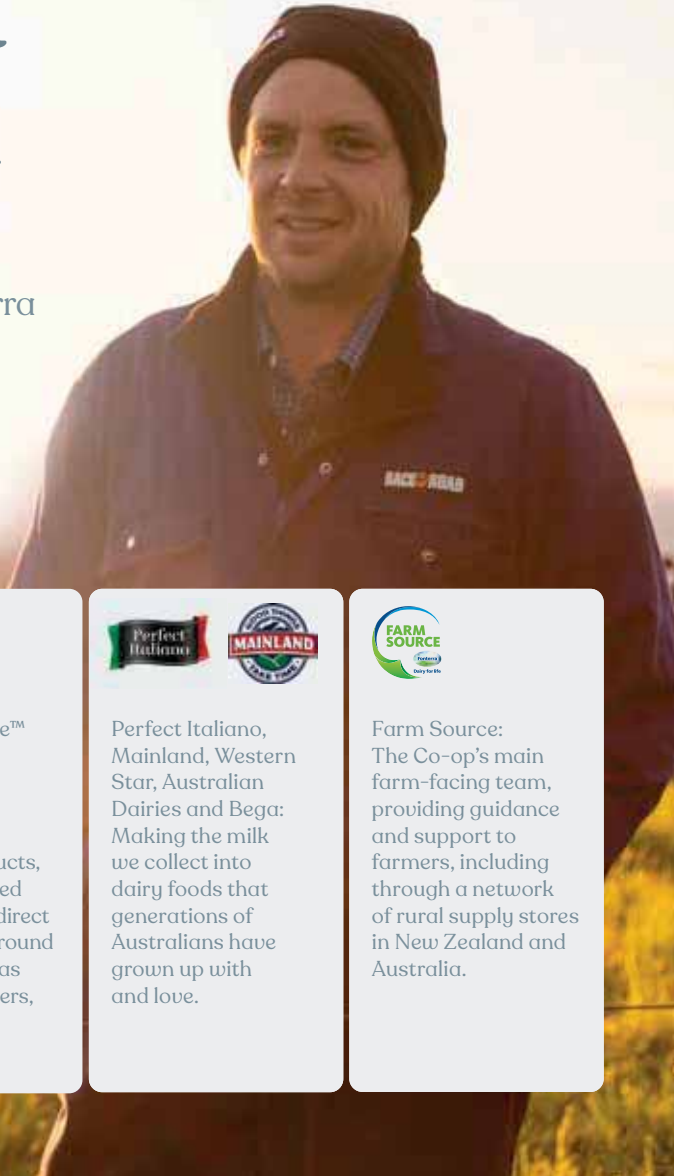
Peter McBride
 Chair

Blair,
 Hawkes Bay

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Fonterra Structure, Operations & Supply Chain

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



NZMP™: Providing world-leading dairy ingredients and expertise to our customers to be used by some of the world's most famous food and nutrition brands.



Anchor™ Food Professionals brand: Creating high-quality products and innovative solutions for foodservice professionals.



Anchor™, Anlene™ and Annum™: Manufacturing, marketing, and distributing consumer products, including branded dairy products direct to consumers around the world, such as milk, milk powders, yoghurt, butter, and cheese.



Perfect Italiano, Mainland, Western Star, Australian Dairies and Bega: Making the milk we collect into dairy foods that generations of Australians have grown up with and love.



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

We're committed to producing dairy nutrition in a way that cares for people, animals, and the environment, and brings value to our communities. New Zealand milk is the focus of our strategy, and our global presence helps us generate revenue in over 120 markets.

We have approximately 18,000 employees across the world, including manufacturing operations in New Zealand, Australia, Indonesia, Malaysia, Chile* and Brazil. Our operations encompass significant research, development and application expertise, customer and consumer insight and is enabled by several supporting functions including human resource, sales and marketing teams.

Our operations in Australia are conducted through our wholly owned Australian subsidiary companies, who themselves either own the necessary assets or engage with third parties to produce our goods.

Reporting Entities

This 2023 Modern Slavery Statement is prepared in accordance with the Australian Modern Slavery Act 2018, and covers Fonterra Co-operative Group Limited and its subsidiaries, including the following Australian reporting entities:

- Fonterra Brands (Australia) Pty Limited
- Fonterra Australia Pty Limited
- New Zealand Milk (Australasia) Pty Limited

Further details of Fonterra's subsidiaries are outlined in the Other Disclosures section of the [Governance & Statutory Disclosures](#), available on fonterra.com.

* Chile manufacturing operations, and subsequent milk collection, and the remaining China farm were sold in April 2023

Our Supply Chain

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As a global organisation our supply chain sources raw milk primarily from farms in New Zealand, which account for almost 90% of raw milk sourced by volume.

We also have some raw milk collection in five other countries (Australia, Sri Lanka, Chile*, Brazil, and China*). In Australia, our raw milk is supplied entirely by Australian farms in Victoria, New South Wales, and Tasmania.

We source packaging and ingredients from suppliers globally. Our global supply chain stretches from farms to our Fonterra manufacturing facilities, as well as third-party manufacturing sites across the globe enabling the delivery of products to customers and consumers in more than 120 markets.

We make a significant socio-economic contribution to the regions where we operate and from where we source. Our supply chain includes suppliers who are involved in primary production (predominantly agriculture), processing and distribution of raw materials, and these suppliers recruit and employ workers associated with undertaking these activities. We also rely on several other indirect goods and services in our day-to-day operations, for example cleaning and security services.

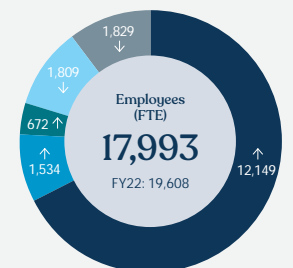
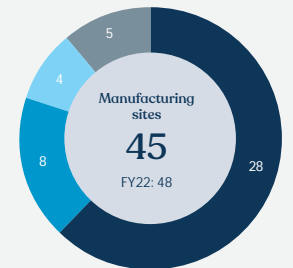
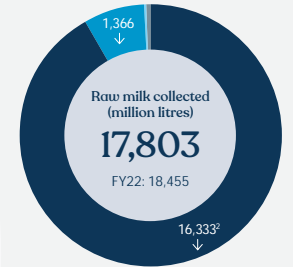
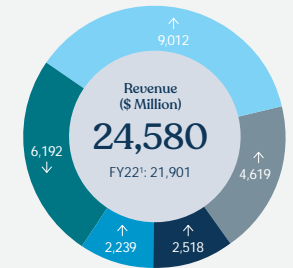
We want our procurement and other spending to contribute to improving livelihoods. The range of products, sourcing locations, markets and regulations associated with these purchases can present risks and we apply a systematic approach to risk assessment that helps to identify and mitigate these risks, including the risk of modern slavery and breaches of human rights.

* Chile manufacturing operations, and subsequent milk collection, and the remaining China farm were sold in April 2023



● New Zealand ● Rest of Asia Pacific ● Australia ● China ● Rest of World

1 FY22 has been re-presented due to the Soprole business being moved to held for sale and classified as discontinued operations (and subsequently sold).
 2 Amount collected during FY23 (which differs to the 16,317 million litres collected during the 2022/23 season ended 31 May 2023).



Understanding our modern slavery risks

Andrew, Hamilton



Fonterra has been undertaking Human Rights Due Diligence for several years and in 2023 built on the assessments undertaken in 2020, 2021, and 2022 to better understand our modern slavery risks.

As a large business with diverse operations and supply chain, we recognise that our modern slavery risk profile is not static and will continue to evolve over time. We assess our modern slavery risks in our operations and supply chain using a variety of tools and resources, and consider geographic, sector, product, and supplier-specific risk factors. Additionally, we draw on the UN Guiding Principles on Business and Human Rights (UNGPs) to understand our modern slavery risks. The UNGPs are the authoritative global standard for addressing modern slavery and other human rights harms associated with business activities. They guide our approach to identifying risk, including the potential for us to cause, contribute to, or be directly linked to adverse human rights impacts.

To identify our modern slavery risks we have mapped our operational and supply chain footprint against key modern slavery risk indicators as follows:

Operational Footprint:

- Employee locations
- Property locations
- Milk collection locations
- Manufacturing and own farm sites
- Third party manufacturing
- Merchandising

Supply Chain Footprint:

- Locations of all direct ingredients' vendors
- Locations of top 400 vendors globally by spend (75% of procurement spend)
- Locations of top 200 Farm Source store goods vendors by spend
- Modern Slavery reporting of highest risk vendors globally (including published grievance lists)

Key modern slavery risk indicators

- World Bank Worldwide Governance Indicators
- Corruptions Perceptions Index (Incorporating the Global Slavery Index)
- Various academic and NGO reports (including Amnesty International, Oxfam, University of Auckland, International Labour Organisation (ILO))
- Checks against global sanctions and enforcement databases (for example, OFAC, World Bank Debarment List, and the US Department of Labour List of Goods Produced by Forced Labour or Child Labour)
- Media monitoring to identify risks including human rights abuses, human trafficking, and labour rights violations.

In addition, we have previously anonymously surveyed our employee population to garner their feedback on the likelihood of human rights risks in our value chain.

Understanding our modern slavery risks

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Assessment of potential modern slavery risks across Fonterra’s operational and supply chain activities

Fonterra footprint	Modern Slavery Risk or Indicators of Modern Slavery	Activities
Operational	<ul style="list-style-type: none"> – Forced/Bonded labour – Exploitation of migrant workers – Bullying and Harassment – Underpayment of wages – Excessive working hours 	<ul style="list-style-type: none"> – Outsourced / contingent workforces (cleaning and merchandising) – On-farm labour – Third party manufacturing – Milk supply to third party manufacturing
Supply Chain	<ul style="list-style-type: none"> – Forced/Bonded labour – Deceptive recruitment – Exploitation of migrant workers – Excessive working hours – Underpayment of wages 	<ul style="list-style-type: none"> – Sourcing of garments – Magnesium and phosphate sourcing – Sourcing of ingredients / packaging / finished goods from higher risk countries (including sugar and cocoa) – Palm oil and Palm Kernel Expeller (PKE) sourcing – Outsourced / contingent workforces (cleaning and merchandising)

Key modern slavery risks to Fonterra include forced/bonded labour and deceptive recruitment.

In 2020 we became aware of allegations of forced labour (through monitoring of our supply chain) in one of our supplying palm plantations, Sime Darby. Following independent investigations by the US Customs and Border Protection (CBP) our vendor suspended the purchase of all palm oil from Sime Darby in 2022. We have engaged closely with our vendor over the last year to understand their monitoring and audit processes and based on satisfactory evidence presented to the CBP that Sime Darby is not using forced labour, have allowed supply from Sime Darby to resume.

As at 31 July 2023 we have not identified any other specific instances of modern slavery across our value chain.

Key areas of potential risk

In our view, our greatest exposure to modern slavery risks is through our extended supply chain. Our most material risks where we may be directly linked to modern slavery practices are described in more detail below, and for simplicity, we include actions being taken to mitigate the risks.

On-farm workers

Farms are a key part of our supply chain, where all workers have rights as employees, and it is a crime for employers to exploit these rights. In Australia and New Zealand where the majority of our milk collection occurs these rights include holidays, leave, work breaks, wages, freely chosen work and written employment agreements.

In Australia, dairy farms are licensed and are required to meet all employment laws.

The 2018 UK Gangmasters and Labour Abuse Authority Report on exploitation shows that practices that if found may indicate a heightened risk of modern slavery for on farm workers include bullying or harassment, insufficient pay (less than minimum wage), and excessive working hours.

Our Farmers’ Terms of Supply sets expectations for farmers when it comes to people, the environment, animal health and welfare, biosecurity, and food safety and quality, and farmers are required to comply with all relevant laws and regulations, including in relation to labour, employment, and Health & Safety.

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

The Co-operative Difference programme in New Zealand encourages farm business owners to consider people and their communities through taking the Dairy NZ Workplace 360 assessment. This assessment helps to identify strengths and weaknesses in a work environment, shows opportunities for improvement and helps monitor progress. For the 22/23 season, completing a DairyNZ Workplace 360 assessment and achieving 100% on the foundational level was one of the criteria required for achieving the Te Pūtake level of performance. Farms reaching Te Pūtake are eligible to receive The Co-operative Difference payment of an extra 7 cents per kg of related milk solids.

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Worker exploitation in the Palm Oil industry (and PKE sourcing)

Palm products are one of the highest-profile raw materials in our supply chain. The production of palm products is often linked to unsustainable practices, including deforestation, habitat destruction and poor human rights practices.

More specifically, the palm oil industry has been linked to major human rights violations including the use of forced labour. The 2022 Trafficking in Persons report ranked Indonesia and Malaysia as Tier 2 (watchlist) and Tier 3 countries respectively, indicating that they failed to meet the minimum standards established by the Trafficking Victims Protection Act (TVPA) and that Malaysia is not making significant efforts to correct this behaviour.

Despite this, the Malaysian government has taken some steps to address trafficking. However, the report calls out the palm oil industry in Malaysia as having credible allegations of labour trafficking such as restrictions on movement, violating contracts, wage fraud, assault, threats of deportation, the imposition of significant debts, and passport retention that are going uninvestigated.

In 2016, we first launched our Palm Product Standard. This requires palm product vendors within our supply chain to publicly commit to “No Deforestation, No Peatland Development, and No Exploitation” and have processes to meet these commitments, which are outlined in our Standard. In 2023, we replaced this with a wider Forest and Agriculture Products Standard to reflect updates to internationally recognised standards and principles and widening our commitment to zero deforestation across our value chain.

During the 2022 calendar year, we purchased 24,676 tonnes of palm-related products as an ingredient, up 20% on 2021, aligning with purchasing volumes in 2020. Volumes were up in most regions, and this has contributed to reduced progress towards our target of 100% Roundtable for Sustainable Palm Oil (RSPO) certified segregated supply this year. For the 2022 calendar year, 67% of our purchasing was RSPO certified to at least segregated supply level and 25% was certified as mass balance.

By volume, 97% of all palm oil being purchased by our New Zealand business and 100% of all palm oil being purchased by our Australian business in 2022 was certified as segregated supply. It is purchasing for our operations in Saudi Arabia and Indonesia

where sourcing segregated supply is most challenging. We remain committed to achieving certified segregated supply and have implemented an internal exemption process to provide greater rigor for non-conformances against our Standard.

This has made non-conformances visible to leadership and has contributed to several changes in sourcing which should show through our 2023 calendar year reporting. We are increasing our efforts to positively influence the sustainable production of palm within our supply chains and will continue to work with suppliers of direct and indirect palm oil ingredients to work towards 100% certified segregated supply.

We are also engaging directly with our palm product vendors and RSPO to confirm that the safeguards we expect from using certified products are both in place and sufficient.

Managing modern slavery risks linked to COVID-19

The COVID-19 pandemic increased workers’ vulnerability to modern slavery practices in some industries through deteriorating working conditions, exploitation of migrant workers, and impacts on auditing. Added complexity and risk has also been introduced across our supply chain from geopolitical events such as the conflict in Ukraine. As a result, Fonterra has been committed to supporting our Co-operative and value chain partners to address new and changing modern slavery risks linked to the global events. We have focused our human rights due diligence assessment approach to consider products and geographies which we assess as most at risk of modern slavery. While many COVID-19 related restrictions have lifted, we have seen the flow on effects impacting some of our detailed regional analysis.

Actions to treat & mitigate risks

Our approach to modern slavery is Co-operative-wide. To manage and mitigate modern slavery risk Fonterra focuses on four priority areas:

Governance structure and policies

Enhancing due diligence and risk management processes

Building awareness through training and education

Effective reporting and monitoring of grievance mechanisms

Governance structure and policies

Our governance structure and policies provide the foundation for our response to modern slavery and broader human rights risks. They establish that responsibility for managing modern slavery risks is clearly defined across our business and assists us in taking a consistent and coordinated approach. We recognise modern slavery cannot be addressed in isolation from other human rights issues. That is why we integrate modern slavery risk management with our broader work to protect and respect human rights.

Fonterra's human rights governance

The Fonterra Board has overall responsibility for Fonterra's sustainability performance, including our strategy and issues relating to the risk of modern slavery in our operations and supply chain. The People, Culture and Safety Committee of the Board is responsible for reviewing Fonterra's Modern Slavery Statement

and considering whether it is complete and consistent with the information known to Committee members and recommending approval of it by the Board. Our Managing Director Co-operative Affairs and our Managing Director People and Culture are responsible for the day-to-day governance of human rights within our business and our sphere of influence.

Responsibility for the strategy and its integration into our day-to-day activities is shared across the organisation. Respect for human rights is embedded in our "Our People" Group Policy, and expectations are articulated throughout our people standards, and our Code of Conduct, "The Way We Work". Both documents were updated in FY21 to better set expectations for how our people need to act and behave. These policies are supported by local guidance to reflect relevant regulations and norms.

International Union of Food (IUF) Obligations

Fonterra has a long-standing agreement since 2002 with the International Union of Food (IUF) and the New Zealand Dairy Workers Union (NZDWU) that recognises our commitment to the Conventions of the International Labour Organisation for all Fonterra employees and is built into our Code of Business Conduct.

The agreement commits Fonterra to respect international labour standards as defined in ILO Conventions 87 and 98 (freedom of association and the right to collective bargaining), 135 (worker representatives), 29 and 105 (forced labour), 138 and 182 (minimum age, child labour), and 100 and 111 (equal remuneration and employment discrimination).

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Climate change impacts on modern slavery

The impacts of climate change are expected to contribute to driving millions of people into poverty and forcing them to migrate in search of work, food, or safety. In some cases, these people will be left more vulnerable to modern slavery, including trafficking, forced labour and child slavery. We recognise that both the physical and transition risks associated with climate change have the potential to exacerbate modern slavery in our value chains and will be looking to expand our due diligence in the future to include climate impacts and considerations.

“The Way We Work” Code of Business Conduct

To reflect our approach to human rights and our agreement with the IUF, our Code of Business Conduct states that in our operations we will comply with some of the international minimum labour standards including:

- not using forced or compulsory labour – where a person has not offered their services voluntarily (in line with the Forced Labour Convention, 1930 (No. 29) and Abolition of Forced Labour Convention, 1957 (No.105)).
- not using any labour that is defined as Modern Slavery (as defined in the Australian Modern Slavery Act (2018)).
- not exploiting children under any circumstances. The minimum age in our workforce is set by local legislation (and in line with the Minimum Age Convention, 1973 (No.138)), and we don't allow those less than 18 years of age to carry out work that is likely to harm their health and safety (in line with the Worst Forms of Child Labour Convention, 1999 (No.182)).

Policy Framework

To provide clarity on labour standards and to respect universally recognised human rights, there are several key policies that set out the requirements of those within the organisation and those with whom we seek to do business, including contractors, visitors, third parties and all other partners we work with.

Key supporting policies are available on [Fonterra.com](https://www.fonterra.com) and include:

Policy/Code	Purpose
Fonterra Global 'The Way We Work' Code of Business Conduct	Sets out expected behaviours for our employees towards each other, our customers and the wider community and the expectations for our suppliers and business partners to uphold the standards aligned with the principles of the code.
Fonterra Global Ethical Behaviour Policy	Sets the ethical expectations of our employees, embedding a culture of integrity, honesty and transparency.
Fonterra Global Health, Safety and Wellbeing Policy	Articulates our ambition to achieve zero harm for our people, including contractors and visitors to our sites.
Fonterra Supplier Sustainability Code of Practice	Sets out our expectations for suppliers to align with our values and codes of conduct, including upholding human rights, and fair working conditions.
Fonterra Respect for Legitimate Land Tenure Rights Position Statement	Recognises the rights (including the human rights) of legitimate land tenure holders and stands against illegal activities in our supply chain.

Actions to treat & mitigate risks

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Enhancing due diligence and risk management processes

Risk Management

Fonterra's Global Risk Management Policy, and Standard are aligned to the Australian/New Zealand Risk Management Standard "AS/NZS ISO31000:2018 Risk management – Principles and Guideline", outlining Fonterra's risk management principles and accountabilities, and setting out the requirements for managing and reporting risk across its business. They are designed to embed a positive risk culture and co-operative-wide risk management capability, including establishing a consistent approach to identifying, controlling, monitoring, and reporting on Fonterra's key risks.

Our risk management framework is based on the three lines model. Fonterra's first line is our people. Managers and individual business units hold clear risk management responsibilities for business risk management, including requirements for compliance with external requirements as well as Fonterra's Global Policy standards. Fonterra's second line consists of the risk management and assurance processes delivered by its Group and Specialist Functions, delivering a consistent best-practice approach to risk management across the business. Independent assurance and oversight are provided by a dedicated internal audit function, taking a risk-based approach to the control environment and review of key business activities, and providing reporting to the Fonterra Management Team and the Board via the Audit, Finance and Risk Committee.

Human Rights Due Diligence

Human Rights 'due diligence' is a process to identify and prioritise actual and potential human rights issues in an organisation's direct and indirect sphere of influence. Fonterra has been undertaking a Human Rights Due Diligence process (following the guidance of the UN Guiding Principles on Business and Human Rights) for several years, which is outlined in the 'understanding modern slavery risks' section of this report.

In 2017, our workforce evaluation across New Zealand, Australia, Brazil, and Chile, covering approximately three-quarters of our employees, identified some concerns about bullying and harassment, long working hours, and the potential for human rights risks in our non-milk supply chain. We have been responding to these concerns within our workforce, and in our supply chain. To date over 10,000 employees completed an eLearning course on Culture of Care, a Bullying and Harassment awareness campaign.

Non-Milk Vendor assessments

Assessing and managing the risk of environmental and social issues within our supply chain is a core part of responsible procurement. Globally we engage with more than 10,000 vendors, and we are reliant on them to deliver our objectives.

Sustainability is one of the key pillars considered when we refresh our category strategies and a standing item on the agenda in our vendor meetings for providers of ingredients, packaging and engineering categories.

In 2022 we designed a vendor vetting and engagement framework, enabled by an online portal, to help us better understand and manage the risks associated with our vendors. Our framework, supported by an online portal and a robust business process, enables us to assess and manage our vendors in a more efficient and consistent way, both during initial selection and on a proactive ongoing basis.

For our employees, our procurement processes are being simplified and standardised, which is supported by new technology and targeted training. As a result, we can comprehensively cover the broad range of topics that need to be considered and focus on the most relevant and highest risk topics for each given vendor. The topics covered include regulatory compliance, food safety and quality, health and safety, cyber security, environmental performance and working conditions.

For our vendors, the goal is to provide them with easy-to-use systems that supports a transparent assessment with clear requirements and good management processes throughout the entire engagement lifecycle.

Following introduction of the portal in July 2022, we continue to progress its roll out. To date, more than 600 vendors have been assessed representing a range of categories, services and vendor size.

A new Fonterra Procurement page on our website became live in July 2023 to provide our global vendors with easy-to-access information on our processes, links to terms of supply and users guides for vendors to participate in our sourcing events.

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Independent evaluation and certification of sites

Our manufacturing sites are subject to regular internal and third-party audits. Internal audits are conducted by employees independent of the site and are used to identify areas for improvement. Third-party audits give regulatory authorities and our customers independent assessments of our performance. For example, independent audits against the Sedex Member Ethical Trade Audit (SMETA) standard for labour practices, environment, health and safety and business practices are required by some of our customers. Other customers require us to undertake an annual assessment by EcoVadis. For FY23 we retained a gold rating with EcoVadis.

Building awareness through training and education

Employee training and development

Our procurement teams play a critical role in assessing and managing the sustainability performance of our vendors. In FY19 we ran company-specific training on sustainability, including social and environmental issues faced in our supply chain. This specifically included training on human rights risks to assist with our preparation to report on Modern Slavery.

In FY21 we updated and extended the training to continue to develop the capabilities of our team, holding five specific training workshops, attended by 57 key people on Human Rights and Modern Slavery, including employees from our procurement and internal audit functions.

In FY22 we deployed an online eLearning module on Modern Slavery which is available to all employees globally. Additionally, in FY23 we started running a biannual employee engagement survey where employees can use the comments section to raise concerns and highlight issues.

Effective reporting and monitoring of grievance mechanisms

As outlined in our core Fonterra values, we encourage our people to speak openly and honestly and to challenge things that don't seem right and are committed to providing our teams access to effective remedies aligned with our commitment to the United Nations Guiding Principles on Business and Human Rights.

We fund an independently administered whistle-blowing hotline (The Way We Work Hotline), facilitated by Deloitte.

Previously just for employees, in FY21 the hotline was extended to provide all Fonterra stakeholders, including farmer shareholders, suppliers, and contractors globally with a confidential and anonymous channel (by phone, email, mail, or online) to report concerns about serious wrongdoing or behaviour that does not meet the standards described in The Way We Work.

Concerns and issues are investigated by a Fonterra team not involved in the substance of the concern (Employment Relations, Internal Audit, other specialist teams or, where appropriate, an external investigator) before appropriate action is taken. Timely updates are made available to the whistle-blower through the hotline. Concerns and issues raised through the hotline are also reported to the People, Culture and Safety Committee of the Board.

The Fonterra 'The Way We Work' Investigation Guidelines require that investigations take a victim-centred approach, putting the rights and dignity of victims, including their well-being and safety, at the forefront of all efforts to respond to concerns and complaints raised. We also take steps to protect the subject of the complaint, and any witnesses from identification and victimisation.

Assessing the effectiveness of our actions

Fonterra is focused on continually strengthening our response to modern slavery and recognises that defining metrics that measure success in identifying, managing, and mitigating modern slavery is challenging.



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Building awareness through training and education

We understand that raising awareness is key in addressing the risk of modern slavery. We recognise the need to continue building capacity and capability among our employees to identify risks of modern slavery and the actions required to respond effectively. We track the general level of awareness of modern slavery in several ways:

- Participation in training and awareness raising modules.
- Completion of eLearning modules.
- How empowered our people feel to speak up without fear of negative consequences (measured through regular anonymous engagement surveys with employees).
- Engaging with suppliers on their modern slavery response through our supplier due diligence assessments.

Policy and risk management processes

We monitor compliance and regularly review and assess the effectiveness of policies, standards, and frameworks as part of our risk management framework, including human rights risk, but do not currently have any key risk indicators specific to modern slavery. We will continue to review and assess the completeness of the various tools we use to assess Modern Slavery risk to understand potential gaps in our risk frameworks.

Engagement and collaboration

In FY23, we continued to be active members of several multi-stakeholder initiatives that are engaged in the protection and promotion of human rights and the elimination of forced labour. These include the Roundtable on Sustainable Palm Oil (RSPO) and the International Union of Food (IUF). We have also been involved in conversations with the New Zealand Government and business leaders on the consultation process for a New Zealand Modern Slavery Act of which we are supportive. Our membership to these and other organisations allows us to assess our progress against industry best practice, work in collaboration across industries, and helps to identify areas for further improvement.

Measuring effectiveness remains an area of focus for us and we will continue to develop and modify our approach as we formally identify our risks and implement mitigation measures. This will include developing metrics that enable us to track the progress and effectiveness of our actions over time, as we look to continually improve.

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Consultation & looking ahead

All Fonterra entities operate under a common set of governance policies and programmes.



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Solange & Mark,
 Auckland

This includes the programmes through which modern slavery risks in both our operations and supply chains are assessed and addressed by Fonterra. A process of consultation across Fonterra and some of our reporting entities was undertaken during the Human Rights due diligence process which contributed to the identification on salient modern slavery risks, and to help with the drafting of this statement.

This included engagement with procurement, food safety and quality, third party manufacturing and our Farm Source teams. We will look to expand this as we continue our Modern Slavery journey.

Fonterra is committed to further developing and refining our programme as we learn more about our risks with respect to Modern Slavery and are looking to continually improve over time. Our focus for the next few years will include:

- Extension of our due diligence process and continue with our assessment and response to any issues identified in our supply chains.
- Expanding our engagement with specific vendors in high-risk areas so that they better understand our expectations, and we better understand practices in their supply chains.

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Appendix

This statement was prepared to meet our Australian regulatory disclosure requirements. It complements our existing sustainability disclosure on the Fonterra website and in our 2023 Suite of Reports. The table references where the mandatory criteria are disclosed for the Australian Modern Slavery Act 2018.

Mandatory criteria	Definition
Identify the reporting entity	Reporting entities (page 05)
Describe the reporting entity's structure, operations and supply chains	Fonterra structure, operations and supply chain (pages 05 – 06)
Describe the risks of modern slavery practices in the operations and supply chains of the reporting entity and any entities it owns or controls	Understanding our modern slavery risks (pages 07 – 09)
Describe the actions taken by the reporting entity and any entities it owns or controls to assess and address these risks, including due diligence and remediation	<p>Actions to treat and mitigate risks (pages 10 – 13)</p> <p>Understanding our modern slavery risks (pages 07 – 09)</p>
Describe how the reporting entity assesses the effectiveness of these actions	Assessing the effectiveness of our actions (pages 14 – 15)
Describe the process of consultation with any entities the reporting entity owns or controls	Consultation and looking ahead (pages 16 – 17)

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Farmgate Milk Price

For the season ended 31 May 2023

Pūrongo Utu Hoko / Miraka Te Mātāpuna



Dairy for life

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About this report

This statement outlines the Farmgate Milk Price and how it was calculated for the season ended 31 May 2023 in accordance with the Farmgate Milk Price Manual.

COVER AND OPPOSITE PAGE
David, Southland

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David, Southland

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(Referenced as AR)

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[Business Performance Report 2023](#)
(Referenced as BP)

[Sustainability Report 2023](#)
(Referenced as SR)

[Governance & Statutory Disclosures 2023](#)
(Referenced as G&S)

[Modern Slavery Statement 2023](#)
(Referenced as MS)

[Farmgate Milk Price Statement 2023](#)
(Referenced as MP)

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



2023 Season Farmgate Milk Price

The primary purpose of this Statement is to help Fonterra farmer shareholders, unitholders in the Fonterra Shareholders' Fund and other interested parties better understand the Farmgate Milk Price.



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2023 Season Farmgate Milk Price (continued)

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The Farmgate Milk Price is the average price paid by Fonterra for each kilogram of milk solids (kgMS) supplied by Fonterra's farmer shareholders under Fonterra's standard terms of supply¹. It is calculated in accordance with the Farmgate Milk Price Manual (the Manual). The Manual is maintained by the Fonterra Board in accordance with the Dairy Industry Restructuring Act 2001 (DIRA) and the Fonterra Constitution.

The 2023 season Farmgate Milk Price of **\$8.22** per kgMS is:

- The Aggregate Farmgate Milk Price of \$12.182 billion; *divided by*
- New Zealand milk paid for by Fonterra in the 2023 season of 1.483 billion kgMS.²

The Aggregate Farmgate Milk Price is calculated as revenue less costs. Revenue assumes:

- The entire volume of milk collected is processed into commodity specifications of the five Reference Commodity Products (RCPs) which are Whole Milk Powder (WMP) and Skim Milk Powder (SMP), and their by-products Butter, Anhydrous Milk Fat (AMF) and Buttermilk Powder (BMP).³
- The RCPs are sold in USD on and off GDT.
- USD sales revenue is converted into NZD at exchange rates achieved by Fonterra.

Costs comprise:

- **Cash Costs:** costs of collecting raw milk, efficiently manufacturing the five RCPs, delivering finished product to New Zealand export ports, and selling and administration expenses.
- **Capital Costs:** depreciation of fixed assets, an appropriate return on investment including on working capital, and corporate tax.
- **Additional Commodity Milk Payments and Standard Supply Adjustments⁴:** adjustments for milk quality issues and additional payments or deductions for milk not supplied on standard terms, to the extent these would apply to the Notional Milk Price business.

Numbers in this Statement have been rounded and, as a result, some tables may not exactly total or sum to 100%.

1 This price may differ from the "farm gate milk price" published in accordance with the Dairy Industry Restructuring (Raw Milk) Regulations 2012 due to the way "farm gate milk price" is defined in those Regulations and the impact of Fonterra's fixed milk price offers.

2 Fonterra and its suppliers experienced significant disruptions to milk supply during and subsequent to significant weather events in the 2023 season. Total milk paid for was 1.483 billion kgMS made up of 1.480 billion of kgMS collected and available for manufacture into product and 2 million kgMS of supply that was either unable to be collected at the time or was subsequently unable to be produced and supplied for the remainder of the season due to the extent of damage to suppliers' farming operations.

3 Most of the increase in milk supplied over the past decade in New Zealand to Fonterra and its competitors used to manufacture commodity dairy products has been used to manufacture milk powders. As returns from the sale of milk powders and their by-products represent the marginal returns that would drive the price of milk in a competitive market in New Zealand, the Farmgate Milk Price is based on these products.

4 Additional Commodity Milk Payments are payments for milk supplied other than on standard terms of supply where it would be appropriate for the Notional Milk Price business to source that milk for conversion into RCPs. Examples of these payments include the portion of Winter Milk premiums that would be payable by the Notional Milk Price business and discounts for contract milk. Standard Supply Adjustments arise from adjustments to payments for milk supplied under Fonterra's standard terms of supply, such as where milk quality demerits have been applied.

2023 Season Farmgate Milk Price

\$8.22
per kgMS

2023 Season Farmgate Milk Price (CONTINUED)

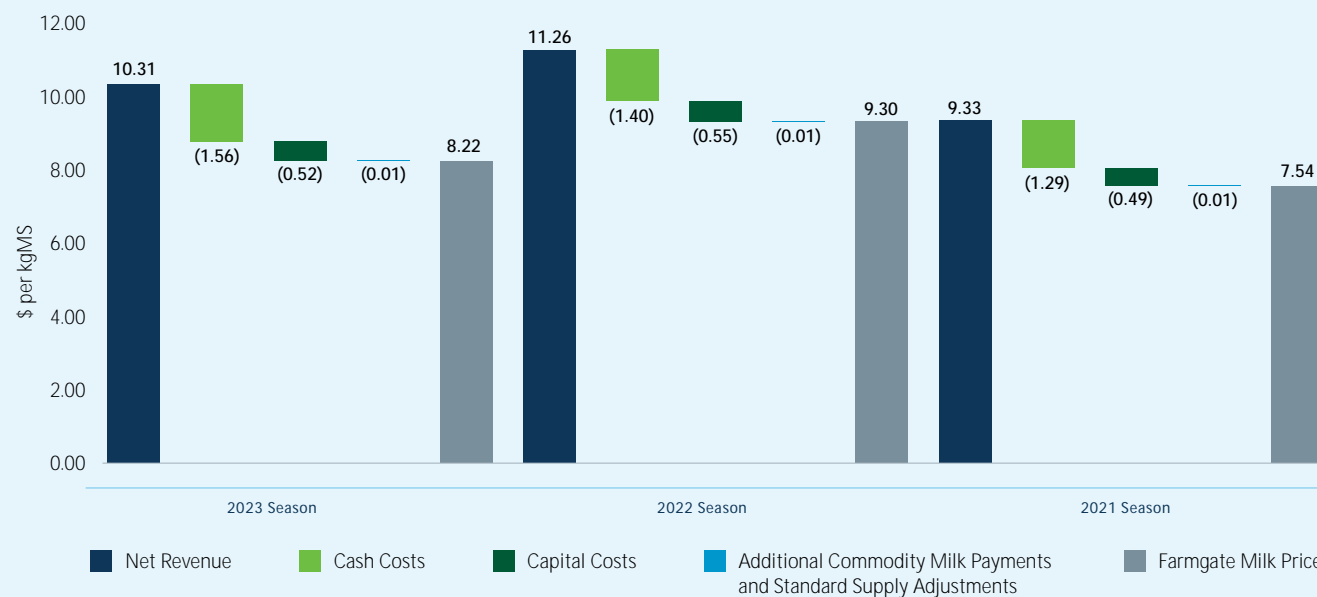
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Figure 1 shows that changes in revenue are the most significant driver of the movements in the Farmgate Milk Price between seasons.

Revenue for a given season is a function of the volume of milk collected, the products that milk is manufactured into, the prices at which that product is sold, and the exchange rate at which the USD receipts from sales are converted back to NZD. Costs also move season on season, but will generally not be anywhere near as significant a factor in moving the Farmgate Milk Price.

The following sections provide more detail on revenue, costs and drivers of change between seasons.

Figure 1:
Changes In The Farmgate Milk Price Between Seasons



2023 Season Farmgate Milk Price (CONTINUED)

Table I shows the summary Farmgate Milk Price calculation for the last three seasons. Lactose is shown in Table I as a deduction from Farmgate Milk Price Revenue.

**Table I:
Farmgate Milk Price Summary**

SEASON	2023 \$ MILLION	2022 \$ MILLION	2021 \$ MILLION
Farmgate Milk Price Revenue	16,159	17,316	15,014
Lactose	(879)	(679)	(648)
Net Revenue	15,279	16,637	14,366
Farmgate Milk Price Cash Costs	(2,314)	(2,074)	(1,986)
Farmgate Milk Price Capital Costs	(775)	(806)	(754)
Additional Commodity Milk Payments and Standard Supply Adjustments	(8)	(10)	(15)
Aggregate Farmgate Milk Price	12,182	13,746	11,611
Million kgMS	1,483	1,478	1,539
Farmgate Milk Price calculated under the Manual (\$ per kgMS)	8.22	9.30	7.54

Farmgate Milk Price Revenue

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Farmgate Milk Price Revenue uses a combination of actual Fonterra results and key assumptions:

- 1.480 billion kgMS of milk collected by Fonterra during the 2023 season⁵.
- All milk supplied is converted into the five RCPs based on Fonterra's actual mix of those products.
- Sales volumes are assumed to reflect Fonterra's actual shipments of RCPs.
- Selling prices reflect relevant prices achieved by Fonterra for RCPs on and off GDT.

Milk Supply, Production and Sales Volumes

Figure 2 shows the relationship between:

- Milk collected during a season (the light blue line). This shows very little milk is supplied in June and July and that supply peaks in October.
- Volume of products manufactured from that milk (the dark blue line).
- When that product is sold (the green line). There is typically a lag of between one to three months between when milk is collected and manufactured into RCPs and when those RCPs are sold.

Sales of product manufactured in the 2023 season started in August 2022 and will be complete by the end of October 2023.

Revenue is recognised when sales are invoiced, which is at the time of shipment. Sales prices are always struck before the month of shipment. Figure 3 shows the average lag between when prices are struck and when products are shipped. This lag matches Fonterra's actual average lag for relevant sales.

Figure 2: Timing Of Supply, Production & Sales Volumes

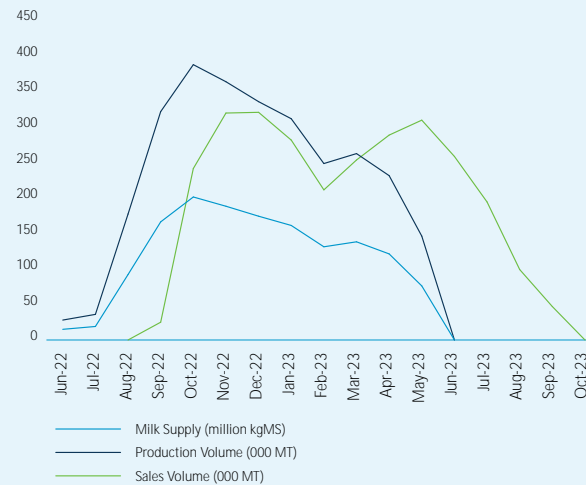
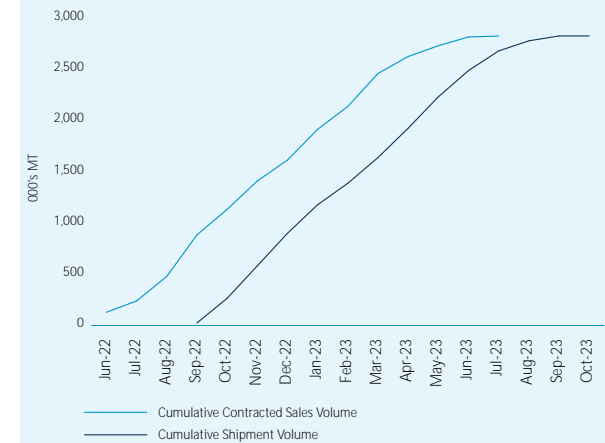


Figure 3: Average Lag Between When Prices Were Struck & Shipment



⁵ Fonterra and its suppliers experienced significant disruptions to milk supply during and subsequent to significant weather events in the 2023 season. Total milk paid for was 1.483 billion kgMS made up of 1.480 billion of kgMS collected and available for manufacture into product and 2 million kgMS of supply that was either unable to be collected at the time or was subsequently unable to be produced and supplied for the remainder of the season due to the extent of damage to suppliers' farming operations.

Farmgate Milk Price Revenue (CONTINUED)

Prices

The Farmgate Milk Price uses weighted average monthly prices achieved by Fonterra on sales of RCPs which satisfy the following criteria:

- Only arm's length sales at current market prices to customers in contestable global markets can be included. Sales to Fonterra subsidiaries are excluded.
- Only sales contracted by Fonterra between one and five months before shipment are included.
- Off-GDT sales are only included when they are of commodity products with similar specifications to products sold on GDT.

Between the 2012 and 2016 seasons, GDT was the sole source of prices for WMP, SMP and AMF whereas both on and off GDT prices were used for Butter and BMP. Since the 2017 season, certain off GDT sales of all RCPs inform the Farmgate Milk Price. In the 2023 season, off-GDT sales comprised 39% of the Farmgate Milk Price-informing sales. The inclusion of these off-GDT sales of WMP, SMP and AMF in the Farmgate Milk Price resulted in an increase of 8 cents per kgMS relative to not including these off-GDT sales.

Table 2 shows weighted average selling prices for each RCP for the last three seasons. It shows that weighted average USD selling prices per metric tonne (MT) were 14.2% lower for the 2023 season than last season.

Table 2: Weighted Average USD Contract Price⁶

WEIGHTED AVERAGE PRICE (USD) PER MT	2023	2022	2021	2023/2022 % CHANGE	2022/2021 % CHANGE
WMP	3,392	4,019	3,323	(15.6%)	20.9%
SMP	3,242	3,750	3,012	(13.5%)	24.5%
Butter	5,072	5,601	4,117	(9.5%)	36.0%
AMF	5,381	6,425	4,792	(16.3%)	34.1%
BMP	3,137	3,946	3,194	(20.5%)	23.5%
				(14.2%)	24.1%

Lactose

Lactose is contained in the raw milk supplied and additional lactose is used as an ingredient in the production of WMP, SMP and BMP. The Notional Milk Price business manufactures greater quantities of these commodities than Fonterra, and therefore has greater lactose requirements to achieve a product composition in line with internationally recognised standards.

The Farmgate Milk Price assumes this further lactose is purchased on global markets.

Table 3 shows volume and average purchase prices of lactose over the past three seasons.

Table 3: Purchased Lactose and Price

SEASON	2023	2022	2021	2023/2022 % CHANGE	2022/2021 % CHANGE
Purchased Lactose (000s MT)	364	354	369	2.8%	(4.0%)
Average Price (USD per MT)	1,590	1,322	1,154	20.3%	14.6%
Total Lactose Purchases (USD million)	579	468	425	23.7%	10.0%

⁶ Average shipment prices include an allowance for lower prices received for downgrade product. These are products that do not meet standard manufacturing specifications, some of which may only be suitable for stock feed.

Farmgate Milk Price Revenue (CONTINUED)

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Impact of NZD/USD Foreign Exchange Rate Movements

The primary objectives of hedging are to increase the visibility and certainty of the forecast Farmgate Milk Price throughout the season by reducing and smoothing the impacts from volatility in the NZD/USD spot exchange rate. The increased visibility and certainty supports a higher level of advance rate payments throughout the season relative to being unhedged.

Fonterra enters into foreign exchange hedge contracts over an 18-month period to hedge forecast USD exposures that arise from RCPs being sold in USD. The first 20% of hedges are entered into eighteen months out from when USD sales proceeds are forecast to be received, and increase progressively to 100% two months out from the forecast USD cash receipt.

Figure 4 illustrates how the hedging strategy of layering the hedges over an 18-month period results in monthly conversion rates that are less volatile than the monthly NZD/USD exchange rate over the same period. This figure additionally illustrates that the monthly conversion rates achieved reflect the spot rates over preceding months, effectively resulting in a deferral of those historic rates but on a smoothed basis. Also shown in this figure are the conversion rate for future periods based on hedging in place as at 31 July 2023.

The average conversion rates and average NZD/USD spot rates for the 2013 to 2023 seasons are shown in Table 4. This illustrates that the average spot rate in one season will be reflected in the following season.

Figure 4: Average Monthly Conversion Rate from Hedging Compared to Average Monthly NZD/USD Spot Exchange Rate

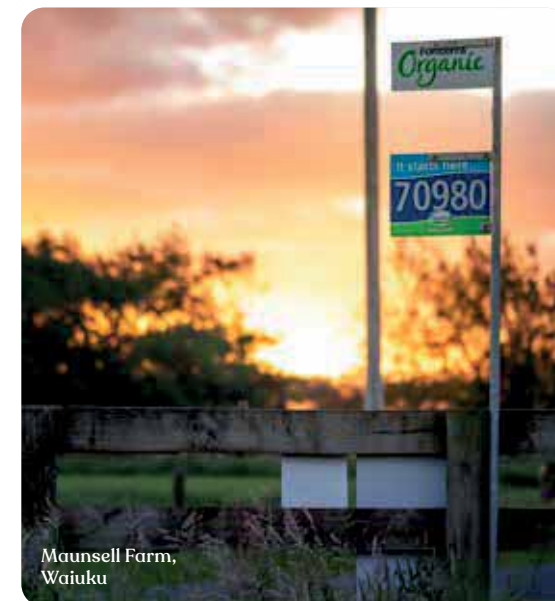
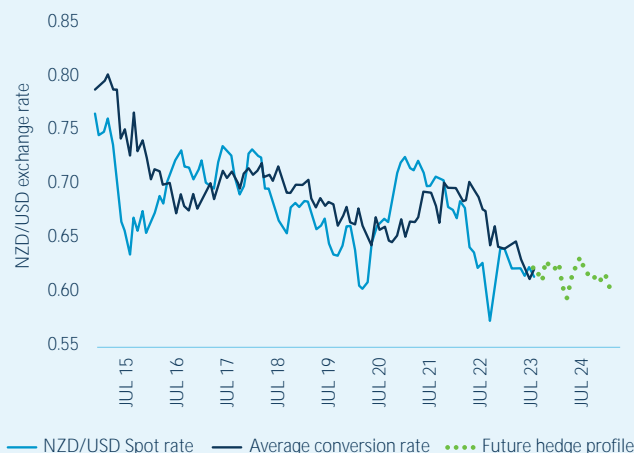


Table 4: Impact on the Farmgate Milk Price of Fonterra's hedging relative to not hedging.

SEASON	2023	2022 ⁷	2021	2020	2019	2018	2017	2016	2015	2014	2013
Average hedge rate (NZD/USD)	0.6357	0.6884	0.6677	0.6638	0.6905	0.7074	0.6924	0.7082	0.7882	0.8086	0.7986
Average spot rate (NZD/USD)	0.6211	0.6574	0.7067	0.6375	0.6697	0.7014	0.7137	0.6820	0.7329	0.8396	0.8214
Impact on Milk Price from hedging (NZD/kgMS)	(0.22)	(0.56)	0.53	(0.38)	(0.26)	(0.08)	0.28	(0.21)	(0.50)	0.42	0.22

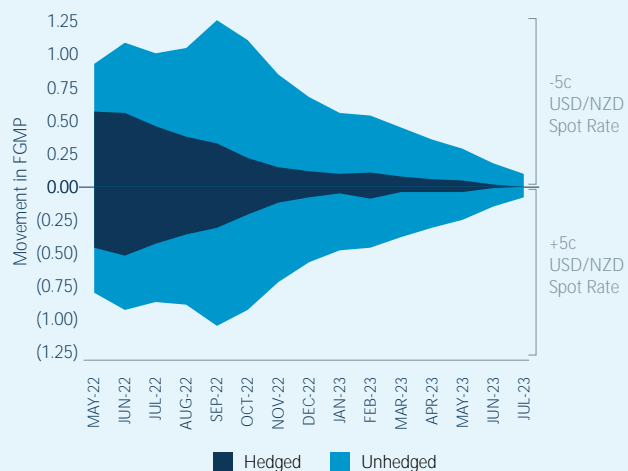
⁷ The average spot rate and Milk Price impact for the 2022 season differ from those disclosed in the 2022 Farmgate Milk Price Statement, as forecast exchange rates have been replaced with actual exchange rates.

Farmgate Milk Price Revenue (CONTINUED)

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Figure 5 illustrates how hedging increases the visibility and certainty of the forecast Farmgate Milk Price throughout the season relative to not hedging FX volatility. The figure presents the sensitivity of the forecast Farmgate Milk Price at each month end of the 2023 season with hedging executed as per Fonterra's policy to a scenario with no hedging in place, where both assume a +/- 5 cent movement in the exchange rate for the remainder of the season. The range under the hedged scenario starts the season significantly narrower than the unhedged range, and reduces more quickly throughout the season, which supports the payment of higher advance rates earlier than would be the case if the exposure was less hedged or unhedged altogether.

Figure 5: Comparison of Ranges for the 2023 Season Milk Price Hedged vs Unhedged for NZD/USD⁸



⁸ This analysis isolates the impact of +/- 5 cents movements in the NZD/USD exchange rate. All other variables – e.g. commodity prices, costs, etc – are the same for both the hedged and unhedged scenarios.

As at 31 July 2023, Fonterra had hedged approximately 67% of the forecast USD cash flows related to the 2024 season Farmgate Milk Price. If the remaining 33% of the forecast USD cash flows were to be hedged at the 31 July 2023 spot rate of 0.6155, the average NZD/USD conversion rate for the 2024 season would be 0.6186.

As an indication of the remaining sensitivity of the 2024 Farmgate Milk Price to future NZD/USD exchange rate movements, if the remaining forecast USD exposures were hedged at rates:

- 5 cents higher than the 31 July 2023 spot rate, the average conversion rate would be 0.6399.
- 5 cents lower than the 31 July 2023 spot rate, the average conversion rate would be 0.5939.



Alan,
Bay of Plenty

Farmgate Milk Price Cash Costs

Farmgate Milk Price Cash Costs reflect:

- Fonterra's actual collection costs, and supply chain costs determined by reference to Fonterra's actual costs.
- Costs of operating modern plants capable of processing the same volume of milk Fonterra collects, but only manufacturing the five RCPs. These assume plant operating parameters consistent with manufacturers' specifications and Fonterra's per unit costs, and include the full range of overhead costs associated with running these plants.
- Overhead and selling costs that would be incurred by a business selling the five RCPs from New Zealand. These are determined by reference to Fonterra's actual costs for undertaking those activities.

Figure 6 and Table 5 summarise the major categories of cash costs and movements between the 2022 and 2023 seasons.

Movements between the 2022 and 2023 seasons were due to:

- \$2 million of volume-related cost decreases primarily due to lower kilometres travelled for collecting milk.
- \$237 million of inflationary increases in the cost of most inputs, with significant increases in the cost of diesel, packaging, carbon dioxide, energy and staff costs.
- A reduction of \$4 million in one-off savings, with the only relevant item in the 2023 season relating to a provision for a covid-19 related reduction in costs relative to the benchmark allowance for overhead costs.

Figure 6: Sources of Movements in Average Cash Costs



Table 5: Summary of Movements in Cash Costs

\$ MILLION	2022	VOLUME	COST/ PRICE	STRUCTURAL	ONE-OFF	2023	% CHANGE COST/PRICE	TOTAL % CHANGE
Sales costs	131	0	13	–	–	144	10.1%	10.2%
Variable manufacturing and supply chain costs	779	1	131	–	–	912	16.9%	17.1%
Fixed manufacturing (including repairs and maintenance)/site overheads and supply chain costs	440	–	31	–	–	471	7.1%	7.1%
Collection costs	373	(3)	45	–	–	415	12.2%	11.3%
Other costs	352	0	16	–	4	372	4.6%	5.9%
Total Cash Costs	2,074	(2)	237	–	4	2,314	11.4%	11.6%
% movement		(0.1%)	11.4%	0.0%	0.2%			

Farmgate Milk Price Capital Costs

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Farmgate Milk Price Capital Costs provide for:

- Depreciation of manufacturing and other assets.
- A return at a benchmark Weighted Average Cost of Capital (WACC) on the book value of those assets.
- A WACC return on net working capital balances from the sale and manufacture of the RCPs and on the phasing of milk payments to suppliers.
- Corporate income tax.

The Notional Milk Price business manufactures RCPs in modern plants with current industry-standard technology. These plants have manufacturing capacity that approximates the average of Fonterra's RCP plants. The average daily processing capacity of the standard WMP and SMP plants installed prior to the 2013 season is approximately 1.9 million litres. Incremental and replacement WMP and SMP plants incorporated in the asset base since 2013 have an average daily processing capacity of approximately 2.5 million litres, equivalent to plants installed by Fonterra at Darfield in 2013 and Pahiatua in 2015. The Notional Milk Price business ensures there is always sufficient capacity to process all milk collected by Fonterra and it does so by maintaining or adding incremental plants where necessary.

Table 6 shows capital costs and the opening book value of the Notional Milk Price business fixed asset base and average net working capital for the last three seasons.

The WACC incorporates a rolling five-year average of the five-year New Zealand Government bond rates, which have declined from an average of 5.5% over the five-year period to June 2012 to an average of 1.9% over the five-year period to June 2023.

Changes in the average age of the asset base do not result in material season on season movements in the capital charge. This is because the capital charge is calculated so that growth each season is approximately in line with long term capital goods inflation as long as the WACC does not change. This is achieved by using a 'tilted-annuity' methodology to calculate the capital charge. This approach means that depreciation can change between years due to a change in the WACC, or a change in long term capital goods inflation, or a change in the asset base. This season a higher capital goods inflation forecast resulted in a decrease in the depreciation allowance.⁹

Movements between the 2022 and 2023 seasons in Net Working Capital and the associated WACC charge were due to higher inventory balances compared to 2022 and lower supplier payables due to the drop in the Farmgate Milk Price from prior season.

Table 6: Capital Costs, Book Value of Fixed Asset Base & Average Net Working Capital

NZD \$ MILLION	2023	2022	2021
WACC % (post-tax)¹⁰	5.00%	5.00%	4.90%
Depreciation	255	283	278
WACC Charge – Fixed Assets	327	326	316
WACC Charge – Net Working Capital	74	67	43
Tax	119	130	117
Total Capital Costs	775	806	754
Total Fixed Assets (Book Value) ¹¹	6,677	6,638	6,594
Average Net Working Capital	1,705	1,181	622

⁹ For further explanation on the depreciation and capital charge using the 'tilted annuity' methodology and accompanying worked examples please refer to the following links: [Explanation of the tilted annuity calculation](#); [Worked example of the tilted annuity calculation](#)

¹⁰ The WACC rate will be 5.3% for the 2024 season.

¹¹ The opening fixed asset book values have been restated for the 2021 and 2022 seasons, to include leased milk collection assets. This restatement is made for completeness, and does not have any impact on the Farmgate Milk Price for those seasons.

Appendix 1: Independent Reasonable Assurance Report

To the Directors of Fonterra Co-operative Group Limited

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Opinion

Our reasonable assurance opinion has been formed on the basis of the matters outlined in this report.

In our opinion, the Farmgate Milk Price has been calculated, in all material respects, in accordance with the Farmgate Milk Price Manual for the season ended 31 May 2023.

In our opinion, the information presented in the Farmgate Milk Price Statement is materially consistent with the data in the calculation of the Farmgate Milk Price.

Information subject to assurance

We have performed an engagement to provide reasonable assurance in relation to the Fonterra Co-operative Group Limited (Fonterra) Farmgate Milk Price and Farmgate Milk Price Statement for the season ended 31 May 2023.

Criteria

The Farmgate Milk Price Calculation and the Farmgate Milk Price Statement are assessed against the requirements of the Farmgate Milk Price Manual for the season ended 31 May 2023, dated 1 August 2022.

Key Assurance Matters

Key assurance matters are those matters that, in our professional judgement, were of most significance in our reasonable assurance engagement in relation to the Farmgate Milk Price and the Farmgate Milk Price Statement for the season ended 31 May 2023. We summarise below those matters and our key procedures to address those matters in order that the Directors may better understand the process by which we arrived at our opinion. Our procedures were undertaken in the context of and solely for the purposes of our opinion on the Farmgate Milk Price and the Farmgate Milk Price Statement as a whole and we do not express discrete opinions on separate elements of the Farmgate Milk Price and the Farmgate Milk Price Statement.

Net Sales

We consider the calculation of Net Sales to be a key assurance matter due to the nature and detail of the policies and judgements included in the Principles and Rules of the Farmgate Milk Price Manual. In respect of Net Sales, there is complexity relating to (a) determining and calculating Benchmark Selling Prices from underlying Fonterra sales data, that are applied to notionally derived Reference Commodity Product volumes and (b) the judgement in determining the phasing of sales volumes relating to actual Fonterra collections.

The procedures we performed to evaluate Net Sales include:

- examining the processes, judgements and models used to extract sales data from underlying Fonterra systems, considering whether there is manipulation of the transactional price and quantity data that forms the basis of the statutory financial statements of Fonterra. We also examined the bespoke IT program that extracts the data – in F23 Fonterra replaced this bespoke IT program. We examined the new program and processes, the results of parallel-run testing and management oversight of the change process;
- evaluating these assumptions and judgements used in the models that calculate Net Sales. This involved challenging management and the Milk Price Group regarding the basis for each assumption. In F22 there was a refresh of Reference Commodity Products included in benchmark selling prices, which also included a revision to the governance of subsequent changes to inclusion and exclusions. We examined the governance of changes in the course of the assurance engagement; and
- assessing whether the requirements of the Fonterra Farmgate Milk Price Manual had been correctly applied in the models used to calculate Net Sales.

We did not identify any instances where the models and the judgements and assumptions therein, used to calculate Net Sales were inconsistent with the requirements of the Farmgate Milk Price Manual.

Appendix 1: Independent Reasonable Assurance Report (CONTINUED)

Standards we followed

We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (Revised) Assurance Engagements other than audits or reviews of historical financial information and Standard on Assurance Engagements SAE 3100 (Revised) Assurance Engagements on Compliance. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. In accordance with those standards we have:

- used our professional judgement to assess the risk of material misstatement and plan and perform the engagement to obtain reasonable assurance that the Farmgate Milk Price and Farmgate Milk Price Statement are free from material misstatement, whether due to fraud or error;
- considered relevant internal controls when designing our assurance procedures, however we do not express an opinion on the effectiveness of these controls; and
- ensured that the engagement team possesses the appropriate knowledge, skills and professional competencies.

How to interpret reasonable assurance and material misstatement

Reasonable assurance is a high level of assurance but is not a guarantee that it will always detect a material misstatement when it exists.

Misstatements, including omissions, within the Farmgate Milk Price and Farmgate Milk Price Statement are considered material if, individually or in aggregate, they could reasonably be expected to influence the relevant decisions of the intended users taken on the basis of the Farmgate Milk Price and Farmgate Milk Price Statement.

Inherent Limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure it is possible that fraud, error or non-compliance with compliance requirements may occur and not be detected.

A reasonable assurance engagement for the season ended 31 May 2023 does not provide assurance on whether the Farmgate Milk Price Calculation and the Farmgate Milk Price Statement compliance with the requirements of the Farmgate Milk Price Manual will continue in the future.

Use of this Assurance Report

Our report is made solely for the Directors of Fonterra. Our assurance work has been undertaken so that we might state to the Directors of Fonterra those matters we are required to state to them in the assurance report and for no other purpose.

Our report should not be regarded as suitable to be used or relied on by any parties other than the Directors of Fonterra for any purpose or in any context. Any party other than the Directors who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk.

To the fullest extent permitted by law, none of KPMG, any entities directly or indirectly controlled by KPMG, or any of their respective members or employees accept or assume no responsibility and deny any liability to any party other than the Milk Price Panel and Directors of Fonterra for our work, for this independent reasonable assurance report, or for the opinions we have reached.

Our report is released to Fonterra Co-operative Group Limited on the basis that it shall not be copied, referred to or disclosed, in whole (save for Fonterra's own internal purposes or in the Farmgate Milk Price Statement) or in part, without our prior written consent.

Milk Price Group's responsibility for the Farmgate Milk Price and Farmgate Milk Price Statement

The Milk Price Group of Fonterra are responsible for the preparation and fair presentation of the Farmgate Milk Price and Farmgate Milk Price Statement in accordance with the Farmgate Milk Price Manual. This responsibility includes such internal control as the Milk Price Group determine is necessary to enable the preparation of the Farmgate Milk Price and Farmgate Milk Price Statement that are free from material misstatement whether due to fraud or error.

Our responsibility

Our responsibility is to express an opinion to the Directors on: whether the Farmgate Milk Price has been calculated, in all material respects, in accordance with the Farmgate Milk Price Manual, and whether the information presented in the Farmgate Milk Price Statement is materially consistent with the data in the calculation of the Farmgate Milk Price.

Our independence and quality control

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Professional and Ethical Standard 3 (Amended) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our firm has also provided other services to the Fonterra Co-operative Group Limited in relation to the statutory audit of the financial statements and other assurance services. The firm has no other relationship with, or interest in, the Fonterra Co-operative Group Limited.



KPMG
Auckland

20 September 2023

Appendix 2: Updates to the Farmgate Milk Price Manual & Calculation

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Minor refinements to address practical issues in a timely and efficient way have regularly been made to the Manual since it was introduced in the 2009 season.

These refinements play an important part in ensuring the Farmgate Milk Price methodology continues to be robust. Refinements to the Manual must be consistent with the Milk Price Principles.

Adjustments can be made to a number of parameters and inputs without any change being required to the Manual. An example is the rule that allows for new RCPs to be added if certain criteria are met. The Manual also provides for reviews of important aspects to be carried out at least every four years, and the Board or Milk Price Panel may initiate additional reviews if circumstances warrant.

Farmgate Milk Price Manual Updates

The Fonterra Board approved one substantive amendment to the Manual for the 2024 season to clarify the definition of a Standard Product Offering. An explanation of this change is provided in the 'reasons paper' provided by Fonterra to the Commerce Commission in support of the 2023/24 Manual, located at:

https://comcom.govt.nz/_data/assets/pdf_file/0019/325531/Fonterra-Reasons-paper-in-support-of-Fonterra27s-2023-24-milk-price-manual-1-August-2023.pdf

The Manual for the 2024 season is available at:

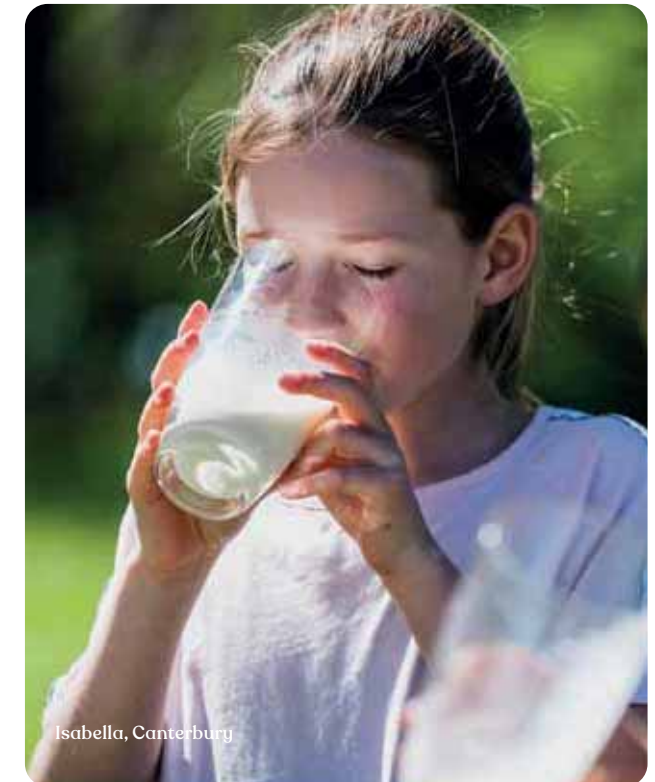
<https://www.fonterra.com/content/dam/fonterra-public-website/fonterra-new-zealand/documents/pdf/milk-prices/milk-price-manual-fy23.pdf>

As part of its oversight role, the Commerce Commission reviews and reports annually on whether the Manual is consistent with ensuring Fonterra is operating efficiently, and whether it allows for competition in the market for farmers' milk. The Commerce Commission's final report on the 2022/23 Manual was released on 15 December 2022. That report can be found at:

https://comcom.govt.nz/_data/assets/pdf_file/0022/301819/Final-report-Review-of-Fonterra27s-2022_23-Milk-Price-Manual-15-December-2022.pdf

Changes in Approach to the Calculation of the Farmgate Milk Price

No material changes have been made to the approach to calculate the Farmgate milk price for the 2023 season.



Isabella, Canterbury

Appendix 3: Farmgate Milk Price Overview

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Rationale for Farmgate Milk Price

Fonterra currently collects around 80% of New Zealand's milk production. Because Fonterra purchases such a large proportion of New Zealand's total milk, there is no market price for milk that is independent of the price paid by Fonterra. As a result, since its formation in 2001, Fonterra has calculated a Farmgate Milk Price that enables total returns to be allocated between payments for milk and returns on the capital invested by Fonterra farmer shareholders and by unit holders in the Fonterra Shareholders' Fund.

The Aggregate Farmgate Milk Price is different from the cost of New Zealand sourced milk disclosed in Fonterra's financial statements due to:

- The financial statements report the cost of milk for the 12 months ending 31 July whereas the Aggregate Farmgate Milk Price relates to milk supplied in the 12 months of the season ending 31 May;
- Differences between what Fonterra is willing to pay in premiums for value added products such as organic milk which a commodity-only processor would not pay;
- The higher premium that Fonterra pays for Winter Milk compared to the premium that would be paid by a commodity-only processor;
- The amount of Additional Commodity Milk Payments and Standard Supply Adjustments.

Rationale for Reference Commodity Products

Manufacture of the RCPs comprised approximately 65% of Fonterra's total New Zealand ingredients production in the 2023 season.

Most of the increase in milk supplied over the past decade in New Zealand to Fonterra and its competitors has been used to make milk powders.

As returns from the sale of milk powders and their by-products represent the marginal returns that would drive the price of milk in a competitive market in New Zealand, the Farmgate Milk Price is based on these products. Returns from non-powder commodities, such as cheese and casein, have largely been irrelevant in driving investment in the dairy industry over the past 10 years and are therefore not taken into account in determining the Farmgate Milk Price.

The Farmgate Milk Price approach does not include any returns earned by Fonterra from non-commodity or specialised ingredients and consumer branded products. These types of products earn premiums over the returns to standard commodity ingredients. It is therefore appropriate that these premiums are recognised in Fonterra's earnings rather than in the Farmgate Milk Price.

Farmgate Milk Price Governance

The Fonterra Board sets the total amount to be paid by Fonterra for all milk supplied to it in New Zealand in each season.

Both Fonterra's Constitution and DIRA require Fonterra to maintain the Manual, which sets out Fonterra's policies and methodology for determining the Farmgate Milk Price. The Manual must reflect the Milk Price Principles set out in Fonterra's Constitution. The Farmgate Milk Price has been calculated in accordance with the Manual since the start of the 2009 season.

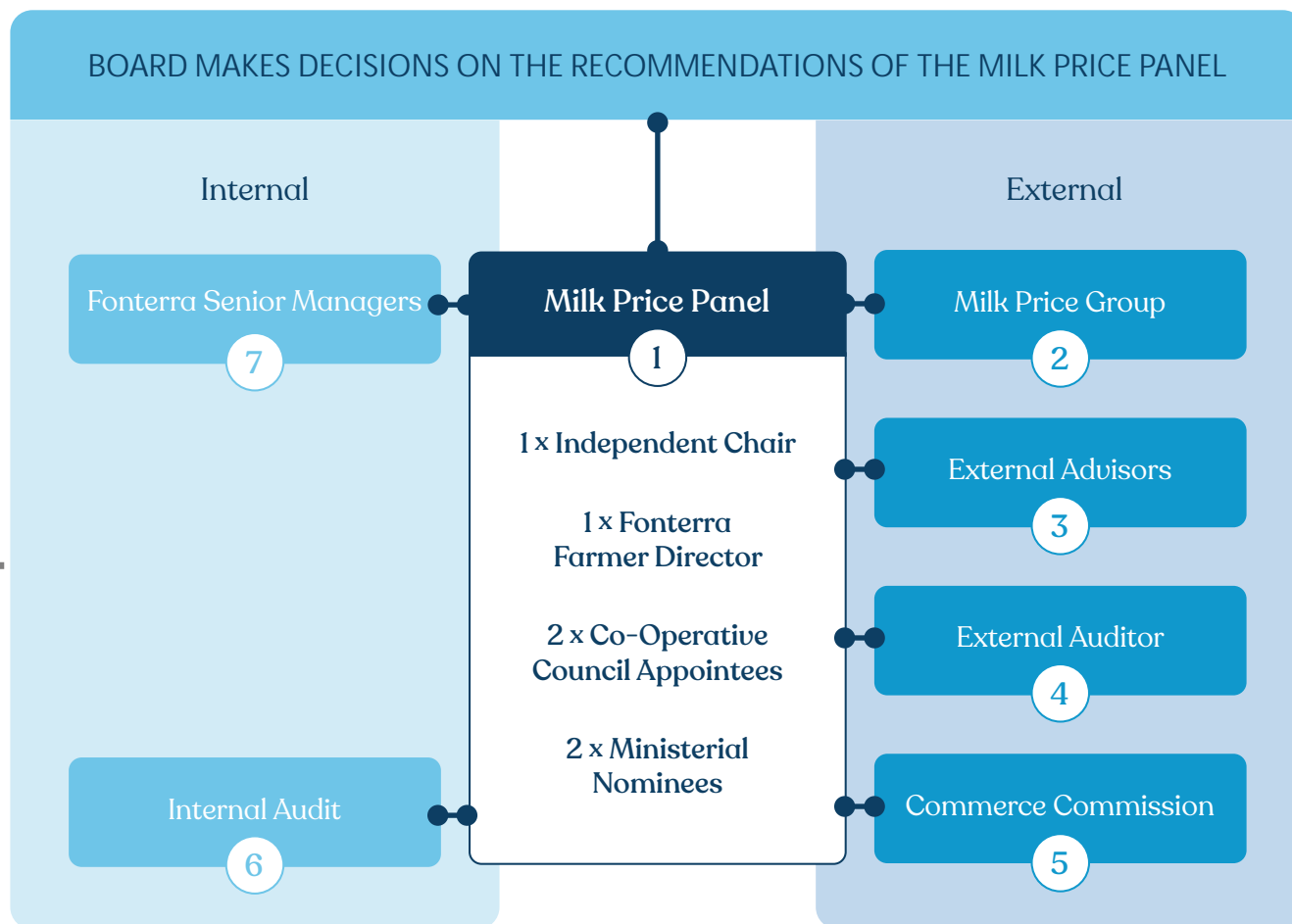
The Fonterra Board has established a robust governance structure to oversee the setting of the Farmgate Milk Price, which comprises the elements illustrated in the diagram on [page 18](#).



Himiona Farm, Bay of Plenty

Appendix 3: Farmgate Milk Price Overview (CONTINUED)

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1 Milk Price Panel

The Milk Price Panel plays a key role in overseeing the integrity of the Farmgate Milk Price. With effect from June 2023, the Government enacted changes to DIRA to enhance the independence of the Milk Price Panel. Therefore, Fonterra is now required to appoint an independent chair and the Minister of Agriculture now nominates two panel members. The Panel now consists of an independent chair (David Pilkington), two nominees of the Minister of Agriculture (Professor Hamish Gow and Ming Lim-Pollard), two members who are appointees of the Co-operative Council (Bill Donaldson and Fred Ohlsson) and a farmer elected Fonterra director (Leonie Guiney).

The Panel oversees the governance of the Farmgate Milk Price and the Manual, including changes to the Manual and verification by independent external experts of key parameters (such as resource usage rates, product yields and fixed manufacturing costs).

The Panel is responsible for:

- Overseeing the calculation of the Farmgate Milk Price and making a recommendation on it to the Fonterra Board.
- Providing recommendations to the Fonterra Board on changes to the Manual.
- Providing assurance to the Fonterra Board that the Farmgate Milk Price has been calculated in accordance with the Manual.

The Fonterra Board is responsible for the forecast of the annual Farmgate Milk Price.

Appendix 3: Farmgate Milk Price Overview (CONTINUED)

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2 Milk Price Group

The Milk Price Group is a working group established by, but independent of, Fonterra.

The role of the Milk Price Group is:

- Ensuring that the Farmgate Milk Price is calculated in accordance with the Manual and making recommendations in respect of the Farmgate Milk Price to the Panel.
- Considering any proposed amendments to the Manual, including those the Milk Price Group itself considers are appropriate, and ensuring they are in accordance with the Milk Price Principles in Fonterra's Constitution.
- Providing assurance to the Fonterra Board over the calculation of the forecast of the Farmgate Milk Price.
- Managing engagement with external advisors.
- Engaging with the Commerce Commission, including to ensure full disclosure of all material aspects of the Farmgate Milk Price derivation each year.

The functions of the Milk Price Group are contracted out to EY and other technical experts who are not employees of Fonterra.

With effect from June 2023, the Government enacted changes to DIRA to enhance the independence of the Milk Price Group, and to require the periodic replacement of the firm undertaking the functions of the Milk Price Group. Accordingly, EY's engagement will end following completion of the functions of the Milk Price Group in respect of the 2025 season.

3 External Advisors

External advisors provide expert advice on various inputs, as well as assurance over the accuracy of financial models. In addition, they participate in reviews of key parameters of the Farmgate Milk Price at regular intervals (which can be up to four years).

4 External Auditor

The external auditor examines the Farmgate Milk Price each year and provides assurance that the Farmgate Milk Price has been determined in accordance with the Milk Price Principles, Methodologies and Detailed Rules of the Farmgate Milk Price Manual. Fonterra's external auditor is KPMG.

5 Commerce Commission

Subpart 5A of DIRA, which was passed into law in July 2012, gives the Commerce Commission an oversight role with respect to Fonterra's Farmgate Milk Price.

The purpose of Subpart 5A is to promote the setting of a Farmgate Milk Price that provides an incentive to Fonterra to operate efficiently, while providing for contestability in the market for the purchase of milk from farmers (section 150A). Each year the Commission is required to review and report on the extent to which the Manual and Fonterra's actual Farmgate Milk Price are consistent with this purpose.

The DIRA changes that were enacted in 2023 also included measures to strengthen the Commerce Commission's oversight of Fonterra's Farmgate Milk Price setting regime. The Commerce Commission now has the power to issue binding directions to Fonterra on its use of inputs, assumptions, and processes, and matters arising from the Commerce Commission's reviews of the Manual and the Farmgate Milk Price, together with new enforcement powers. The changes also included a requirement for Fonterra to make publicly accessible all non-sensitive information relevant to the Commerce Commission's reviews.

6 Internal Audit

Fonterra's internal audit team provides assurance over the processes and controls relating to Fonterra data used in the calculation of the Farmgate Milk Price.

7 Fonterra Senior Managers

Fonterra senior managers provide internal oversight of the calculation of the actual and forecast Farmgate Milk Price in accordance with the Manual and detailed models and procedures. Fonterra management is also responsible for engagement with the Commerce Commission.

Appendix 4: Milk Supplied & Production Volumes

	MILK SUPPLIED (MILLION KGMS)			PRODUCTION (000'S MT)																	
	2023	2022	2021	WMP			SMP			BUTTER			AMF			BMP			TOTAL		
	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021
Jun to Aug	126	131	135	130	177	179	68	43	46	19	11	13	19	17	16	6	5	5	242	251	259
Sep to Nov	555	570	585	692	754	772	219	194	201	94	81	87	46	50	47	20	19	20	1,071	1,098	1,127
Dec to Feb	465	458	488	516	562	626	218	176	174	92	79	84	47	42	36	21	18	18	894	878	938
Mar to May	334	318	332	392	427	504	138	93	58	53	43	39	39	30	21	17	13	11	639	607	633
Total	1,480	1,478	1,539	1,730	1,919	2,080	643	506	479	258	214	223	151	139	121	64	55	53	2,846	2,834	2,957

Appendix 5: Sales Volumes

	SHIPMENTS OF FINISHED PRODUCT (000'S MT)																	
	WMP			SMP			BUTTER			AMF			BMP			TOTAL		
	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021
Aug to Oct	163	226	269	65	74	61	23	13	19	14	14	16	2	3	6	267	330	370
Nov to Jan	542	646	667	227	149	168	87	79	84	43	29	36	22	14	12	920	917	967
Feb to April	448	481	569	176	141	114	73	61	58	36	31	33	17	14	15	752	728	788
May to July	485	386	530	154	110	122	56	44	43	52	47	31	15	15	15	761	603	741
Aug to Oct	93	180	45	21	32	15	19	18	20	6	18	5	8	8	4	146	256	90
Total	1,730	1,919	2,080	643	506	479	258	214	223	151	139	121	64	55	53	2,846	2,834	2,957

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Appendix 6: Average Number of Months Prior to Shipment that Prices were Struck

AVERAGE NUMBER OF MONTHS PRIOR TO SHIPMENT

	WMP			SMP			BUTTER			AMF			BMP		
	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021
Aug to Oct	2.5	2.2	3.1	2.8	3.0	3.1	2.7	2.3	2.4	2.7	2.6	2.7	1.2	2.0	2.5
Nov to Jan	2.8	2.6	3.2	3.0	2.9	3.3	3.0	2.7	3.2	3.3	2.7	3.0	2.8	2.1	2.6
Feb to April	2.4	2.6	3.2	2.8	3.0	3.1	2.9	3.2	3.6	2.8	2.9	2.9	2.4	2.5	2.7
May to July	2.5	2.7	2.8	3.0	3.1	2.9	2.9	2.8	2.9	2.3	2.8	2.8	2.4	2.6	2.7
Aug to Oct	3.2	2.6	2.8	3.5	3.2	3.2	3.0	2.7	2.8	3.4	2.7	3.3	2.7	3.1	2.4
Total	2.6	2.6	3.1	3.0	3.0	3.1	2.9	2.8	3.1	2.8	2.8	2.9	2.5	2.5	2.6

Appendix 7: Average % of Sales Contracted in Each Month Prior to Shipment

AVERAGE % OF SALES CONTRACTED IN EACH MONTH PRIOR TO SHIPMENT

NUMBER OF MONTHS	WMP			SMP			BUTTER			AMF			BMP		
	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021
1	15%	11%	8%	12%	9%	6%	10%	13%	8%	17%	14%	7%	21%	21%	13%
2	35%	43%	30%	29%	31%	32%	30%	32%	25%	29%	33%	33%	37%	41%	39%
3	29%	29%	27%	25%	28%	24%	29%	26%	29%	27%	25%	31%	20%	19%	26%
4	14%	11%	19%	19%	19%	22%	19%	17%	22%	16%	18%	19%	11%	11%	15%
5	7%	5%	17%	15%	14%	17%	12%	13%	16%	11%	10%	10%	11%	8%	7%

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Appendix 8: Average USD Prices

USD / MT OF FINISHED PRODUCT															
	WMP			SMP			BUTTER			AMF			BMP		
	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021
Aug to Oct	3,661	3,813	2,974	3,884	3,255	2,699	5,602	4,711	3,568	5,611	5,789	4,010	3,564	3,598	2,612
Nov to Jan	3,542	3,827	3,020	3,514	3,377	2,797	5,290	5,025	3,552	5,633	6,122	4,095	3,530	3,696	2,754
Feb to April	3,334	4,064	3,247	3,053	3,803	3,045	4,801	5,753	4,102	5,593	6,643	4,729	3,130	3,911	2,962
May to July	3,223	4,355	3,899	2,853	4,339	3,383	4,831	6,472	5,183	4,999	6,752	5,891	2,838	4,168	3,771
Aug to Oct	3,198	4,123	4,077	2,751	4,359	3,412	5,167	6,140	4,757	5,053	6,151	5,873	2,528	4,158	4,066
Total Weighted Average Price	3,392	4,019	3,323	3,242	3,750	3,012	5,072	5,601	4,117	5,381	6,425	4,792	3,137	3,946	3,194
Full Season GDT-Only Price	3,361	3,978	3,288	3,213	3,706	2,966	5,019	5,557	4,039	5,345	6,367	4,726	3,003	3,947	3,141

Appendix 9: Average NZD/USD Conversion & Spot Rates

	2023		2022		2021	
	FONTERRA'S AVERAGE CONVERSION RATE	SPOT EXCHANGE RATE	FONTERRA'S AVERAGE CONVERSION RATE	SPOT EXCHANGE RATE ¹²	FONTERRA'S AVERAGE CONVERSION RATE	SPOT EXCHANGE RATE
Aug to Oct	0.6560	0.5942	0.6829	0.7039	0.6477	0.6746
Nov to Jan	0.6418	0.6334	0.6964	0.6779	0.6570	0.7134
Feb to April	0.6398	0.6213	0.6892	0.6707	0.6637	0.7159
May to July	0.6195	0.6172	0.6878	0.6290	0.6889	0.7049
Aug to Oct	0.6174	0.6155¹³	0.6695	0.5915	0.6825	0.7039
Revenue-Weighted Annual Average Rate	0.6357	0.6211	0.6884	0.6574	0.6677	0.7067

¹² Certain average spot exchange rate figures for the 2022 season differ from those disclosed in the 2022 Farmgate Milk Price Statement, as forecast exchange rates have been replaced with actual exchange rates.

¹³ This Milk Price Statement presents the spot exchange rate for August 23 to October 23 as the spot rate at 9am on 31 July 2023, which is the last business day of Fonterra's financial year.

Glossary

In this Statement the following terms have the meanings as set out below:

Terms	Definition
Additional Commodity Milk Payments	as defined in the Manual for the 2023 season.
Aggregate Farmgate Milk Price	as defined in the Manual for the 2023 season.
AMF	means anhydrous milk fat.
BMP	means buttermilk powder.
Detailed Rules	means the detailed rules for calculating the Farmgate Milk Price as set out in the Manual.
DIRA	means the Dairy Industry Restructuring Act 2001, which authorised Fonterra's formation and regulates its activities.
Farmgate Milk Price	means Fonterra's Farmgate Milk Price as determined under the Manual for the 2023 season.
Farmgate Milk Price Capital Costs	as defined in the Manual for the 2023 season.
Farmgate Milk Price Cash Costs	as defined in the Manual for the 2023 season.
Farmgate Milk Price Manual or Manual	means Fonterra's Farmgate Milk Price Manual which is available on: https://www.fonterra.com/content/dam/fonterra-public-website/fonterra-new-zealand/documents/pdf/milk-prices/2022/F23_Milk_Price_Manual_Final_1_August_2022.pdf
Farmgate Milk Price Revenue	as defined in the Manual for the 2023 season.
Financial year	means Fonterra's financial year, which runs from 1 August to the following 31 July.
Fixed Asset Capital Charges	as defined in the Manual for the 2023 season.
Fonterra	means Fonterra Co-operative Group Limited.

Terms	Definition
Global Dairy Trade or GDT	means the electronic auction platform that is used to sell commodity dairy products.
kgMS	means kilograms of milk solids.
Methodology	means the methodology for calculating the Farmgate Milk Price as set out in the Manual.
Milk Price Principles or Principles	means the Milk Price Principles set out in Fonterra's Constitution.
MT	means metric tonnes.
Net Working Capital Charges	as defined in the Manual for the 2023 season.
Notional Milk Price Business	means a business that collects the Milk Supply and converts it into the Farmgate Milk Price Production Plan for sale at the New Zealand wharf as described in Section 1.1 of Part C of the Manual.
NZD	means New Zealand dollars.
Reference Commodity Products or RCP	means the commodity products used to calculate the Farmgate Milk Price, comprising WMP, SMP, BMP, AMF and butter.
Season	means the 12-month period from 1 June to the following 31 May.
SMP	means skim milk powder.
Standard Supply Adjustments	as defined in the Manual for the 2023 season.
USD	means United States dollars.
Winter Milk	means milk supplied by farmers in the months of May, June and July.
WMP	means whole milk powder.

Farmgate Milk Price Statement

For the season ended 31 May 2023

Pūrongo Utu Hoko Miraka Te Mātāpuna

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Dairy for life

Fonterra Co-operative Group Limited

Distribution Notice

Section 1: Issuer information				
Name of issuer	Fonterra Co-operative Group Limited			
Financial product name/description	Fonterra Co-operative Group Limited Shares			
NZX ticker code	FCG			
ISIN (If unknown, check on NZX website)	NZFCGE0001S7			
Type of distribution (Please mark with an X in the relevant box/es)	Full Year	X	Quarterly	
	Half Year		Special	
	DRP applies			
Record date	28/09/2023			
Ex-Date (one business day before the Record Date)	27/09/2023			
Payment date (and allotment date for DRP)	13/10/2023			
Total monies associated with the distribution ¹	\$643,133,098			
Source of distribution (for example, retained earnings)	Retained earnings			
Currency	NZD			
Section 2: Distribution amounts per financial product				
Gross distribution ²	\$0.40000000			
Gross taxable amount ³	\$0.40000000			
Total cash distribution ⁴	\$0.40000000			
Excluded amount (applicable to listed PIEs)	Not Applicable			
Supplementary distribution amount	Not Applicable			

¹ Based on the number of units on issue at the date of the form

² "Gross distribution" is the total cash distribution plus the amount of imputation credits, per financial product, before the deduction of Resident Withholding Tax (RWT).

³ "Gross taxable amount" is the gross distribution minus any excluded income.

⁴ "Total cash distribution" is the cash distribution excluding imputation credits, per financial product, before the deduction of RWT. This should include any excluded amounts, where applicable to listed PIEs.

Section 3: Imputation credits and Resident Withholding Tax⁵

Is the distribution imputed	Fully imputed
	Partial imputation
	No imputation
If fully or partially imputed, please state imputation rate as % applied ⁶	Not Applicable
Imputation tax credits per financial product	Not Applicable
Resident Withholding Tax per financial product	0.13200000

Section 4: Distribution re-investment plan (if applicable)

DRP % discount (if any)	Not Applicable	
Start date and end date for determining market price for DRP	Not Applicable	Not Applicable
Date strike price to be announced (if not available at this time)	Not Applicable	
Specify source of financial products to be issued under DRP programme (new issue or to be bought on market)	Not Applicable	
DRP strike price per financial product	Not Applicable	
Last date to submit a participation notice for this distribution in accordance with DRP participation terms	Not Applicable	

Section 5: Authority for this announcement

Name of person authorised to make this announcement	Anya Wicks
Contact person for this announcement	Anya Wicks
Contact phone number	(09) 374 9341
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⁵ The imputation credits plus the RWT amount is 33% of the gross taxable amount for the purposes of this form. If the distribution is fully imputed the imputation credits will be 28% of the gross taxable amount with remaining 5% being RWT. This does not constitute advice as to whether or not RWT needs to be withheld.

⁶ Calculated as (imputation credits/gross taxable amount) x 100. Fully imputed dividends will be 28% as a % rate applied.