

Business
Performance
Report 2021



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





Fonterra uses several non-GAAP measures when discussing financial performance. These measures include normalised profit after tax, normalised EBIT, EBIT, normalised earnings per share, normalisation adjustments and total Group measures. Total Group measures present the combined financial performance of the Group's continuing and discontinued operations. Non-GAAP financial measures are not defined or specified by NZ IFRS. Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They are used internally to evaluate the underlying performance of business units and to analyse trends. These measures are not uniformly defined or

utilised by all companies. Accordingly, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS. Non-GAAP measures are not subject to audit unless they are included in Fonterra's audited Financial Statements. Please refer to the Non-GAAP Measures section in Fonterra's 2021 Annual Review for further information about non-GAAP measures used by Fonterra, including reconciliations back to NZ IFRS measures. Definitions of non-GAAP measures used by Fonterra can be found in the Glossary in the Business Performance Report.

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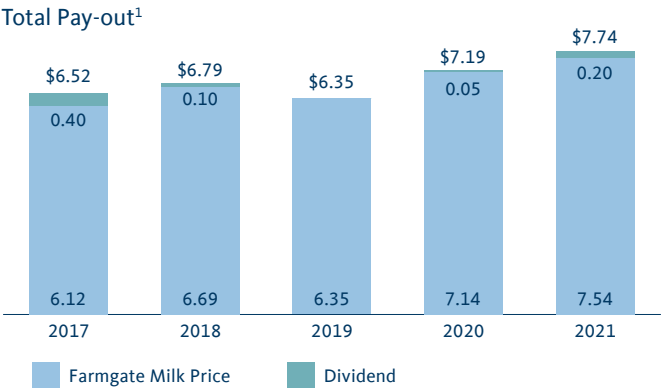
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IMAGE:
Aiesha, Bay of Plenty

COVER IMAGE:
Harepaora, Lana & Greg, Bay of Plenty

Total Group Performance

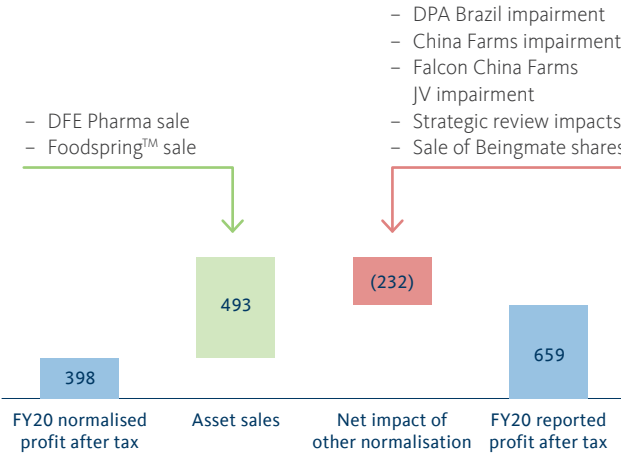
We have continued to build on last year’s solid performance with another strong result in the 2021 Financial Year. On average we returned \$7.54 for every kilogram of milk solids our farmer owners supplied us. Combined with an increased dividend of 20 cents per share, we have delivered a Total Pay-out of \$7.74 per kgMS. We have continued to improve our operating performance and underlying earnings, which combined with our continued focus on financial discipline and the divestment of non-core assets, has seen our net debt reduce by a further \$872 million and our key leverage metrics improve.



1. Refer to the Glossary for definition.

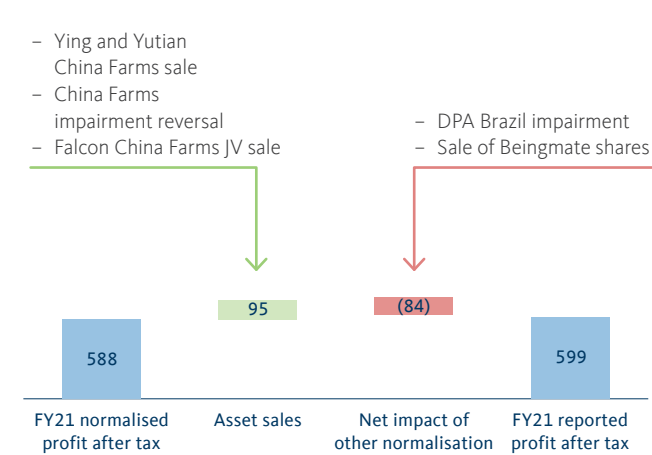
Our reported profit after tax of \$599 million is \$60 million lower than last year, with the prior year benefiting from larger gains from the sale of non-core assets.

2020 Financial Year (FY20) Normalised to Reported Profit After Tax¹



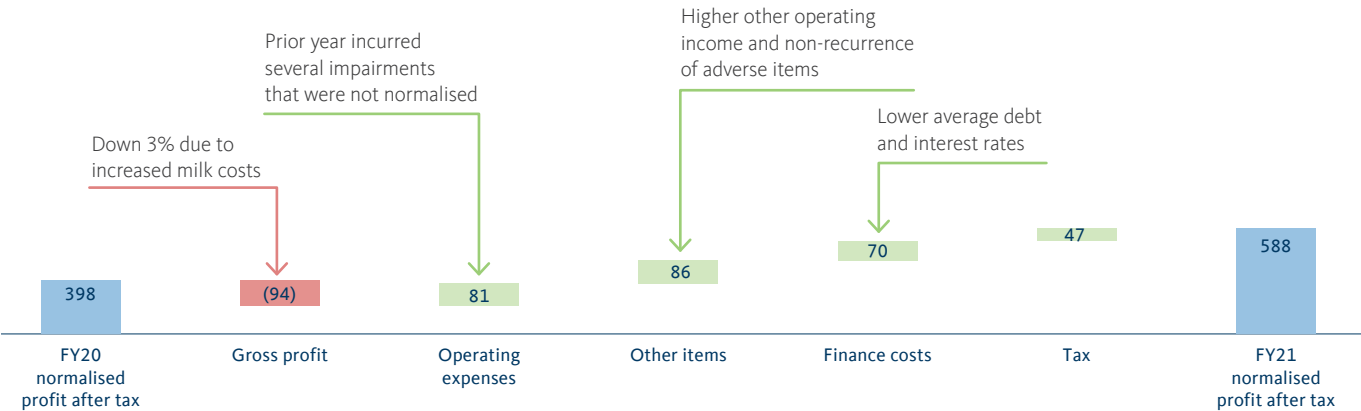
1. Normalised and reported profit after tax includes amounts attributable to non-controlling interests.

2021 Financial Year (FY21) Normalised to Reported Profit After Tax¹



Our normalised profit after tax of \$588 million increased \$190 million on last year - after removing the impact of the gains on asset sales and other normalisations, our underlying performance has improved on last year.

FY20 to FY21 Normalised Profit After Tax¹



1. Normalised profit after tax includes amounts attributable to non-controlling interests.

The higher milk price tightened our gross margin over the last half of the financial year, particularly in the final quarter. However, throughout the year we have remained focused on allocating milk into products that generate the best overall returns to Fonterra and our farmer owners. This can be seen in our results with the improvement in our underlying earnings driven by our diversified portfolio across our three channels and regions, coupled with lower interest expense from lower average debt and interest rates.

On a continuing operations basis, our Consumer channel normalised EBIT increased 196% to \$290 million and our Foodservice channel normalised EBIT increased 51% to \$369 million. The improved performances in the Consumer and Foodservice channels were offset by the tighter margins in our Ingredients channel, which had lower normalised EBIT of \$385 million, down 47%.

Looking at our continuing operations by region:

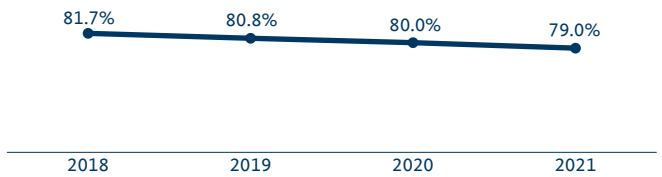
- **Asia Pacific normalised EBIT increased 28% to \$305 million**, due to significant improvements in our Foodservice and Consumer channels
- **Greater China normalised EBIT increased 10% to \$403 million**, driven by the strength of the Foodservice channel, China's continued economic recovery from the impact of COVID-19 and its increasing demand for dairy
- **AMENA normalised EBIT was down 28% to \$336 million**, due to lower sales volumes and the impact of pricing lags on longer-term contracts. Lower sales volumes were a result of milk being allocated to Greater China and parts of Asia Pacific where demand was the strongest. However, we have seen improvements in our AMENA Foodservice and Consumer channels, including a turnaround for our Chilean business

Overall, Fonterra milk collections are up.

Our milk collections are dominated by our New Zealand sourced milk.

MILK COLLECTIONS FROM MAIN REGIONS (LITRES, MILLION)	2020	2021	Change
Fonterra New Zealand ¹	16,876	17,121	1.5%
Fonterra Australia ²	1,393	1,362	(2.2)%
Fonterra Chile ³	448	483	7.8%
Total	18,717	18,966	1.3%

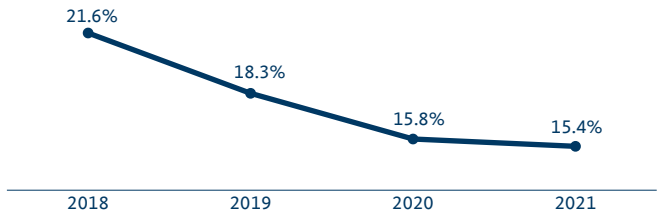
Fonterra milk collection market share in New Zealand¹



Fonterra milk collections for the season were up in New Zealand by 1.5%, reflecting the overall good growing conditions across New Zealand in the second half of the season.

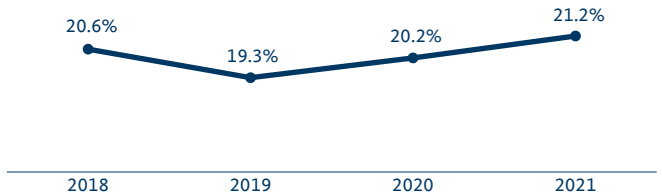
Our market share in New Zealand has continued to decline as other processors have built additional processing capacity.

Fonterra milk collection market share in Australia²



Our Australian milk collections were down slightly despite favourable on-farm conditions stabilising milk production in Australia. This was due to a conscious decision to optimise milk purchases focused on higher value returns.

Fonterra milk collection market share in Chile³



We continued to regain market share in Chile, with milk collections up 7.8% on the prior year. This was achieved through increased farmer engagement and a competitive and consistent milk price policy. The increased collections have supported the strong demand in our Chile Consumer business this year, covered in more detail in the AMENA section.

1. Fonterra New Zealand market share and collections are for the period 1 June - 31 May.
2. Fonterra Australia market share and collections are for the period 1 July - 30 June.
3. Fonterra Chile market share and collections are for the period 1 August - 31 July.

Breakdown of Total Group Performance

FOR THE YEAR ENDED	31 JULY 2020			31 JULY 2021		
NORMALISED BASIS NZD MILLION	CONTINUING OPERATIONS ¹	DISCONTINUED OPERATIONS ¹	TOTAL GROUP	CONTINUING OPERATIONS ²	DISCONTINUED OPERATIONS ²	TOTAL GROUP
Sales volume ('000 MT)	3,842	227	4,069	3,874	228	4,102
Revenue	20,282	693	20,975	20,565	559	21,124
Cost of goods sold	(17,236)	(531)	(17,767)	(17,581)	(429)	(18,010)
Gross profit	3,046	162	3,208	2,984	130	3,114
Gross margin (%)	15.0%	23.4%	15.3%	14.5%	23.3%	14.7%
Operating expenses ²	(2,194)	(129)	(2,323)	(2,153)	(89)	(2,242)
Other ^{2,3}	(5)	(1)	(6)	65	15	80
Normalised EBIT	847	32	879	896	56	952
Normalisations ⁴	435	(167)	268	(9)	16	7
EBIT	1,282	(135)	1,147	887	72	959

1. Refer to Note 1a and 2c of the FY21 Financial Statements.
2. Impairments of intangible assets not included in the strategic review for the 2020 Financial Year (\$55 million) have been reclassified from 'other' to operating expenses.
3. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.
4. Refer to the Non-GAAP Measures section of the Annual Review 2021.



Despite challenges created by COVID-19, we have been successful in selling and shipping our products to our customers. Sales volume for the year was up 33,000 metric tonnes on the previous year to 4.1 million metric tonnes. Furthermore, it was our highest shipping volume on record out of New Zealand, with a total of 2.59 million tonnes shipped.

Gross Profit - Product Channel

FOR THE YEAR ENDED 31 JULY			
NORMALISED BASIS (NZD MILLIONS)	2020	2021	CHANGE ¹
Ingredients	1,472	1,104	(25)%
Foodservice	538	677	26%
Consumer	1,032	1,154	12%
Unallocated costs and eliminations	4	49	1,125%
Continuing Operations	3,046	2,984	(2)%
Discontinued Operations	162	130	(20)%
Total Group gross profit	3,208	3,114	(3)%

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

Gross Margin - Product Channel

FOR THE YEAR ENDED 31 JULY	2020	2021
Ingredients	10.7%	8.1%
Foodservice	20.1%	22.9%
Consumer	26.3%	28.4%
Continuing Operations	15.0%	14.5%
Discontinued Operations	23.4%	23.3%
Total Group gross margin	15.3%	14.7%

Our Total Group gross profit reduced \$94 million relative to last year, due to lower gross margins in the second half, in particular in the fourth quarter, across all regions - AMENA, Asia Pacific and Greater China. Our Total Group gross margin was impacted in the second half of the financial year due to our in-market pricing not increasing as quickly as the cost of milk. The impact can be seen between the two periods, with gross margin of 17.4% in first half and 12.4% in the second half.

Our Foodservice and Consumer channels had improved performances in all three regions, predominantly driven by changing consumption trends during COVID-19.

The Ingredients channel was adversely impacted across all three regions mainly due to the use of longer-term pricing contracts increasing the impact the quickly rising cost of milk had on our gross margin.

Our business is diversified across regions and product channels. This allowed us to reduce the impact of the higher milk cost by continuing to allocate milk into the products that generate the best overall returns.

- **Greater China normalised gross profit increased 7% to \$836 million**
- **Asia Pacific normalised gross profit decreased 1% to \$1,195 million**
- **AMENA normalised gross profit decreased 14% to \$904 million**

Total Group normalised operating expenses are \$81 million, or 3%, lower than last year.

Of this decrease, \$41 million relates to the Group's Continuing Operations. The prior year's operating expenses for Continuing Operations included \$55 million of impairments.

Globally we invested \$110 million in research and development this year, up from \$98 million the prior year. The majority is reported in our operating expenses which increased 30% relative to the comparative period, and the remainder is within our cost of goods sold.

Operating Expenses¹

FOR THE YEAR ENDED		
NORMALISED BASIS NZD MILLION	31 JULY 2020	31 JULY 2021
Costs allocated to regions		
Selling & marketing	636	656
Distribution & storage	539	543
Administrative expenses	619	574
Research & development	63	82
Other expenses	96	75
Total allocated operating expenses	1,953	1,930
Unallocated costs	241	223
Operating expenses from Continuing Operations	2,194	2,153
Operating expenses from Discontinued Operations	129	89
Total Group operating expenses ²	2,323	2,242

1. Does not align to FY21 Financial Statements, predominately due to additional categories.
2. Impairments of intangible assets not included in the strategic review for the 2020 Financial Year (\$55 million) have been reclassified from 'other' to administrative expenses category within Total Group operating expenses.

Innovation is a key part to our strategy. Our central research and development facility, based in Palmerston North, is supported by eight in-market application centres which together deliver new products for customers, consumers and chefs around the world.

Even with the in-market challenges from COVID-19, it has been a good year for new product launches:

- The launch of seven new cream products for Foodservice through AnchorTM Food Professionals that includes two new ambient creams and the launch of Cheese-Pro CreamTM, a deliciously rich and smooth cream with more than 18% natural cheese, delivering a premium tea macchiato topping. Tea macchiatos are well established in China and growing in popularity across South East Asia
- A new range of Individually Quick Frozen (IQF) Mozzarella with enhanced functional performance for at-home delivery, leveraging continued high demand globally
- The ongoing roll-out of Fonterra's premium probiotic ingredients continues to generate value and investment is targeted at unlocking the next generation of "better for you" probiotics as we continue our focus on wellness and nutrition

- New launches across our Anlene range, including Anlene 5XTM, a functional nutrition product providing benefits across five key areas – strong bones, energy, strong muscles, flexibility and movement
- Our core Ingredients channel has seen continued success with NZMPTM NutriWhite, a fortified dairy blend powder that delivers to the ever-increasing need for accessible nutrition, driven by strong market demand across the Middle East, Africa and South East Asia
- In China we also continued to launch novel new consumer products, like cheese lollipops, a cream cheese-based snack that is growing in popularity across Asia

We have also focused on commercialisation of our intellectual property with some significant opportunities confirmed during the year through our AMENA region. One example of this is our arrangement with Land O'Lakes in the USA to leverage Fonterra's intellectual property in Foodservice products alongside Land O'Lakes' excellent sales and distribution network to sell, distribute and promote UHT creams into the USA Foodservice channel.



The \$86 million improvement in 'Other' relative to last year, was largely due to higher other operating income and the non-recurrence of adverse items in the previous period. **Total Group normalised EBIT increased 8%, or \$73 million, to \$952 million**, due to the reduction in operating expenses and increase in 'Other'. Total Group EBIT decreased 16%, or \$188 million, to \$959 million. Normalisation adjustments for the year were \$7 million, a reduction of \$261 million on the prior year which included gains on sale from DFE Pharma and foodspringTM. The normalised items in 2021 Financial Year reflect gains from the sale of the Ying and Yutian China farming hubs and the Falcon China Farms joint venture but offset by realised losses on the sale of Beingmate shares and a further impairment of the carrying value of DPA Brazil.

- The sale of the China farming hubs, in Ying and Yutian, was completed during the year and resulted in a gain on sale of \$32 million. This gain is in addition to an impairment reversal of \$23 million. The total impact to our Total Group EBIT was \$55 million

- The sale of our investment in the Falcon China Farms joint venture was also completed during the year with \$88 million of cash received from the sale. A gain on sale of \$40 million, including an impairment reversal of \$15 million, was included in Total Group EBIT
- During the year we completed the sale of the remaining shareholding in Beingmate, marking a full exit of our investment in the company. The impact of selling the shares in the year ended 31 July 2021 was a loss of \$49 million. We received cash proceeds of \$110 million from the sale of the shares in the year ended 31 July 2021 and total cash received from the sale of all shares was \$241 million
- A further impairment of \$39 million pre-tax, \$35 million post-tax, was recognised for DPA Brazil based on an assessment of the fair value of the business. The sale of DPA Brazil is progressing but has been made challenging by the impacts of COVID-19

Our Total Group net finance costs reduced \$70 million, or 21%, due to lower levels of debt and reductions in global interest rates.

Total Group Performance¹

FOR THE YEAR ENDED			
NZD MILLION	31 JULY 2020	31 JULY 2021	CHANGE ²
EBIT	1,147	959	(16)%
Net finance costs	(332)	(262)	21%
Tax expenses	(156)	(98)	(37)%
Reported profit after tax	659	599	(9)%
Normalisation adjustments ³	(268)	(7)	(97)%
Tax on normalisation adjustments	7	(4)	-
Total normalised profit after tax	398	588	48%
(Profit)/loss attributable to non-controlling interests	27	(21)	-
Normalisation adjustments attributable to non-controlling interests	(43)	(17)	(60)%
Normalised profit after tax attributable to equity holders of the Co-operative	382	550	44%
Normalised earnings per share (cents)	24	34	42%
Full Year dividend per share (cents)	5	20	300%

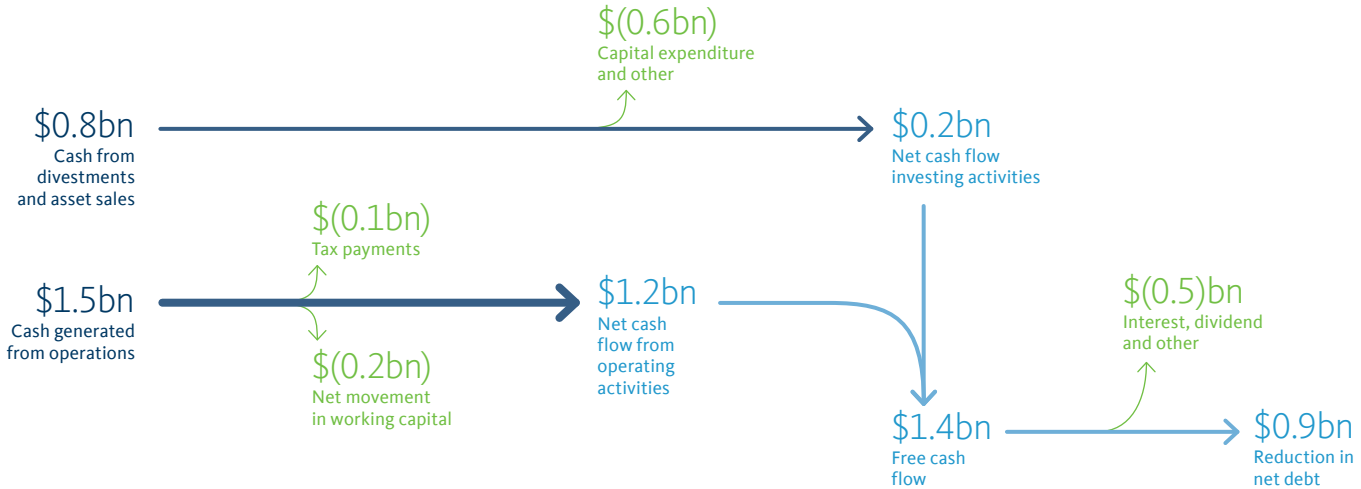
1. Includes Continuing and Discontinued Operations.
2. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Refer to the Non-GAAP Measures section in the Annual Review 2021.

Our sources and uses of cash

Total Group free cash flow for the year was \$1.4 billion, reflecting the strong underlying performance for the year combined with the proceeds of asset sales. It is made up of \$1.2 billion from operating activities and \$0.2 billion from investing activities – which comprised \$0.8 billion from divestments

less \$0.6 million of capital invested. The free cash flow of \$1.4 billion has been used to pay interest of \$0.3 billion, dividends of \$0.2 billion (5 cents from last year's final dividend and this year's interim dividend of 5 cents) and reduce debt by \$0.9 billion.

Cash flow and change in net debt¹



Free cash flow for the year of \$1.4 billion was \$0.4 billion lower than last year which reflects:

- A \$298 million reduction in cash flow from operating activities which included an increase in the working capital funding as a result of the higher milk price and higher milk collections for the year, and lower gross profit for the year

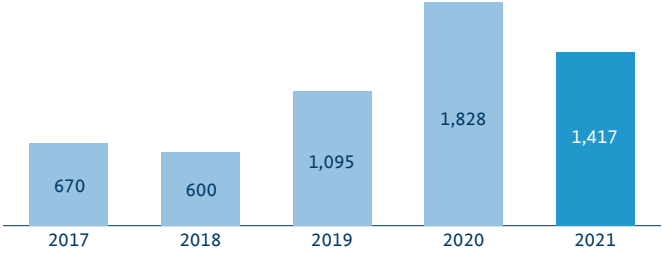
- An increase in cash spent on the acquisition of property, plant and equipment. Significant projects are included below under Capital Invested
- \$31 million increase in intangible asset spend to enhance the Group's security systems and customer facing capability technology

Cash flow and change in net debt

FOR THE YEAR ENDED		
NZD MILLION	31 JULY 2020	31 JULY 2021
Cash generated from operations ¹	1,671	1,449
Net change in working capital	(106)	(171)
Net tax paid	(73)	(84)
A. Net cash flows from operating activities	1,492	1,194
Cash flows from investing activities		
Divestments and asset sales	827	782
Capital expenditure and other ²	(491)	(559)
B. Net cash flows from investing activities	336	223
Free cash flow (A+B)	1,828	1,417
Interest, dividend and other	(444)	(452)
Non-cash changes in net debt and other ³	(294)	(93)
Reduction in net debt ⁴	1,090	872

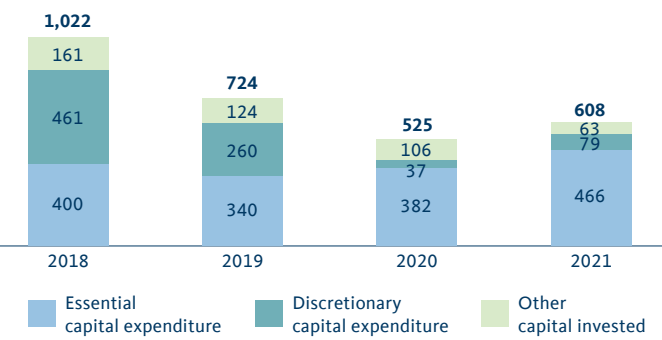
1. Includes EBIT and non-cash and non-operating adjustments made to EBIT to determine cash generated from operations.
2. Capital expenditure presented in this table is different to capital expenditure reported primarily due to treatment of livestock and accruals.
3. Includes adjustment for disposal groups held for sale.
4. Net debt excludes amounts attributable to disposal groups held for sale.

Free Cash Flow¹ (\$ million)



1. Refer to the Glossary for definition.

Capital Invested¹ (\$ million)



1. Refer to the Glossary for definition of capital invested and capital expenditure

Working capital days throughout the year have increased by 5.8 days compared to the previous year.

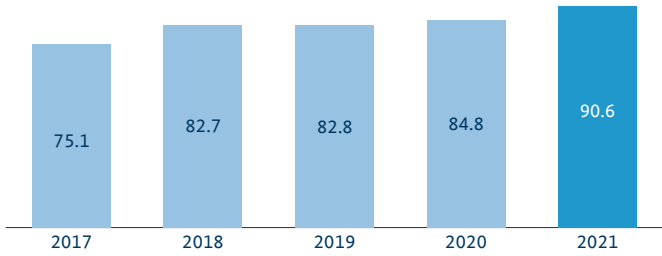
The key drivers of this were:

- The increase in inventory is a result of the higher cost of milk and higher average inventory volume throughout the year as a result of supply chain challenges
- Receivable days are favourable and the reduction in average receivable days is due to improved customer collection management. Overdue debtors have also reduced
- Higher average payables days due to increased capital expenditure

Working Capital Days Drivers

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

Working Capital Days¹



1. Refer to the Glossary for definition.

Our net debt levels have continued to decrease year-on-year, down \$872 million.

Strong operational earnings combined with the \$748 million in proceeds from the sale of the two China farming hubs, Ying and Yutian, the Falcon China Farms joint venture, the Agrifeeds joint venture and the remaining Beingmate shares allowed us to reduce net debt by \$872 million during the year.

The reduction in net debt was achieved despite the increased working capital requirements resulting from the higher milk price and the additional volume in inventory.

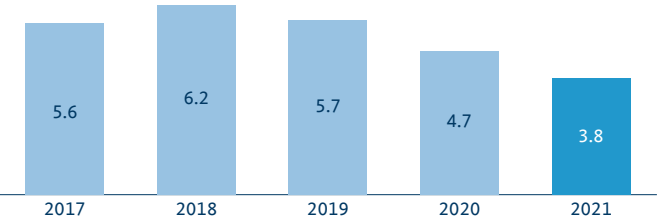
Both leverage metrics have also improved as a result of the lower net debt and higher earnings and are within our long-term target ranges. The gearing ratio is within the 30-40% target range and the debt to earnings ratio of 2.7x is within the 2.5 to 3.0x target range.

Return on capital is unchanged

Our average capital employed was stable year-on-year. The impact of divestments in the current and prior year reduced our average capital employed, but this was offset by the increase in average working capital in the current year.

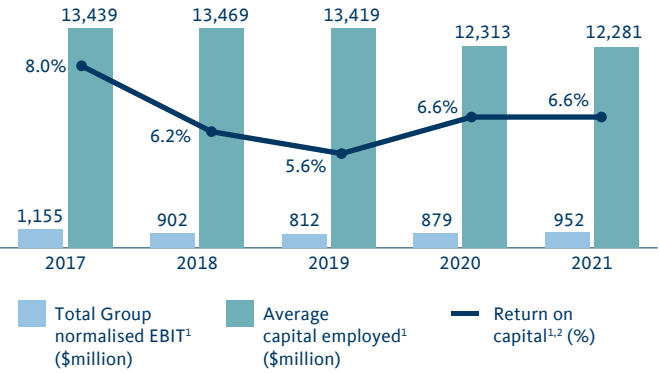
The increase in our normalised EBIT has been offset by an increase in the notional tax rate applied to normalised EBIT.

Net Debt¹ (\$ billion)



1. Net debt excludes amounts attributed to disposal groups held for sale. Refer to Glossary for definition.

Return on Capital (%)



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

A summary of our key metrics shows that we have improved in many areas that are important to us. It shows the benefit of the focus we have put in over the last three years to reset the business – by focusing our strategy of maximising the value of our New Zealand milk, moving to a customer-led operating model and strengthening our balance sheet.

Key metrics¹

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

1. Refer to the Glossary for definition of the metrics displayed in the table.
2. Based on the 12-month milk season of 1 June – 31 May.
3. Calculation of metric includes amounts relating to Continuing and Discontinued Operations.
4. For the 2021 Financial Year the notional tax charge was set to 16.1% (2020 Financial Year: 8.4%). The 2021 return on capital would be 7.2% if calculated with the prior year notional tax charge. In 2021 the methodology to calculate return on capital was updated to align the definition of debt with the adjusted net debt used in the debt to EBITDA ratio and exclude hedge reserves from total equity. The prior years have been restated for consistency with current period.
5. Prior years' debt to EBITDA have been restated for consistency with the current period. Previously, adjusted net debt included a further cash adjustment for 25% of cash and cash equivalents held by the parent.
6. Economic net interest-bearing debt gearing ratio. Excludes amounts attributed to disposal groups held for sale.
7. Going forward, we will change the way we measure net debt so that the net debt (adjusted net debt) included in the gearing ratio and debt to EBITDA will be on the same basis. This aligns with certain credit rating agency methodology. Under the new methodology net debt for the 2021 Financial Year would be \$4.3bn.

The strong result for the year and Fonterra's strengthened balance sheet have put us in a position to return an increased dividend to shareholders and unit holders. Fonterra's dividend policy is a payout ratio of 40 to 60% of reported profit after tax, excluding abnormal gains. Distributions of any abnormal gains are considered separately. For the year ended 31 July 2021 abnormal gains included the normalised gains from the sale of China Farms and the China Farms joint venture, and totalled six cents per share.

Our total dividend for the year of 20 cents per share includes an interim dividend of 5 cents per share and a final dividend of 15 cents per share. 3 cents of the final dividend of 15 cents per share reflects the addition of abnormal gains, including the reversal of previous impairment of our China Farms.

Dividend Calculation

NZD CENTS PER SHARE	2020	2021
Normalised earnings ¹	24	34
Add: normalisations	19	2
Reported earnings ¹	43	36
Less: abnormal gains	(32)	(6)
Net earnings for dividend payment ²	11	30
Dividend payment percentage (%)	45%	57%
Dividend based on attributable earnings	5	17
Dividend based on abnormal gains ³	-	3
Total dividend	5	20
Interim dividend	-	5
Final dividend	5	15

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

On Farm

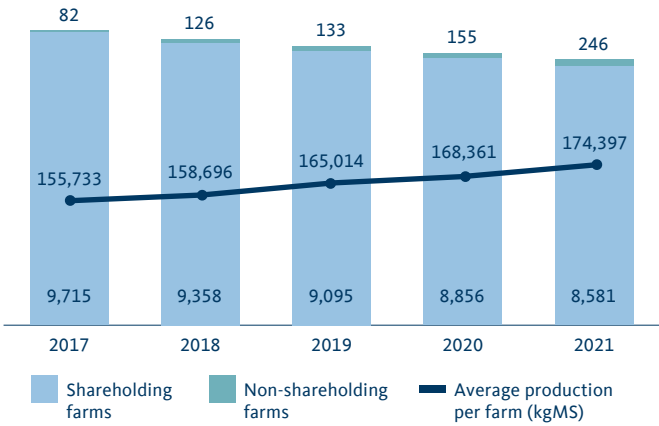
We believe having a strong dairy co-operative makes a real difference to our farmer owners, and to New Zealand. Our scale and diversity allow us to move our farmer owners' milk into the most valuable products and markets. This helps mitigate some of the risk for farmers that comes when demand for certain products or markets softens.



Lana & Harepaora, Bay of Plenty

Our New Zealand supplier base and owners

Composition of our supplier base



As at 31 July, the Co-operative collected milk from 8,581 shareholding farms and 246 non-shareholding supplying farms around New Zealand.

The decline in supplying farms over time has been due to increased competition from other processors, consolidation of farm ownership and changes in land uses.

The increase in non-shareholding farms is due to the growth in new farms opting to supply MyMilk as part of their pathway to becoming a Fonterra shareholding supplier. The 59% increase in non-shareholding farms from 2020 to 2021 was driven by MyMilk becoming available to eligible suppliers in the North Island.

While the trend of increasing production per farm over time has generally been driven by the increasing size of supplying farms, herd genetics and the advancements in farm management – this year's growth has also been driven by higher milk prices supporting milking later in the season.

Share Capital

As at 31 July, the Co-operative had 1,613 million shares on issue, with 1.1 million shares being issued in October 2020 as part of Fonterra's Dividend Reinvestment Plan.

At 31 July, supplying farmers were required to hold 1,403 million shares in aggregate to meet their Share Standard compliance obligations. Farmers used 41 million vouchers to meet their shareholding requirement.

Therefore, there are 251 million shares that are considered tradeable Dry Shares, of which 107 million are currently held by the Custodian. For every Dry Share the Custodian holds, there is a corresponding unit in the Fonterra Shareholders' Fund (the Fund).

On 6 May 2021 the Fund was temporarily capped by suspending shares in the Fonterra Shareholders' Market being exchanged into units in the Fund while Fonterra consults with its shareholders on the capital structure of the Co-operative. At the same time, Share Standard compliance obligations for the 2021/22 Season were put temporarily on hold for all supplying farmers holding a minimum of 1,000 shares and for exiting farmers that are selling

shares over three seasons in accordance with Fonterra's constitution. Share Standard compliance obligations were also put temporarily on hold for those farmers who have not yet met their compliance obligations for the current 2020/21 Season. This is so that no farmers are required to trade for compliance purposes during the temporary cap and until a date that is to be advised.

The increase in the aggregate minimum shareholding requirement was primarily due to the lift in the three season rolling average production, with the 2020/21 total production of 1,539 million kgMS, being 34 million kgMS more than the season it is replacing in the three season average – this being the 2017/18 total production of 1,505 million kgMS.

Vouchers have reduced over time due to not being transferable between shareholders. As shareholding farmers cease supplying milk to Fonterra any vouchers held by the farmer are cancelled. The reduction in vouchers does not impact total shares on issue or directly impact the Fund size.

SHARE CAPITAL (MILLION)	2017	2018	2019	2020	2021
Total Shares on Issue	1,607	1,612	1,612	1,612	1,613
Aggregate Minimum Shareholding Requirement	1,419	1,391	1,391	1,392	1,403
Dry Shares	188	221	221	220	210
Vouchers counting to Aggregate Minimum Shareholding Requirement	47	45	43	43	41
Total Dry Shares	235	266	264	263	251
Dry Shares held by Shareholding Farms	109	155	161	158	144
Dry Shares held by Custodian (equal to units in Fund)	126	111	103	105	107

Dry Shares = Total Shares on Issue less Minimum Aggregate Shareholding Requirement plus vouchers
1,613 million less 1,403 million plus 41 million = 251 million

Dry Shares = Dry Shares held by Shareholding Farms plus Dry Shares held by Custodian
144 million plus 107 million = 251 million

Fonterra’s New Zealand Milk Production

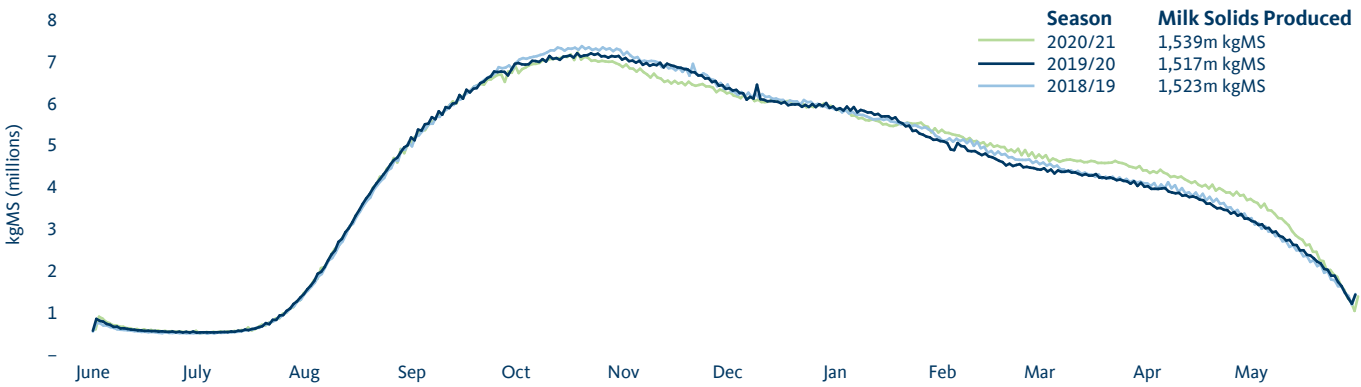
For the 2020/21 season production from Fonterra farmers in New Zealand increased to 1,539 million kgMS, up 1.5% compared to the prior season.

The 2020/21 season had a good start, driven by favourable mild conditions that supported good pasture growth.

From October through to January, increasingly dry conditions and poor soil moisture levels across the country impacted peak collections.

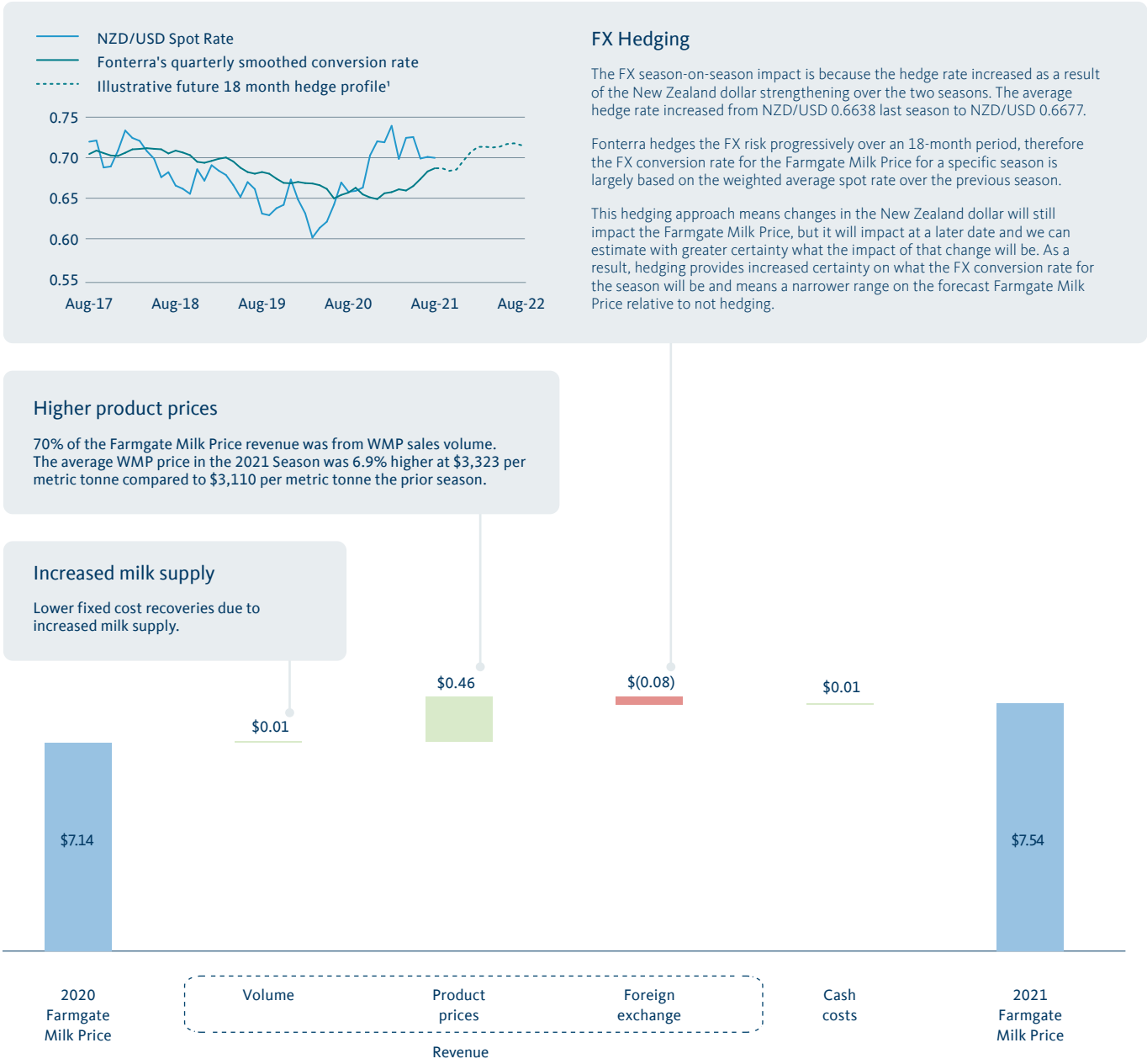
However, a more settled end to the summer, with a mix of rainfall and warm weather, meant improved pasture quality. This drove a strong recovery in North Island production from February to May.

The stronger production later in the season was also supported by increased use of supplementary feed due to the rising milk price over the course of the season.



Karla, Taranaki

New Zealand Farmgate Milk Price (per kgMS)



1. The future conversion rate is only an estimate because forecast USD receivables are only partially hedged over the forecast 18 month period and the hedges include options so the final conversion rate can vary.

Group Operations

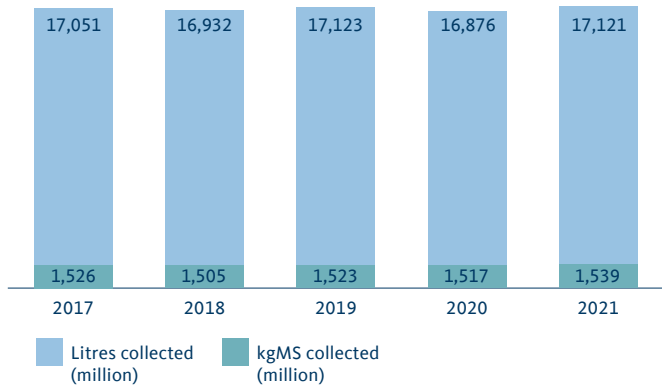
Group Operations is comprised of the functions that the Chief Operating Officer (COO) has responsibility for (including New Zealand milk collection and processing operations and assets, global supply chain, digital and information technology, sustainability and innovation); Farm Source™ retail stores; and the Central Portfolio Management (CPM) function. CPM's goal is to

optimise our business by connecting customers with our assets, farmers and markets to make our New Zealand milk into the most valuable products. It includes optimising the New Zealand milk pool, in-market product pricing support for the regions, managing Fonterra's dairy and non-dairy product price risk, as well as providing customer and farmer price risk management tools.



Milk Collection Summary

Litres and milk solids collected



This season we collected 17,121 million litres of milk from the Co-operative's farmer owners, which equated to 1,539 million kgMS.

Around 11 litres of milk produces 1kg of milk solids, or about 9% of milk collected is solids, the rest is fluid.

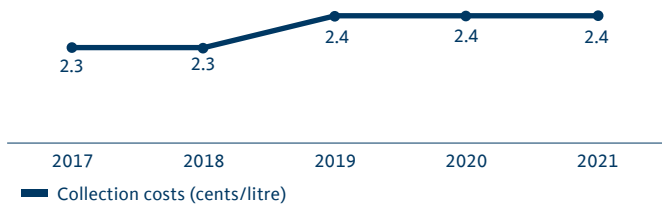
On-farm we have rolled out milk vat monitoring technology. This has improved the quality of milk supplied to our processing sites through better temperature management and assessment of milk quality to product specification requirements.

This also has enabled efficiencies in milk collection scheduling through visibility of on-farm milk conditions and volumes.

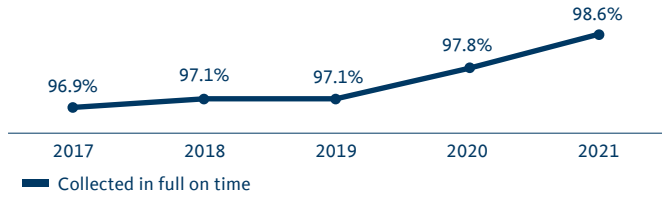
Collection 'in full on time' measures how well we have performed in collecting our farmer owners' milk within our planned collection windows and is important for farmer engagement and milk processing. Performance has continued to improve year-on-year with reliable pick-up on-farm, despite unplanned weather events including South Island flooding, while also improving milk collection costs.

A critical enabler of improving fuel efficiency is transparency of metrics and benchmarking tools. As an example, the use of data analytics to provide a view of fuel efficiency by tanker and driver against targets and the prior year has seen a continued improvement over the past couple of seasons.

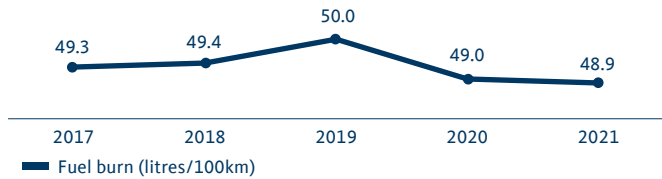
Cost of collecting milk



Timeliness of collecting milk



Fuel efficiency when collecting milk



Milk solids available to process and where we allocated them

We process around 98% of all the milk we collect in New Zealand.

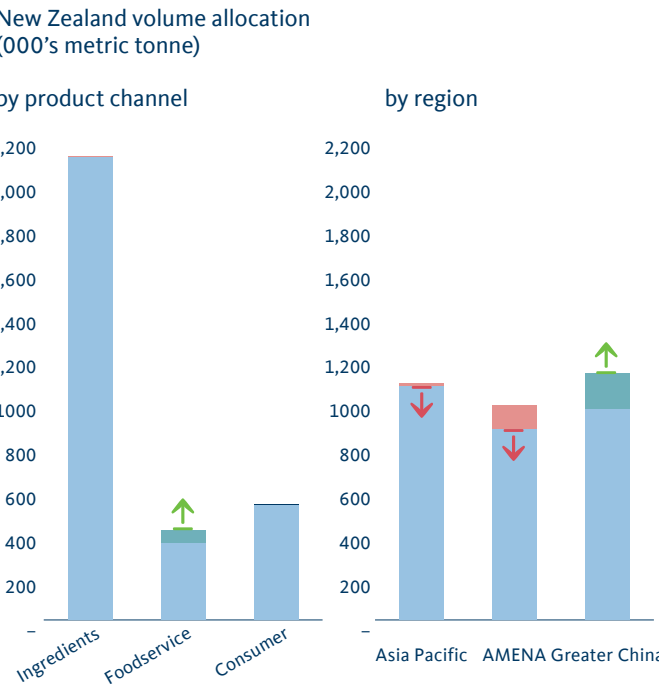
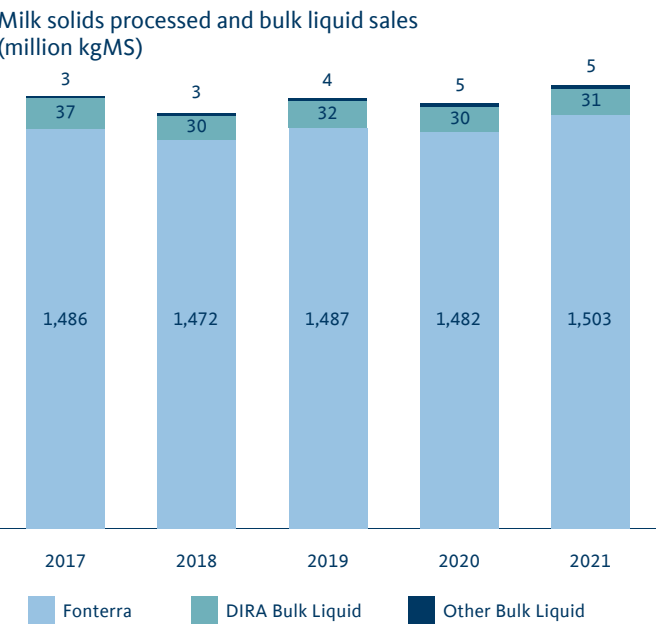
In some instances, we choose to enter into commercial agreements to provide bulk liquids to other processors in New Zealand and under the DIRA raw milk regulations (effective as of 1 June 2021) we are required to provide up to 600 million litres of milk each season to eligible independent third-party processors (including Goodman Fielder) at the regulated price. Goodman Fielder is entitled to buy up to 350 million litres of the overall eligible independent processor entitlement.

The regulated price for eligible processors (other than Goodman Fielder) is Fonterra's Farmgate Milk Price plus the reasonable costs of transporting the milk to the processor. The regulated price for Goodman Fielder is Fonterra's Farmgate Milk Price plus reasonable costs of transporting the milk to Goodman Fielder and, for supply on or after 1 June 2021, an additional charge of 10 cents per kgMS. Prior to 1 June 2021, Fonterra did not have the right to recover additional costs over and above transport costs. The additional charge enables Fonterra to recover a contribution to the overall costs of milk sourcing and the costs of providing Goodman Fielder with a "flat supply curve" of milk across the season.

With the 1,503 million kgMS we processed, we continue to focus on allocating milk into the products that generate the best overall returns to Fonterra and our farmer owners. We do this through our Central Portfolio Management (CPM) function. CPM's goal is to optimise our business by connecting customers with our assets, farmers and markets.

Sales volumes in the Ingredients channel were flat year-on-year overall. However, due to rising prices and continuing strong demand out of Greater China for WMP, there was a shift in volume of Ingredients from AMENA to Greater China. Our Foodservice channel sales volume grew the most, largely driven by the demand out of Greater China and Asia Pacific.

Regionally, Greater China had the largest increase in sales volume, predominantly due to increases in WMP and UHT milk and cream as our Foodservice channel continues to grow. Fonterra has a large global sales network, which enables it to take advantage of demand and pricing opportunities that change from year-to-year.



The 2020/21 Season started with the overhang of global economic concerns driven by the ongoing impact of the COVID-19 pandemic, along with the global supply chain issues impacting pricing and supply to customers. At the same time, farmers also faced revenue uncertainty due to potential movements in the Farmgate Milk Price.

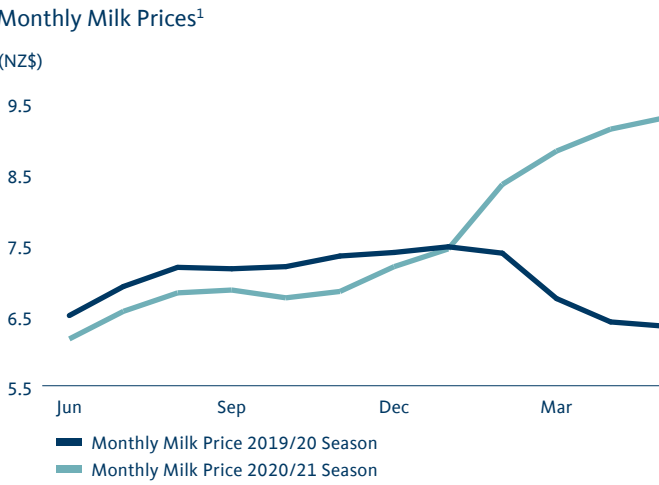
This market uncertainty led to strong customer demand for both security of supply and price certainty. During the first half of the season, non-reference product prices (cheese and proteins) were selling at favourable prices relative to reference products (powders and cream). Early season trading conditions of reference products suggested a milk price mid-point in the low \$6.00 per kgMS range, as reflected by our opening Farmgate Milk Price range.

By selling long dated fixed price sales to customers and then matching these sales with Fixed Milk Price contracts and NZX Milk Price futures, we successfully met customer and farmer demand for increased certainty, by locking in favourable margins for non-reference products and reducing Fonterra's exposure to future ingredient price volatility.

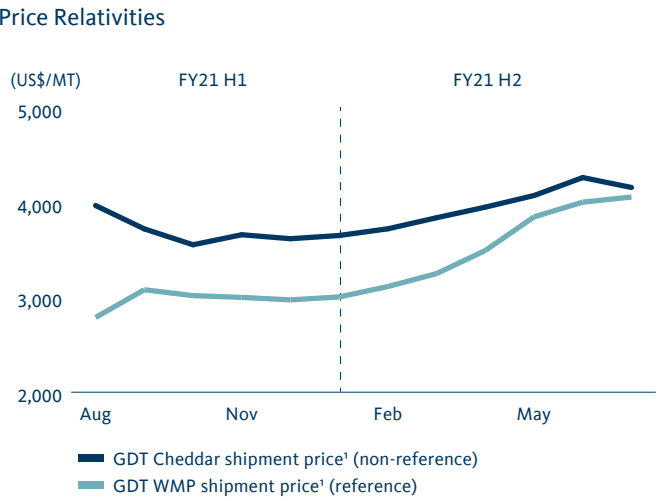
As the season progressed, reference product prices firmed at a faster rate than non-reference prices which adversely impacted price relativities. However by selling forward to customers and hedging our input prices, we reduced the impact on Ingredients' margins.

The strong increase in reference prices from January 2021 pushed the cost of milk above \$9.00 per kgMS on a monthly basis, and significantly impacted our Ingredients and Foodservice product margins and bulk liquid milk margins in the last quarter of the financial year. The strong demand for dairy over the last half of the year lifted the Farmgate Milk Price from its initial low \$6.00 per kgMS forecast to a final price of \$7.54 per kgMS.

Relative to the prior year, the lower reference and higher non-reference product sales volumes reflect growing demand in our Foodservice and Consumer channels, with increased sales volume predominantly driven by Cheese, UHT Cream and Cream Cheese products.



1. The weighted average of the monthly milk prices are equivalent to \$7.14 and \$7.54 for 2019/20 and the 2020/21 season, respectively.



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

New Zealand sourced Ingredients’ product mix

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

1 Excludes bulk liquid milk. Bulk liquids for the year ended 31 July 2021 was 72,000 MT of kgMS equivalent (the year ended 31 July 2020 was 69,000 MT of kgMS equivalent).
Note: Figures represent Fonterra-sourced New Zealand milk only. Reference products are products used in the calculation of the Farmgate Milk Price – WMP, SMP, BMP, Butter and AMF. Milk solids used in the products sold were 1,019 million kgMS in reference and 442 million kgMS non-reference (previous comparable period 1,023 million kgMS reference and 404 million non-reference).

Our average, reference product sale price declined year-on-year, despite the Farmgate Milk Price increasing from \$7.14 to \$7.54 per kgMS. This is because not all of our reference product sales inform the Farmgate Milk Price, most notably our quarterly priced contracts and longer dated contracts that are not considered standard contracts at the prevailing market price. Therefore, our reference product sale prices in longer dated contracts lagged the strong increase in the market prices of reference products in the second half of the financial year.

Our average non-reference product sale price per metric tonne declined slightly more than the average reference product sale price year-on-year, due to the price for non-reference products declining more during the peak period of contracting sales, being September to December.



Milk processing performance

Within our New Zealand Manufacturing operation, milk utilisation (the proportion of milk solids made into product) improved from 96.2% to 96.4% over the past five years; this improvement represents an \$18 million lift in value to the business. This year our processing efficiency maintained a good level of performance, especially as our manufacturing mix was directed into higher value products, which are typically more complex to manufacture. This outcome was delivered by improving process control and plant stability. A focus on scheduling and optimal use of by-product streams also helped utilisation.

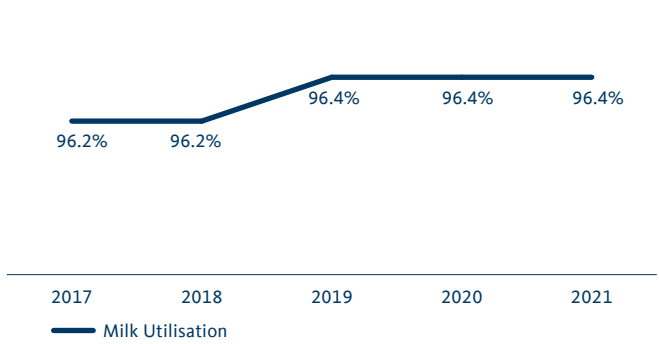
This year also saw an improvement in the rate of product made ‘right first time’ from 94.0% to 95.0%. This measure tracks the product that passes grading tests once the product is manufactured. A lift of 1.0% from an already high base reflects the ongoing focus on quality, improved use of data and

operational stability. This continues a positive trend over the last five years, where this measure has gone from 90.9% to 95.0%, which is equivalent to a \$35 million improvement over the period.

Similarly, our cost of quality measure, one of the key indicators of the effectiveness of our manufacturing activity, has maintained the trend of improvement seen over previous years. This year saw stable performance on the previous year, however over five years the measure has improved by \$42 million from \$100 million. This is reflected in reduced product rework, complaints and exception stock holding costs.

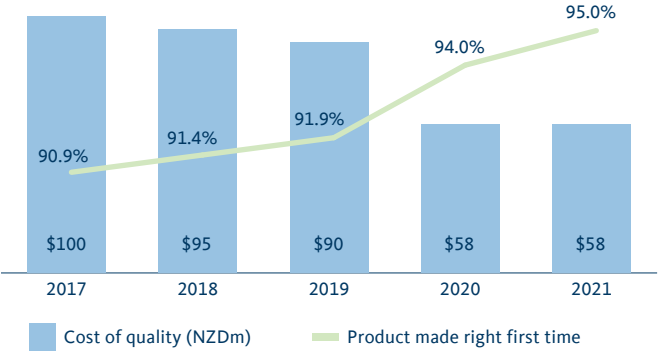
Improvements across these areas have been made using a risk-based quality management programme, better process control and plant stability supported by capital investment.

Portion of milk solids made into product



Note: Product mix may impact this measure as product groups have different utilisation factors

Product made right first time



Supply Chain and Logistics

Over this last financial year, we faced immense challenges in our global supply chain, including for Kotahi (our ocean freight partnership with Silver Fern Farms) and Coda (New Zealand domestic land freight partnership with Port of Tauranga). Despite these challenges, Fonterra was able to ship a record 2.59 million tonnes of nutrition, at a ‘cost to serve’ in line with the prior year.

The key challenges faced during the year included disruption of global shipping and severe international port congestion, driven largely by COVID-19, together with port strikes in Australia impacting container supply to New Zealand. This resulted in a reduction in shipping schedule integrity from a long-term average of 80% to below 35%, and a 350% increase in the number of sales and shipping orders that required rework.

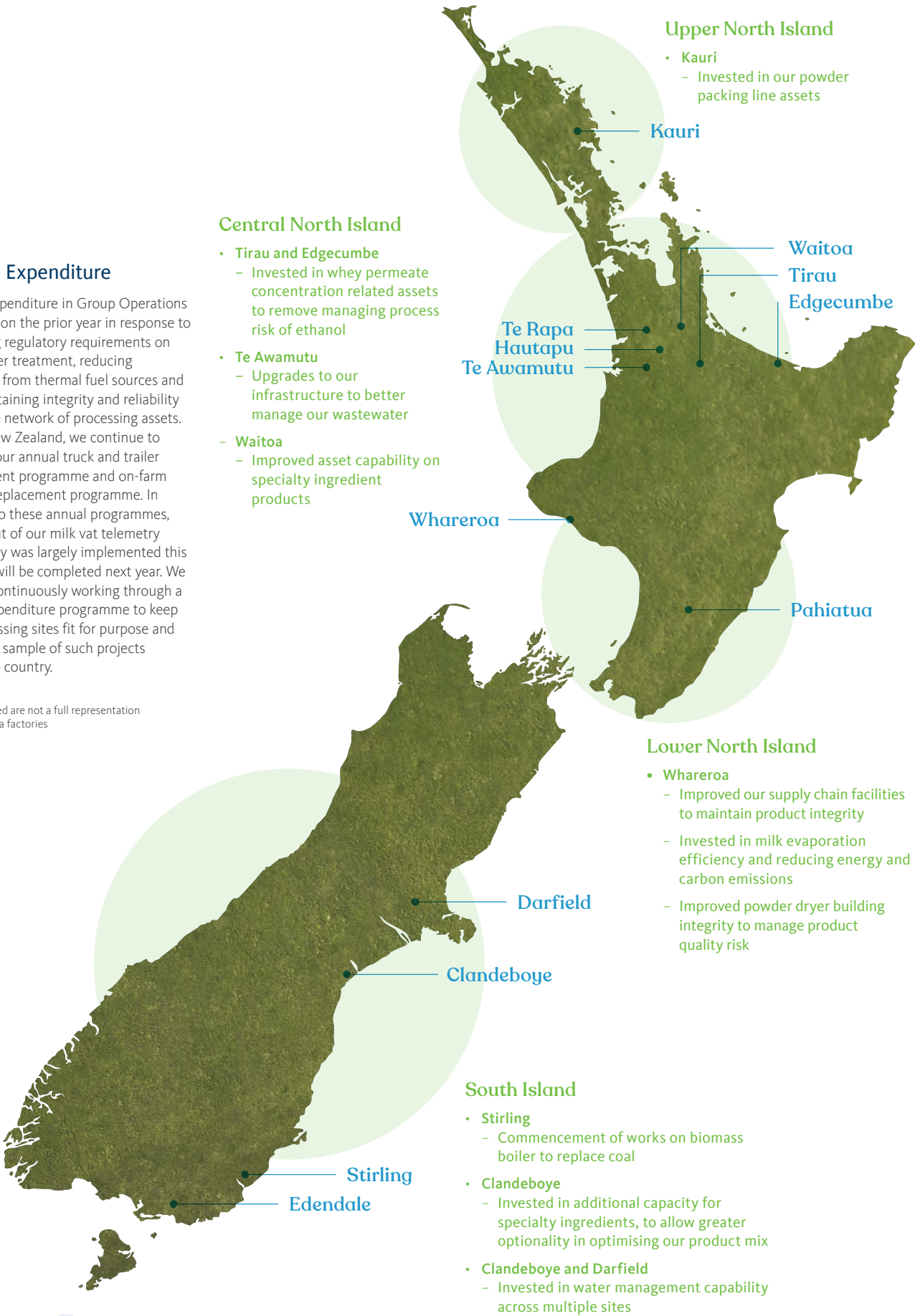
In response, we were able to leverage both our strategic relationship with our logistics partners to secure additional shipping capacity and the commitment, adaptability and deep operational understanding of our people to deliver this record result.

The cost to serve, excluding ocean freight, was in line with the prior year. This was achieved by rationalising the distribution centre network with an exit from the aged Mount Maunganui coolstore, reduction in land freight costs driven by road and rail routing and load optimisation, as well as increased productivity with the application of digital tools and automation.

Capital Expenditure

Capital expenditure in Group Operations increased on the prior year in response to increasing regulatory requirements on wastewater treatment, reducing emissions from thermal fuel sources and also maintaining integrity and reliability across the network of processing assets. Across New Zealand, we continue to progress our annual truck and trailer replacement programme and on-farm milk vat replacement programme. In addition to these annual programmes, the roll out of our milk vat telemetry technology was largely implemented this year and will be completed next year. We are also continuously working through a capital expenditure programme to keep our processing sites fit for purpose and below is a sample of such projects across the country.

Sites displayed are not a full representation of all Fonterra factories



Group Operations’ Attribution to Regional Segments

In broad terms, Group Operations collects and processes New Zealand milk into the optimal products that are then sold to our customers by the regional business units. The segment reporting, within the Financial Statements, is prepared based on the regional business units, with the income statement of Group Operations attributed between the three regional business units. This attribution enables the results of both the regional business and product channels to be presented on an end-to-end basis.

When products are transferred between Group Operations and the regions, the internal prices are determined by market-based commodity reference prices (e.g. GDT and other external benchmarks) and include charges where appropriate to reflect the additional costs of producing non-commoditised products. The internal pricing is reviewed weekly for Ingredients products and either quarterly or monthly for Consumer and Foodservice products.

The Group Operations performance (that is attributed to the three regions) includes movements in the capital charge on the notional Milk Price asset

base, the impact of longer-term pricing commitments, product mix and the impact of price relativities between reference and non-reference ingredient products.

When attributing the results of Group Operations to the regions, the principle is for the end-to-end margin to reflect the underlying transaction between Fonterra and the customer where possible. If costs are not directly linked to transactions, such as overheads, attributions are activity based where appropriate e.g. Information Technology and Research and Development. If none of these principles applies, the attribution uses a volume-based allocation.

Overall, the Group Operations’ EBIT has reduced \$288 million compared to last year. Key drivers of this are an adverse movement in the gross margin on bulk liquids and the lagged impact of longer-term pricing arrangements in sales contracts. In addition, there were some changes in the internal pricing principles as the new operating model was implemented and refined.

Group Operations’ Attribution

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS EBIT NZD MILLION	TOTAL		ASIA PACIFIC		AMENA		GREATER CHINA	
	2020	2021	2020	2021	2020	2021	2020	2021
Group Operations’ attribution to regional segments	170	(118)	47	(3)	39	(99)	84	(16)

Summary of Regions

The Group's reportable segments are the three regional business units; Asia Pacific, AMENA and Greater China, and are inclusive of their respective attribution of Group Operations. This provides a full end-to-end view of the performance for each customer-facing regional business unit. Additionally, insights are provided by showing a breakdown of the three main product channels – Ingredients, Foodservice and Consumer.

Our regional performance and commentary in this section and the subsequent sections on individual regions are prepared on a normalised Continuing Operations basis unless stated otherwise.

Our business is diversified across both regions and product channels, allowing us to allocate our milk into the products that generate the best overall returns to Fonterra and our farmer owners.

Our Asia Pacific region contributed to our improved Group earnings with a 28% increase in EBIT to \$305 million. The Asia Pacific region has a strong Consumer channel, which accounted for 60% of its EBIT and 63% of our overall Consumer channel EBIT. The Consumer channel is supported by a strong brand presence across our key markets and have benefited from the COVID-19 initiated stay-at-home culinary trend. Gross margin growth within the Consumer channel was a significant contributor to Asia Pacific's earnings performance. The Ingredients channel was impacted by reduced bulk liquid margins, offsetting gross margin growth in both the Consumer and Foodservice channel.

Our AMENA region has a large Ingredients channel, which accounted for 63% of AMENA's EBIT and 55% of our overall Ingredients channel EBIT. AMENA's EBIT decreased \$129 million to \$336 million, due to reduced gross margins and lower sales volume in the Ingredients channel. AMENA's Foodservice and Consumer channels' EBIT increased, with a particularly strong performance by our Consumer business in Chile. Our Consumer business in Chile increased both value and volume share, contributing to the gross margin and sales volume growth in the Consumer channel.

Our Greater China region contributed to our improved earnings with a 10% increase in EBIT to \$403 million. The Greater China region has a strong Foodservice channel, which accounted for 68% of its EBIT and 75% of our overall Foodservice channel EBIT. The increase in Greater China's EBIT was predominantly due to the strong performance of the Foodservice channel, driven by continuous innovation and a customer centric approach which has shifted sales volume into higher margin products. Gross margin growth within the Foodservice and Consumer channels was offset by reduced gross margins in the Ingredients channel. Overall, demand for dairy has been strong across all three channels in the Greater China region is supported by the Chinese Government endorsing consumption of dairy during COVID-19.

Summary of Regional Performance¹

FOR THE YEAR ENDED 31 JULY										
NORMALISED BASIS NZD MILLION	TOTAL		ASIA PACIFIC		AMENA		GREATER CHINA		UNALLOCATED COSTS AND ELIMINATIONS	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Sales volume ('000 MT) ²	3,842	3,874	1,406	1,386	1,433	1,352	1,021	1,176	(18)	(40)
Revenue	20,282	20,565	7,074	7,110	7,874	7,304	5,374	6,312	(40)	(161)
Costs of goods sold	(17,236)	(17,581)	(5,867)	(5,915)	(6,817)	(6,400)	(4,596)	(5,476)	44	210
Gross profit	3,046	2,984	1,207	1,195	1,057	904	778	836	4	49
Gross margin	15.0%	14.5%	17.1%	16.8%	13.4%	12.4%	14.5%	13.2%	–	–
Operating expenses	(2,194)	(2,153)	(967)	(889)	(585)	(605)	(401)	(436)	(241)	(223)
Other ³	(5)	65	(1)	(1)	(7)	37	(11)	3	14	26
EBIT ⁴	847	896	239	305	465	336	366	403	(223)	(148)
Includes EBIT attribution from Group Operations ⁵	170	(118)	47	(3)	39	(99)	84	(16)	–	–
EBIT excludes Discontinued Operations	32	56	–	–	21	22	11	34	–	–

1. Regional performance is prepared on a Continuing Operations basis. Comparative information has been restated for consistency with the current period attribution.

2. Includes sales to other segments.

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

4. This includes EBIT attribution from Group Operations.

5. Drivers of movements in the Group Operations attribution is detailed further in each region's performance section.

EBIT Contribution of Regions and Product Channels¹

FOR THE YEAR ENDED 31 JULY														
NORMALISED BASIS EBIT (NZD MILLIONS)	TOTAL			ASIA PACIFIC			AMENA			GREATER CHINA			UNALLOCATED COSTS AND ELIMINATIONS	
	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021
Ingredients	727	385	(47)%	148	44	(70)%	400	211	(47)%	179	130	(27)%	–	–
Foodservice	245	369	51%	27	79	193%	(5)	15	–	223	275	23%	–	–
Consumer	98	290	196%	64	182	184%	70	110	57%	(36)	(2)	94%	–	–
Unallocated costs and eliminations	(223)	(148)	34%	–	–	–	–	–	–	–	–	–	(223)	(148)
Continuing Operations	847	896	6%	239	305	28%	465	336	(28)%	366	403	10%	(223)	(148)
Discontinued Operations	32	56	75%	–	–	–	21	22	5%	11	34	209%	–	–
Total Group EBIT	879	952	8%											

1. Regional performance is prepared on a Continuing Operations basis. Comparative information has been restated for consistency with the current period attribution.

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

As a key part of our strategy, all three regions are prioritising growing our portfolio of specialty ingredients and solutions. We see plenty of growth opportunities in this portfolio going forward, and will be focused on the areas

that support our strategy of prioritising New Zealand milk and allocating it into higher margin products.

Specialty Ingredients¹

FOR THE YEAR ENDED 31 JULY												
NORMALISED BASIS NZD MILLION	TOTAL			PAEDIATRICS			SPORTS AND ACTIVE			MEDICAL AGEING		
	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²
Sales volume ('000 MT)	237	226	(5)%	124	103	(17)%	54	61	13%	59	62	5%
Revenue	1,798	1,786	(1)%	760	611	(20)%	593	674	14%	445	501	13%

1. Specialty Ingredients performance is prepared on a Continuing Operations basis.

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

COVID-19 has driven changing consumption trends and accelerated consumer demand for more proactive nutrition offerings, supporting immunity and healthy ageing growth. We have seen the benefit of this in our Medical Ageing and Sports and Active categories.

We have seen particularly strong growth in Korea where we have cemented our position as a leading supplier of dairy ingredients into medical and healthy ageing products. The New Zealand provenance story has also resonated strongly in this market, highlighting the value of New Zealand sourced milk solids.

Other highlights include:

- We launched our New Zealand Milk Products (NZMP™) Milk Phospholipids range that helps with stress management. This is Fonterra's first foray into mental health propositions for adult nutrition
- New launches across our Anlene™ range, including Anlene GOLD 5X™, a functional nutrition product providing benefits across five key areas – strong bones, energy, strong muscles, flexibility and movement
- The ongoing roll-out of Fonterra's premium probiotic ingredients continues. Supported by our cross functional teams in China and New Zealand, we were able to add a line of probiotic enhanced and lactoferrin enhanced milk powders within 12-months

Asia Pacific

Asia Pacific’s EBIT increased \$66 million, or 28%, to \$305 million, mainly due to an increase in Consumer gross margin, Foodservice sales volume growth and strong gross margin improvement, and reduced operating expenses. This was partially offset by the reduced bulk liquid margins in the Ingredients channel.

Asia Pacific Performance¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER		
	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²
Sales volume ('000 MT) ³	1,406	1,386	(1)%	623	610	(2)%	154	163	6%	629	613	(3)%
Revenue	7,074	7,110	1%	3,692	3,654	(1)%	915	930	2%	2,467	2,526	2%
Cost of goods sold	(5,867)	(5,915)	(1)%	(3,301)	(3,382)	(2)%	(748)	(712)	5%	(1,818)	(1,821)	(0)%
Gross profit	1,207	1,195	(1)%	391	272	(30)%	167	218	31%	649	705	9%
Operating expenses	(967)	(889)	8%	(248)	(234)	6%	(143)	(139)	3%	(576)	(516)	10%
Other ⁴	(1)	(1)	0%	5	6	20%	3	-	-	(9)	(7)	22%
EBIT ⁵	239	305	28%	148	44	(70)%	27	79	193%	64	182	184%
Includes EBIT attribution from Group Operations	47	(3)	-									
Gross margin	17.1%	16.8%		10.6%	7.4%		18.3%	23.4%		26.3%	27.9%	

1. Asia Pacific performance is prepared on a Continuing Operations basis. Comparative information has been restated for consistency with the current period attribution.
2. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Includes sales to other segments.
4. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.
5. This includes EBIT attribution from Group Operations.



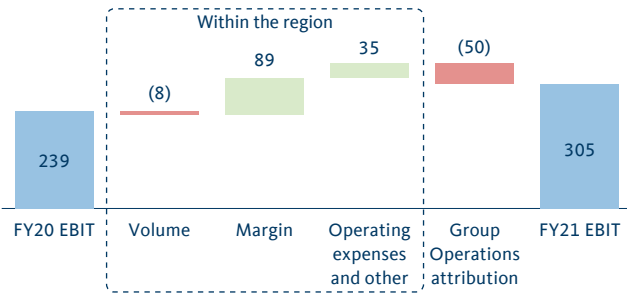
Our Asia Pacific business covers New Zealand, Australia, Pacific Islands, South East Asia, and South Asia. The Consumer channel contributes around 60% of Asia Pacific’s EBIT; the channel is supported by our strong brand presence across our key markets.

The Asia Pacific Performance table on the prior page has the region’s allocation of the Group Operations’ performance allocated through each line item of the table. Whereas, the Asia Pacific Key EBIT Performance Drivers graph separates the EBIT generated from the region and its attribution from Group Operations.

Within the region, the gross margin from the Consumer channel was a significant contributor to Asia Pacific’s improved earnings performance, contributing \$81 million. The most significant reduction in EBIT was from the Group Operations attribution within the Ingredients channel, down \$81 million, due to reduced gross margins from bulk liquid sales.

Asia Pacific Key EBIT Performance Drivers¹

Normalised EBIT (\$millions)



1. Asia Pacific performance is prepared on a Continuing Operations basis.

Asia Pacific Key EBIT Performance Drivers¹

FOR THE YEAR ENDED 31 JULY 2021

NORMALISED BASIS NZD MILLION	TOTAL	INGREDIENTS	FOODSERVICE	CONSUMER
EBIT Financial Year 2020	239	148	27	64
Volume	(8)	(3)	10	(15)
Margin (price, cost and product mix)	89	(18)	26	81
Operating expenses and other	35	(2)	(4)	41
Group Operations attribution	(50)	(81)	20	11
EBIT Financial Year 2021	305	44	79	182

1. Asia Pacific performance is prepared on a Continuing Operations basis.

Asia Pacific's Consumer channel

Consumer behaviour has changed with COVID-19 and a trend that has become increasingly prominent over the past 18 months has been the stay-at-home culinary trend. This has had a favourable impact on our Consumer channel performance. Our product mix has shifted away from lower margin products, such as UHT milk, with increased sales volume of higher margin products, such as butter, cheese and dairy foods to support this trend. Overall, our sales volume is slightly lower, but this has been more than offset with an increase in our Consumer channel gross margin.

The decline in sales volume has mostly come from New Zealand, due to several strategic initiatives. As an example, we have shifted our product mix in cheese to align with customer demand for smaller blocks of cheese, away from the larger 1kg blocks. The turnaround of our New Zealand business has progressed quicker than planned, and in part this has been helped by the strength of our brands. Anchor™ was recently named by Nielsen as the number one retail brand in New Zealand grocery, and Mainland™ was named the sixth. Mainland™ had another good year off the back of a new advertising campaign continuing to celebrate its long-standing message of 'Good Things Take Time'. Already the leading cheese brand in the category, Mainland™ grew ahead of the market this financial year with volume and value growth of 11% and 16%¹ respectively.

South East Asia was another region that experienced increased at-home consumption, including consumers expanding their cooking to more western dishes. Our butter and cheese products were well placed to take advantage of this trend, and our team further accelerated this through expanding our portfolio of chilled brands, entering new channels and inspiring product usage through digital and social platforms.

Highlights include:

- Our butter portfolio growing sales volume by more than 15% across the key markets of Malaysia, Philippines and Indonesia
- Expansion of Perfect Italiano™ in Malaysia, where consumers turned to Italian inspired dishes. Perfect Italiano Mozzarella Cheese grew 55% year-on-year in revenue in Malaysia and 39% year-on-year revenue growth across the South East Asia region as a whole
- Extensive use of social media platforms to provide meal ideas across Anchor™, Mainland™, Perfect Italiano™ and Chesdale™

1. Nielsen, MAT as at July 31.



RANK	RETAIL BRAND IN NEW ZEALAND
1	Anchor
2	Watties
3	Tip Top
4	Coca-Cola
5	Hellers
6	Mainland
7	Cadbury
8	Meadow Fresh
9	Tegel
10	Griffin's
11	Whittaker's
12	Arnotts
13	Bluebird
14	Huggies
15	Sealord
16	Heineken
17	NESCAFÉ
18	Colgate
19	Beehive
20	Sanitarium

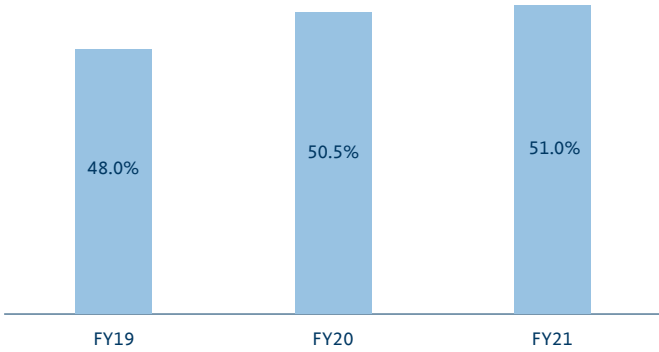
*Source: #1 FMCG brand in NZ Grocery. NielsenIQScan, Total Supermarkets -Value Sales, MAT to 1st August 2021. Excludes Private Label



Malaysia is one of our strongest consumer markets globally, with leading positions in milk powders, butter, cheese and yoghurt. Our flagship brand in that market, Fernleaf™, had a strong year, widening its leadership position with market share growing by 50 basis points, from 50.5% to 51.0%¹. Well known among local consumers for its New Zealand provenance, it was buoyed by a campaign tapping into a desire for natural goodness during the pandemic. Supporting this were 'influencer' initiatives on digital platforms where they spoke highly of the benefits of our products, with Fernleaf™ being noted in the Kantar Brand Footprint Report Asia 2021 as one of the fastest growing brands in Malaysian consumer packaged goods in the 2020 calendar year.

Within the Asia Pacific region some new product launches have been postponed due to COVID-19 restrictions, which has delayed some of the expected growth in our global brands, but it has also reduced operating expenses. Overall, operating expenses are down on the prior year, primarily due to last year's performance, including several impairments that did not recur in the 2021 Financial Year.

Fernleaf™ Family Milk Powder Volume Share¹



1. Nielsen, MAT as at July 31.



Asia Pacific’s Foodservice channel

Our Asia Pacific Foodservice channel’s EBIT increased 193% to \$79 million. With many of our markets continuing to be impacted by COVID-19, this is a strong result. It also reflects how challenging the trading environment in the second half of the prior year was, and how quickly our Foodservice teams adapted to the rapidly changing trends within the channel over the last 18 months.

We have moved milk into higher margin products such as cream cheese, where bakery and beverage outlets continue to find customer demand for cream cheese applications, particularly in South East Asia. For example, in Malaysia, our team focused on helping home bakers set up online stores and expand their recipe portfolio, resulting in increased sales of our Anchor™ Food Professional products.

We are also seeing more at-home consumption, less out-of-home consumption, and a back-to-basics approach with consumers purchasing less pre-made baked goods and instead opting to bake their own goods with trusted ingredients.

Our sales volume growth was in part driven by our Global Quick Service Restaurant performance which is included in our Asia Pacific Foodservice channel. We won new business in Hong Kong and Malaysia as well as increasing our market share by being able to meet existing customers’ demand for product while our competitors were not able to – demonstrating the value our customers place in our robust supply chain.

Asia Pacific’s Ingredients channel

Our Asia Pacific Ingredient channel’s EBIT declined \$104 million to \$44 million due to reduced gross margins on our bulk liquid milk sales in New Zealand and challenges in Australia - mentioned on the next page in the Australia Performance section.

Despite the impact of reduced bulk liquid margins within the New Zealand Ingredients channel, we have continued to focus on shifting milk to higher margin Ingredients’ products, namely dairy food products – this demand was driven from the Consumer channel to support the stay-at-home culinary trend.

Australia Performance¹

NORMALISED BASIS NZD MILLION	FOR THE YEAR ENDED		
	31 JULY 2020	31 JULY 2021	CHANGE ²
Milk collection (million kgMS)	108	106	(2)%
Sales volume ('000 MT) ³	406	373	(8)%
Revenue	2,036	1,953	(4)%
Cost of goods sold	(1,822)	(1,710)	6%
Gross profit	214	243	14%
Operating expenses	(157)	(167)	(6)%
Other ⁴	(3)	(2)	33%
EBIT	54	74	37%
Gross margin	10.5%	12.4%	

- 1. Australia’s performance is prepared on a Continuing Operations basis and is prior to Group Operations attribution.
- 2. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
- 3. Includes sales to other segments.
- 4. Consists of other operating income and net foreign exchange gains/(losses).

The Australian business continued its improved earnings momentum from the prior year, driven by a strong performance in its Consumer channel.

Overall sales volume was down as the business optimised its portfolio. A slight reduction in milk collection volumes and global shipping delays also contributed to the lower sales volume.

Despite the drop in sales volume, revenue only declined 4%, largely due to improvements in product mix driven by a conscious decision to exit lower returning products and to allocate milk solids to higher returning products. Product mix benefits were offset by lower volumes, commodity prices and the higher Australian dollar.

The Consumer channel continued its strong momentum in revenue and earnings growth, maintaining market leadership in both the Cheese and Spreads categories. All four brands in the portfolio demonstrated value growth across the period with Western Star™ and Perfect Italiano™ the standout performers and benefiting from the culinary trend. The brands benefited from increased investment during this period, including new on-air campaigns for Bega™ and Perfect Italiano™. Even with ongoing

COVID-19 challenges facing the out-of-home sector, the Foodservice channel rebounded strongly in both volume and revenue.

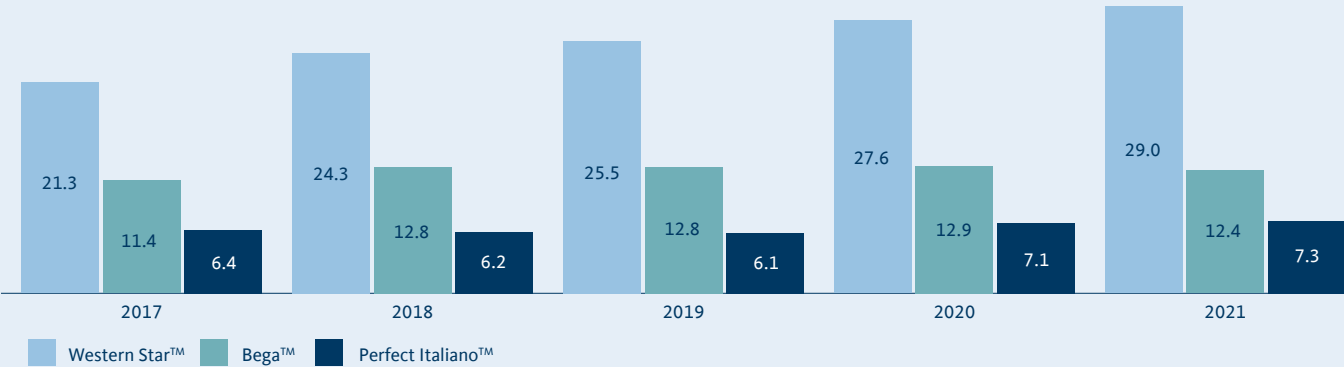
The business continues to benefit from strong customer relationships, achieving number one ranking in the Advantage Survey in Foodservice and number two ranking in Consumer.

The Ingredients channel was challenged during the period by a high Australian dollar, geo-political impacts and global shipping delays. Border closures due to COVID-19 continue to materially impact both domestic and export customers, particularly in the nutritional category.

Operating expenses increased on the prior year, partly driven by increased advertising and promotion spend. However, our working capital and operating cash flows within the overall Australian business benefited from strong cost control and disciplines across the year, combined with the successful integration of the Dairy Country secondary cheese processing assets into the network. The strategic changes that have been implemented position the business well to continue the trajectory in earnings experienced in the second half.

Fonterra Australia value market share by brand

MAT Aug-17 to MAT Aug 21, percentage share of category
Source, IRI



AMENA

AMENA's EBIT was \$336 million, down \$129 million, or 28%, on the prior year, primarily due to reduced margins and lower volumes in its Ingredients channel. This was partially offset by increased sales volumes in its Consumer and Foodservice channels, with Consumer also improving its gross margin due to a strong performance by our Consumer business in Chile.

AMENA Performance¹

FOR THE YEAR ENDED 31 JULY

	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER		
NORMALISED BASIS NZD MILLION	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²
Sales volume ('000 MT) ³	1,433	1,352	(6)%	1,031	912	(12)%	47	61	30%	355	379	7%
Revenue	7,874	7,304	(7)%	6,506	5,784	(11)%	235	338	44%	1,133	1,182	4%
Cost of goods sold	(6,817)	(6,400)	6%	(5,755)	(5,250)	9%	(205)	(296)	(44)%	(857)	(854)	0%
Gross profit	1,057	904	(14)%	751	534	(29)%	30	42	40%	276	328	19%
Operating expenses	(585)	(605)	(3)%	(346)	(354)	(2)%	(38)	(28)	26%	(201)	(223)	(11)%
Other ⁴	(7)	37	-	(5)	31	-	3	1	(67)%	(5)	5	-
EBIT ⁵	465	336	(28)%	400	211	(47)%	(5)	15	-	70	110	57%
Includes EBIT attribution from Group Operations	39	(99)	-									
Gross margin	13.4%	12.4%		11.5%	9.2%		12.8%	12.4%		24.4%	27.7%	

1. AMENA performance is prepared on a Continuing Operations basis. Comparative information has been restated for consistency with the current period attribution.
2. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Includes sales to other segments.
4. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.
5. This includes EBIT attribution from Group Operations.



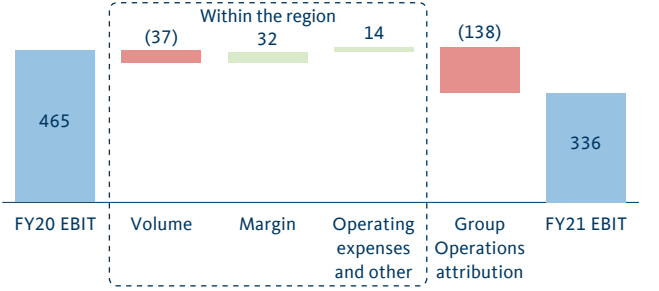
Our AMENA business covers Africa, Middle East, Europe, North Asia and the Americas. AMENA's performance is heavily influenced by its Ingredients channel across these sub-regions, as well as its strong Consumer business in Chile.

The AMENA Performance table above has the region's allocation of the Group Operations' performance allocated through each line item of the table. Whereas, the AMENA Key EBIT Performance Drivers graph separates the EBIT generated from the region and its attribution from Group Operations.

Within the region, the gross margin from the Consumer channel was a significant contributor to AMENA's earnings performance, contributing \$31 million. However, this was offset by a significant reduction in EBIT from the Group Operations attribution within the Ingredients channel, down \$151 million, mainly due to the use of longer-term pricing contracts increasing the impact the quickly rising cost of milk has on our gross margin.

AMENA Key EBIT Performance Drivers¹

Normalised EBIT (\$millions)



1. AMENA performance is prepared on a Continuing Operations basis.

AMENA Key EBIT Performance Drivers¹

FOR THE YEAR ENDED 31 JULY 2021

NORMALISED BASIS NZD MILLION	TOTAL	INGREDIENTS	FOODSERVICE	CONSUMER
EBIT Financial Year 2020	465	400	(5)	70
Volume	(37)	(64)	9	18
Margin (price, cost and product mix)	32	(3)	4	31
Operating expenses and other	14	29	5	(20)
Group Operations attribution	(138)	(151)	2	11
EBIT Financial Year 2021	336	211	15	110

1. AMENA performance is prepared on a Continuing Operations basis.

AMENA's Ingredients channel

AMENA has shifted its focus to value added products and functional nutrition, the benefits to its gross margin have only partially compensated for the impact of pricing lags on longer-term contracts and reduced sales volume in the Ingredients channel, which have resulted in reduced EBIT.

1. Pricing lags on longer-term contracts

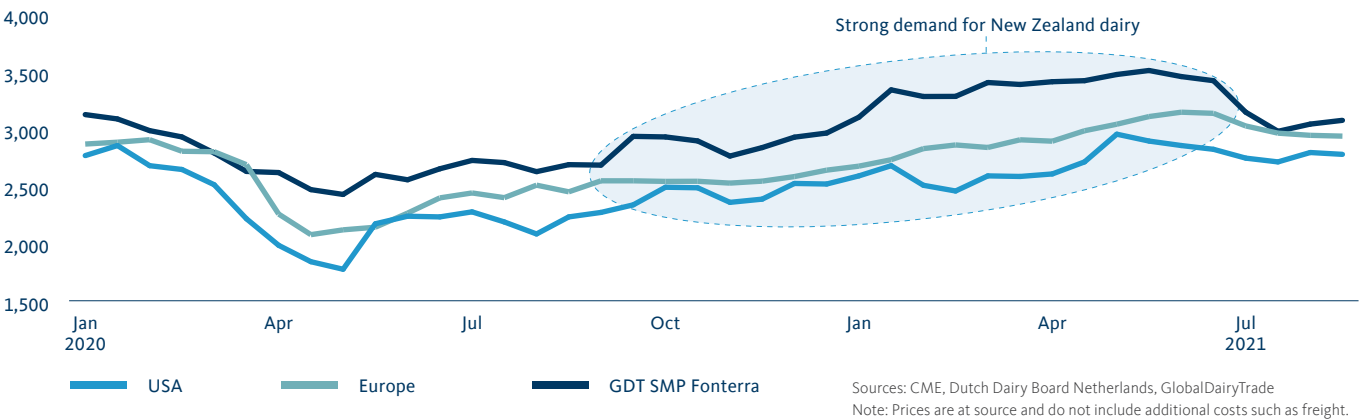
Our AMENA Ingredients channel has large global customers and to support them and manage the volatility in dairy product prices, we use longer-term pricing contracts where the sale price for product is the average price over several prior months, of price indices, such as GDT. Due to the strong rise in dairy product prices over the course of this year, the margins on these sales reduced relative to the prior year, due to the lag in the pricing profile of these contracts versus the rising cost of milk. The impact of the pricing lag is captured in the EBIT attribution from Group Operations.

2. Reduced sales volume

The strong demand for our New Zealand sourced product in both Greater China and parts of Asia Pacific created more opportunities for us to allocate a greater volume of milk to take advantage of higher prices in these regions. This meant lower allocations of product to AMENA, particularly to the AMENA Ingredients channel for standard commoditised products that customers could source elsewhere at a price point below the sale prices that we can achieve in our other regional markets.

The AMENA Ingredients market is very competitive with USA and Europe producers selling below a sale price that we can achieve in other regions (the SMP Price graph illustrates the price difference we observed). There is also increasing competition from South American producers.

- This is most notable in Africa where we did not sell product into government tenders this year. In recent years, the Latin American producers, mostly from Argentina, have supplied government tenders in Africa at a price point below GDT prices which have reflected strong demand from China
 - Our sales volume into Europe, as well as to some of our key global accounts, have been impacted by strong sales volumes from the Northern Hemisphere at competitive pricing levels, most notably in skim milk powder (SMP). Strong demand from Asia for New Zealand sourced product has meant New Zealand products, such as SMP, have traded at a premium to Northern Hemisphere product in those markets
 - Sales volumes into the USA were lower due to North American producers willing to sell fat-based products, such as AMF and butter, at lower prices than the sales prices we could achieve in other markets. Sales volume in our sports and 'on-the-go' product categories also reduced as a result of COVID-19 impacting consumer lifestyles
- The other sub-regions also had challenges impacting sales volume:
- Sales volume in the Middle East were down on the prior year, with prior year sales impacted by increased demand as customers stockpiled product due to the initial uncertainty of COVID-19
 - In North Asia, higher in-market inventory, due to an increase of domestic milk production and decrease of consumption due to COVID-19, has impacted sales volumes of cream products (such as butter and mascarpone)



AMENA's Consumer channel

AMENA's Consumer channel performed strongly with both gross margin and volume growth. A significant portion of this was driven by the performance of our Consumer business in Chile, and this is covered in more detail below in the section on Latin America.

Other parts of the Americas also performed well with increased sales of cheese from our Australian business. When we allocated New Zealand sourced

milk to our other regions, we successfully switched the sale of consumer cheeses to Australian sourced product, reducing our input costs and increasing our gross margin.

The improved performance in the Americas was partially offset by the Middle East, which had lower sales volume relative to the prior year.

Latin America

Our Latin America's business predominantly comprises our Consumer business in Chile. The performance improved significantly on the prior year with EBIT increasing 79% to \$75 million.

- In Chile we have increased our market share of milk collections as we improved our engagement with farmers, allowing for increased sales volume
- The Chilean milk market is competitive, and our cost of goods sold increased due to higher raw milk costs as we competed for more milk
- Improved product mix and pricing in our Chilean Consumer channel more than offset the increased milk costs
- Our value and volume share in the Chilean Consumer channel increased 1.5% and 0.5% to 30.5% and 31.6%, respectively

This improvement was predominantly due to new product launches and increased demand generated by three government-initiated pension fund releases during the year:

- 19 new product launches, such as our 1+1 Single Yoghurt and Manjarate 3D. Both products won 'Product of the Year' as voted by Chilean consumers, in their respective yoghurt and desserts categories. They also received Effie Awards, given by communication specialists to those products with the best communication efficiency in their categories
- To support citizens and the economy through COVID-19, on three separate occasions the Chilean Government allowed citizens to withdraw a portion of their private pension funds and this contributed to increased demand for dairy products as consumers spent more
- Operating expenses increased as we incurred additional costs related to keeping the workforce safe while operating under COVID-19 conditions. Costs were also impacted by the higher sales volumes, but these increased costs were more than covered by the higher gross profits

Latin America Performance¹

FOR THE YEAR ENDED			
NORMALISED BASIS NZD MILLION	31 JULY 2020	31 JULY 2021	CHANGE ²
Sales volume ('000 MT) ³	346	379	10%
Revenue	926	1,045	13%
Cost of goods sold	(684)	(760)	(11)%
Gross profit	242	285	18%
Operating expenses	(193)	(211)	(9)%
Other ⁴	(7)	1	-
EBIT	42	75	79%
Gross margin	26.1%	27.3%	

1. Latin America performance is prepared on a Continuing Operations basis and is prior to Group Operations attribution. Latin America includes Chile, Brazil and Venezuela but excludes DPA Brazil which is classified as Discontinued Operations.
2. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Includes sales to other segments.
4. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.

AMENA's Foodservice channel

AMENA's Foodservice channel has improved its earnings predominantly through increased sales volume and reduced costs. However, the channel remains relatively small compared to AMENA's Ingredients and Consumer channels.

Volume growth was in part due to our North Asia business, driven by the ongoing development of our third-party manufacturing business in Korea, which supported strong sales of our Anchor™ slice-on-slice cheese sales in the Quick Service Restaurant category.

Our A-ware sourcing relationship also contributed to improved sales volume in the AMENA Foodservice channel, with the manufacture and sale of UHT cream. The sourcing relationship also contributed volume into the Ingredients channel with the sale of mozzarella. The A-ware sourcing relationship is covered in more detail below.

Lower operating expenses were predominantly driven by the Americas, following the successful transition of our USA Foodservice business to a new operating model in an arrangement with Land O'Lakes. This provided us access to Land O'Lakes well-established distribution and customer base while keeping a lean internal structure. The new operating model started in late December 2020, and Land O'Lakes has begun selling our UHT cream.

A-ware Sourcing Relationship

Our sourcing relationship with A-ware in the Netherlands, where they manufacture mozzarella and UHT cream for us, has taken some important steps during the 2021 Financial Year to set us up for the future, despite incurring further losses this year.

The A-ware loss of \$32 million in the prior year was largely driven by start-up costs. This year, the loss has increased to \$36m as a result of building up operations in a challenging environment, with pricing challenges for mozzarella and the slow build of UHT cream demand, driving underutilisation of the facility. The loss is allocated across AMENA, Asia Pacific and Greater China as all three regions collectively work to grow demand.

Despite the current market challenges, we have begun exporting our mozzarella and UHT cream:

- We are developing a market for our mozzarella in North Asia, with product sold to customers in Korea and Japan this year
- We have commercialised a new UHT cream product range targeting various applications and are now selling this European-style product in key markets, including China. This new ex-Europe offering complements our wider Anchor™ Food Professional product range in these key markets and supports our global foodservice strategy

The steps taken this year have been important to enable further growth for the years ahead, where we will extend our range by entering new markets as well as introducing new types of products and further leveraging our mozzarella and UHT cream sourcing relationship in Europe.

Greater China

Greater China's EBIT increased \$37 million, or 10%, to \$403 million, mainly due to increased gross margin and sales volume in its Foodservice channel and a decrease in operating expenses in the Consumer channel. Its Ingredients' channel had strong sales volume growth, but this was offset by lower gross margin.

Greater China Performance¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER		
	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²
Sales volume ('000 MT) ³	1,021	1,176	15%	691	824	19%	257	274	7%	73	78	7%
Revenue	5,374	6,312	17%	3,513	4,259	21%	1,531	1,691	10%	330	362	10%
Cost of goods sold	(4,596)	(5,476)	(19)%	(3,183)	(3,961)	(24)%	(1,190)	(1,274)	(7)%	(223)	(241)	(8)%
Gross profit	778	836	7%	330	298	(10)%	341	417	22%	107	121	13%
Operating expenses	(401)	(436)	(9)%	(141)	(164)	(16)%	(117)	(148)	(26)%	(143)	(124)	13%
Other ⁴	(11)	3	–	(10)	(4)	60%	(1)	6	–	–	1	–
EBIT ⁵	366	403	10%	179	130	(27)%	223	275	23%	(36)	(2)	94%
Includes EBIT attribution from Group Operations	84	(16)	–									
Gross margin	14.5%	13.2%		9.4%	7.0%		22.3%	24.7%		32.4%	33.4%	

1. Greater China performance is prepared on a Continuing Operations basis. Comparative information has been restated for consistency with the current period attribution.
2. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Includes sales to other segments.
4. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.
5. This includes EBIT attribution from Group Operations.



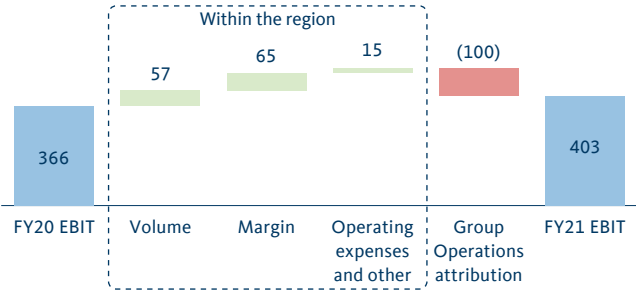
Our Greater China business covers Mainland China, Taiwan and Hong Kong. The Foodservice channel contributed 68% of Greater China's EBIT, up from 61% last year.

The Greater China Performance table on the previous page has the region's allocation of the Group Operations' performance allocated through each line item of the table. Whereas, the Greater China Key EBIT Performance Drivers graph separates the EBIT generated from the region and its attribution from Group Operations.

Within the region, the gross margin from the Foodservice channel was a significant contributor to Greater China's earnings performance, contributing \$73 million of improvement. The second largest contributor to our improved performance was higher sales volume across all three channels – this was due to strong demand for dairy, supported by the Chinese Government endorsing consumption of dairy during COVID-19. The impact was particularly notable in the Ingredients channel, with strong demand for WMP and SMP, both on and off GDT. The most significant reduction in EBIT was from the Group Operations attribution within the Ingredients channel, down \$75 million, due to lower margin from the increased cost of milk.

Greater China Key EBIT Performance Drivers¹

Normalised EBIT (\$millions)



1. Greater China performance is prepared on a Continuing Operations basis.

Greater China Key EBIT Performance Drivers¹

FOR THE YEAR ENDED 31 JULY 2021

NORMALISED BASIS NZD MILLION				
	TOTAL	INGREDIENTS	FOODSERVICE	CONSUMER
EBIT Financial Year 2020	366	179	223	(36)
Volume	57	31	18	8
Margin (price, cost and product mix)	65	(11)	73	3
Operating expenses and other	15	6	(9)	18
Group Operations attribution	(100)	(75)	(30)	5
EBIT Financial Year 2021	403	130	275	(2)

1. Greater China performance is prepared on a Continuing Operations basis.

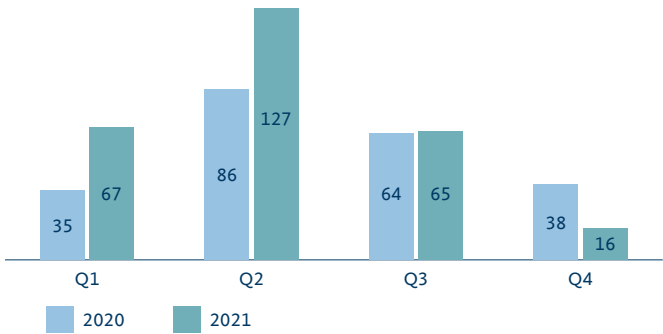
Greater China’s Foodservice channel

Our Greater China Foodservice channel continued the strong performance and growth it has experienced over the last couple of years, with EBIT up \$52 million, to \$275 million. EBIT was split \$194 million in the first half and \$81 million in the second half. Greater China’s sales profile is weighted to the first half of the year due to several major national events occurring in that period of the year, which drive sales. The second half was also impacted by the rising cost of milk over the course of the year, most notably impacting our Foodservice gross margins in the last quarter.

The success of our Greater China Foodservice channel is driven by continuous innovation and a customer centric approach which has shifted sales volume into higher margin products. To support the expansion and sustainable growth of our Foodservice channel, operating expenses have increased. We continue to invest in people, tools and the expansion of our supply chain network as we meet customer needs.

Our chef-led approach continues to be successful and to support this we opened our upgraded application centre in Guangzhou in April 2021. This application centre, and others throughout the country, allow customers to interact with our Anchor™ Food Professional chefs face to face. Our chefs showcase the functionality of our products and help to adapt them to our customers’ needs. During the 2021 Financial Year, 272 new applications were launched, all designed to showcase products within our portfolio. For example, we launched three new creams; Anchor™ Easy Topping Cream, Anchor™ Cheese-Pro Cream and Anchor™ Chef’s Classic Whipping Cream - all with unique functionality. For each cream we developed a suite of applications that are tailored to demonstrate the functionality these products provide, which has subsequently grown demand for these higher margin products. Also, a key aspect of our long-term growth strategy is to move beyond traditional ‘Western’ uses of dairy and increase dairy incorporation into traditional Chinese cuisine such as Chinese pastries, hot pots and mooncakes. For example, during the year we launched an Anchor™ Cheese Mooncake campaign, which resulted in over 50 customers launching cheese mooncakes.

Foodservice EBIT by Quarter (\$ million)



As COVID-19 has impacted consumer behaviour, the line between in-home and out-of-home categories continues to blur. To benefit from this trend, Foodservice and retail operators are increasingly launching semi-finished or ready-to-cook meals with simple preparation requirements. For example, we have partnered with a large supermarket chain to produce packaged ready-to-cook cheese shrimp paste, with our mozzarella cheese inside. This was launched during ‘Double 11’ (a major Chinese shopping festival) for in-home consumption of hot pots. Also, one of the leading casual-dining pizza chains in China is selling a frozen beef steak family pack featuring our mini-dish butter, and a Chinese ‘Steam’ Pizza which is a ‘1 minute in the microwave ready-to-eat meal’, featuring our Clandeboy mozzarella cheese.

Greater China’s Consumer channel

Greater China’s Consumer channel EBIT improved due to continued focus on high value categories, lower operating expenses and sales volume growth. However, ongoing challenging trading conditions have resulted in a \$2 million loss for our Consumer channel this year. Most notably, the Hong Kong-China border has remained closed and the Mainland Chinese tourism that drove our highly profitable cross-border trade business is yet to resume.

The improved sales volume growth has predominately been in our Anchor™ branded UHT milk, the number one imported milk brand in China. This year, our China Brands team launched a range of innovative UHT milk products to help drive incremental sales, including Anchor™ High Calcium Low Fat UHT milk and Anchor™ DHA Kids Milk.

The year-on-year reduction in operating expenses was largely due to being allocated half of the \$36 million brand impairment on Chesdale™, which was not repeated this year. Removing the impact of the brand impairment, operating expenses were stable.

Greater China’s Ingredients channel

The Chinese dairy market is becoming increasingly competitive, and to protect our core Ingredients channel, provenance has become an increasingly important part of our brands. To differentiate ourselves, our New Zealand Milk Products (NZMP™) brand has focused on our ‘grass-fed’ claims and a sustainability proposition. NZMP™ worked with customers to help them leverage our grass-fed claims. The strength of the New Zealand story has allowed us to secure business in a competitive market.

Our NZMP™ brand is not only important to protecting our core Ingredients channel, but also to growing our advanced and functional ingredients. Cheese consumption in China has seen significant growth in the past years, with imported cheese increasing by 13% in the 2020 calendar year. To tap into this trend and appeal to the Chinese consumer, who have unique preferences, we have developed cheese lollipops. Cheese lollipops are cheese on a stick with a fruit flavoured coating. The cheese lollipops have been a huge success and are a popular snack food for children across China. The cheese lollipops have driven incremental demand for cream cheese from key customers and helped to increase utilisation in our Darfield processing site.

Focusing further on our customers’ needs, we have adapted ingredients to enable customers to make health claims. For example, demand has grown for our low-salt cheddar because it has proven popular with customers looking to have low-salt claims on their cheese lollipops.

Despite increased sales volume, EBIT in the Ingredients channel has reduced \$49 million on last year, due to the strong rise in dairy product prices over the course of this year. The gross margin on these sales has reduced due to the lag in the pricing profile of the contracts compared to the rising cost of milk. The impact of the pricing lag is captured in the EBIT attribution from Group Operations.



New Zealand Milk

Our strategy prioritises using New Zealand milk to meet customer needs and sustainably creating value for the Co-operative and our customers.

The following tables provide a breakdown of our earnings performance between our New Zealand and non-New Zealand sourced milk, over and above the milk price paid to our milk suppliers.

We continue to focus on allocating New Zealand milk into the products that generate the best overall returns to Fonterra and our farmer owners. Sales volume in the Ingredients channel was flat year-on-year overall. However, due to rising prices and continuing strong demand out of Greater China for WMP, there was a shift in volume within Ingredients from AMENA to Greater China. Our Foodservice channel sales volume from New Zealand sourced milk grew the most, largely driven by the demand out of Greater China and Asia Pacific.

Regionally, Greater China had the largest increase in sales volume, predominantly due to increases in demand in WMP and UHT milk and cream as our Ingredients and Foodservice channel continues to grow.

Gross margin for New Zealand sourced milk was slightly lower despite our Foodservice and Consumer channels benefiting from the stay-at-home

culinary trend. The improved performance in these channels was offset by the impact of reduced margins on bulk liquid milk sales and the pricing lag of longer-term contracts in the Ingredients channel. Our earnings from New Zealand sourced milk improved due to reduced operating expenses, higher other operating income and adverse items last year not recurring this year, with EBIT increasing 2%, or \$14 million to \$791 million.

Our non-New Zealand sourced milk performance has improved significantly, with EBIT up 50% or \$35 million to \$105 million. The main contributors to our improved performance in our non-New Zealand sourced milk are our Consumer channel in Australia and our Consumer business in Chile; both increased market share in key categories and improved gross margins.

Our non-New Zealand sourced milk gross margin was higher than our New Zealand sourced milk in the current year due to the impact of the reduced gross margins in the Ingredients channel for New Zealand sourced milk. However, at an EBIT margin level, New Zealand sourced milk has a higher earnings margin relative to non-New Zealand sourced milk due to our non-New Zealand sourced milk being predominantly sold in the Consumer channel, which is a more cost-intensive channel.



New Zealand Milk by Product Channel - Sales Volume¹

FOR THE YEAR ENDED 31 JULY

('000 MT)	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER			UNALLOCATED COSTS & ELIMINATIONS ³	
	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021
Asia Pacific	1,079	1,065	(1)%	518	502	(3)%	127	136	7%	434	427	(2)%	-	-
AMENA	981	868	(12)%	912	801	(12)%	45	40	(11)%	24	27	13%	-	-
Greater China	961	1,123	17%	676	800	18%	220	253	15%	65	70	8%	-	-
Eliminations ³	(18)	(40)	(122)%	-	-	-	-	-	-	-	-	-	(18)	(40)
Total	3,003	3,016	0%	2,106	2,103	(0)%	392	429	9%	523	524	0%	(18)	(40)

1. Prepared on a Continuing Operations basis. Comparative information has been restated for consistency with the current period attribution.
2. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Unallocated costs and eliminations. Refer to Glossary for definition.

New Zealand Milk by Product Channel - Revenue¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER			UNALLOCATED COSTS & ELIMINATIONS ³	
	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021
Asia Pacific	5,608	5,634	0%	3,134	3,111	(1)%	703	714	2%	1,771	1,809	2%	-	-
AMENA	6,414	5,706	(11)%	5,943	5,269	(11)%	156	186	19%	315	251	(20)%	-	-
Greater China	5,230	6,152	18%	3,451	4,162	21%	1,471	1,648	12%	308	342	11%	-	-
Eliminations ³	(40)	(161)	(303)%	-	-	-	-	-	-	-	-	-	(40)	(161)
Total	17,212	17,331	1%	12,528	12,542	0%	2,330	2,548	9%	2,394	2,402	0%	(40)	(161)

1. Prepared on a Continuing Operations basis. Comparative information has been restated for consistency with the current period.
2. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Unallocated costs and eliminations. Refer to Glossary for definition.

New Zealand and Non-New Zealand Sourced Milk¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	TOTAL			NEW ZEALAND MILK			NON-NEW ZEALAND MILK		
	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²
Sales volume ('000 MT)	3,842	3,874	1%	3,003	3,016	0%	839	858	2%
Revenue	20,282	20,565	1%	17,212	17,331	1%	3,070	3,234	5%
Cost of goods sold	(17,236)	(17,581)	(2)%	(14,615)	(14,844)	(2)%	(2,621)	(2,737)	(4)%
Gross profit	3,046	2,984	(2)%	2,597	2,487	(4)%	449	497	11%
Operating expenses	(2,194)	(2,153)	2%	(1,813)	(1,752)	3%	(381)	(401)	(5)%
Other ³	(5)	65	-	(7)	56	-	2	9	350%
EBIT	847	896	6%	777	791	2%	70	105	50%
Discontinued Operations EBIT	32	56	75%	-	-	-	32	56	75%
Gross margin	15.0%	14.5%		15.1%	14.4%		14.6%	15.4%	
EBIT margin	4.2%	4.4%		4.5%	4.6%		2.3%	3.2%	

1. New Zealand and non-New Zealand Sourced milk is prepared on a Continuing Operations basis.
2. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.

New Zealand Milk by Product Channel - Gross Margin¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS	TOTAL		INGREDIENTS		FOODSERVICE		CONSUMER	
	2020	2021	2020	2021	2020	2021	2020	2021
Asia Pacific	18.1%	18.3%	11.5%	9.2%	18.8%	25.8%	29.5%	31.0%
AMENA	12.5%	10.2%	12.0%	9.5%	20.5%	17.2%	18.4%	19.9%
Greater China	14.8%	13.4%	9.5%	7.0%	23.1%	25.0%	34.7%	35.7%
Total	15.1%	14.4%	11.2%	8.6%	21.6%	24.6%	28.7%	30.5%

1. Prepared on a Continuing Operations basis. Comparative information has been restated for consistency with the current period attribution.

New Zealand Milk by Product Channel – EBIT¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER			UNALLOCATED COSTS & ELIMINATIONS ³	
	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021
Asia Pacific	197	297	51%	170	107	(37)%	13	68	423%	14	122	771%	-	-
AMENA	419	249	(41)%	379	204	(46)%	17	24	41%	23	21	(9)%	-	-
Greater China	384	393	2%	178	124	(30)%	233	277	19%	(27)	(8)	70%	-	-
Eliminations ³	(223)	(148)	34%	-	-	-	-	-	-	-	-	-	(223)	(148)
Total	777	791	2%	727	435	(40)%	263	369	40%	10	135	1,250%	(223)	(148)

1. Prepared on a Continuing Operations basis. Comparative information has been restated for consistency with the current period.
2. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Unallocated costs and eliminations. Refer to Glossary for definition.

Discontinued Operations

We continue to make progress on the divestments of our China Farms and DPA Brazil.

China Farms

In the second half of the 2021 Financial Year we completed the sale of our wholly-owned China farms in Ying and Yutian. We expect to complete the sale of our 85% interest in the remaining Hangu China farm within the 2022 Financial Year.

China Farms normalised EBIT increased \$23 million despite the financial performance of the Ying and Yutian farms only being included for the eight-months up to the date of sale, compared to the full 12 months in the comparative period. The increase in normalised EBIT is primarily attributable to lower input costs, livestock sales and no depreciation being recognised in the 2021 Financial Year. In the comparative period \$6 million of depreciation costs were recognised up to the point the China Farms were classified as held for sale. For accounting purposes depreciation ceases upon classification as held for sale.

DPA Brazil

Due to deteriorations in market conditions from COVID-19, the sale process of DPA Brazil was not completed during the 2021 Financial Year. We remain committed to the sale and expect the sale to be completed within the 2022 Financial Year.

DPA Brazil's sales volume increased 4% due to more consumption at home as a response to COVID-19. Gross profit declined 22% due to a weaker local currency. At a normalised EBIT level, the decline in gross profit was offset by a 26% decrease in operating expenses due to favourable impacts on costs as a result of the weaker local currency and no depreciation costs being recognised in the 2021 Financial Year. In the comparative period, \$8 million of depreciation costs were recognised up to the point DPA Brazil was classified as held for sale.

Discontinued Operations Performance

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	TOTAL			CHINA FARMS ¹			DPA BRAZIL		
	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²
Sales volume ('000 MT)	227	228	0%	22	15	(32)%	205	213	4%
Revenue	693	559	(19)%	282	195	(31)%	411	364	(11)%
Cost of goods sold	(531)	(429)	19%	(248)	(165)	33%	(283)	(264)	7%
Gross profit	162	130	(20)%	34	30	(12)%	128	100	(22)%
Operating expenses	(129)	(89)	31%	(24)	(11)	54%	(105)	(78)	26%
Other ³	(1)	15	-	1	15	1,400%	(2)	-	-
EBIT	32	56	75%	11	34	209%	21	22	5%
Gross margin	23.4%	23.3%		12.1%	15.4%		31.1%	27.5%	

1. Prior year numbers have been restated for rounding.
2. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Consists of other operating income and net foreign exchange gains/(losses).

Historical Summary

Market Statistics

	MAY 2017	MAY 2018	MAY 2019	MAY 2020	MAY 2021
Fonterra Milk Collection Statistics¹					
Total New Zealand milk collected (million litres)	17,051	16,932	17,123	16,876	17,121
Highest daily volume collected (million litres)	80.1	82.0	85.4	82.6	82.8
New Zealand shareholding farms milk solids collected (million kgMS)	1,517	1,489	1,495	1,486	1,505
New Zealand non-shareholding farms milk solids collected (million kgMS)	9	16	28	31	34
New Zealand milk solids collected (million kgMS)	1,526	1,505	1,523	1,517	1,539
	JULY 2017	JULY 2018	JULY 2019	JULY 2020	JULY 2021
Fonterra Supply Base					
Total number of shareholding farms ²	9,715	9,358	9,095	8,856	8,581
Total number of non-shareholding farms ²	82	126	133	155	246
Aggregate minimum shareholding requirement (million) ²	1,419	1,391	1,391	1,392	1,403
Dry shares held by shareholding farms (million) ²	109	155	161	158	144
Dry Shares held by custodian ² (equal to units in Fund) (million)	126	111	103	105	107
Total number of shares on issue (million)	1,607	1,612	1,612	1,612	1,613
Vouchers counting to aggregate minimum shareholding requirement (million) ²	47	45	43	43	41
Shareholder Supplier Returns					
Farmgate Milk Price (per kgMS) ²	6.12	6.69	6.35	7.14	7.54
Dividend (per share)	0.40	0.10	-	0.05	0.20
Dividend yield (%) ²	6.7%	1.7%	-	1.3%	4.6%
Total Pay-out ²	6.52	6.79	6.35	7.19	7.74
Retentions (per share) ²	0.06	-	-	0.38	0.16
Weighted average share price (\$ NZD) ²	5.96	5.84	4.63	3.79	4.32
Weighted Average Commodity Prices (\$ USD per MT FOB)					
Whole Milk Powder ³	2,855	3,091	2,907	3,110	3,323
Skim Milk Powder ³	2,216	1,968	2,216	2,755	3,012
Butter ³	4,221	5,575	4,448	4,140	4,117
Cheese ⁴	3,763	3,853	3,772	4,011	4,060
Fonterra's average NZD/USD conversion rate²	0.70	0.71	0.69	0.66	0.67
Staff Employed					
Total staff employed (000's permanent full-time equivalents)	21.4	21.5	20.0	19.6	18.7
New Zealand	11.7	11.9	11.4	11.5	11.5
Overseas	9.7	9.6	8.6	8.1	7.1

Total Group Overview (Continuing and Discontinued Operations)

	JULY 2017	JULY 2018	JULY 2019	JULY 2020	JULY 2021
Income Statement Measures					
Sales volumes ('000 MT)	4,180	4,123	4,152	4,069	4,102
Normalised revenue (\$ million)	19,214	20,431	19,920	20,975	21,124
Normalised EBITDA (\$ million) ²	1,681	1,446	1,373	1,506	1,594
Normalised EBIT (\$ million) ²	1,155	902	812	879	952
Normalised profit after tax attributable to equity holders of the Co-operative (\$ million)	781	382	264	382	550
Reported earnings per share	0.46	(0.14)	(0.35)	0.43	0.36
Normalised earnings per share	0.49	0.24	0.16	0.24	0.34
Revenue Margin Analysis					
EBITDA margin (%) ²	8.7%	7.1%	6.9%	7.2%	7.5%
EBIT margin (%) ²	6.0%	4.4%	4.1%	4.2%	4.5%
Profit after tax margin (%) ²	4.1%	1.9%	1.3%	1.8%	2.6%
Cash Flow (\$ million)					
Operating cash flow	1,376	1,548	1,123	1,492	1,194
Free cash flow ²	670	600	1,095	1,828	1,417
Net working capital ²	3,055	3,432	3,122	3,417	3,692
Capital Measures					
Equity excluding hedge reserves (\$ million)	7,056	6,616	6,102	6,602	6,895
Economic net interest-bearing debt (\$ million) ²	5,601	6,199	5,749	4,659	3,787
ENIBD gearing ratio (%) ^{2,5}	44.3%	48.4%	48.5%	41.4%	35.5%
Adjusted net debt gearing ratio (%) ^{2,5}	-	-	-	44.2%	38.5%
Debt to EBITDA ^{2,6}	3.8x	4.6x	4.3x	3.3x	2.7x
Average capital employed (\$ million) ²	13,439	13,469	13,419	12,313	12,281
Capital expenditure (\$ million) ²	851	861	600	419	545
Return on capital (%) ^{2,7}	8.0%	6.2%	5.6%	6.6%	6.6%

Asia Pacific^{8,9}

	JULY 2020	JULY 2021
Ingredients		
Sales volume ('000 MT) ¹⁰	623	610
Normalised revenue (\$ million)	3,692	3,654
Normalised gross profit (\$ million)	391	272
Normalised gross margin (%) ²	10.6%	7.4%
Normalised EBIT (\$ million)	148	44
Normalised EBIT margin (%) ²	4.0%	1.2%
Foodservice		
Sales volume ('000 MT) ¹⁰	154	163
Normalised revenue (\$ million)	915	930
Normalised gross profit (\$ million)	167	218
Normalised gross margin (%) ²	18.3%	23.4%
Normalised EBIT (\$ million)	27	79
Normalised EBIT margin (%) ²	3.0%	8.5%
Consumer		
Sales volume ('000 MT) ¹⁰	629	613
Normalised revenue (\$ million)	2,467	2,526
Normalised gross profit (\$ million)	649	705
Normalised gross margin (%) ²	26.3%	27.9%
Normalised EBIT (\$ million)	64	182
Normalised EBIT margin (%) ²	2.6%	7.2%
Total		
Sales volume ('000 MT) ¹⁰	1,406	1,386
Normalised revenue (\$ million)	7,074	7,110
Normalised gross profit (\$ million)	1,207	1,195
Normalised gross margin (%) ²	17.1%	16.8%
Normalised EBIT (\$ million)	239	305
Normalised EBIT margin (%) ²	3.4%	4.3%

Asia Pacific -Australia^{8,9,11}

	JULY 2020	JULY 2021
Total		
Milk collection (millions kgMS)	108	106
Sales volume ('000 MT) ¹⁰	406	373
Normalised revenue (\$ million)	2,036	1,953
Normalised gross profit (\$ million)	214	243
Normalised gross margin (%) ²	10.5%	12.4%
Normalised EBIT (\$ million)	54	74
Normalised EBIT margin (%) ²	2.7%	3.8%

AMENA^{8,9}

	JULY 2020	JULY 2021
Ingredients		
Sales volume ('000 MT) ¹⁰	1,031	912
Normalised revenue (\$ million)	6,506	5,784
Normalised gross profit (\$ million)	751	534
Normalised gross margin (%) ²	11.5%	9.2%
Normalised EBIT (\$ million)	400	211
Normalised EBIT margin (%) ²	6.1%	3.6%
Foodservice		
Sales volume ('000 MT) ¹⁰	47	61
Normalised revenue (\$ million)	235	338
Normalised gross profit (\$ million)	30	42
Normalised gross margin (%) ²	12.8%	12.4%
Normalised EBIT (\$ million)	(5)	15
Normalised EBIT margin (%) ²	(2.1)%	4.4%
Consumer		
Sales volume ('000 MT) ¹⁰	355	379
Normalised revenue (\$ million)	1,133	1,182
Normalised gross profit (\$ million)	276	328
Normalised gross margin (%) ²	24.4%	27.7%
Normalised EBIT (\$ million)	70	110
Normalised EBIT margin (%) ²	6.2%	9.3%
Total		
Sales volume ('000 MT) ¹⁰	1,433	1,352
Normalised revenue (\$ million)	7,874	7,304
Normalised gross profit (\$ million)	1,057	904
Normalised gross margin (%) ²	13.4%	12.4%
Normalised EBIT (\$ million)	465	336
Normalised EBIT margin (%) ²	5.9%	4.6%

AMENA -Latin America^{8,9,11}

	JULY 2020	JULY 2021
Total		
Sales volume ('000 MT) ¹⁰	346	379
Normalised revenue (\$ million)	926	1,045
Normalised gross profit (\$ million)	242	285
Normalised gross margin (%) ²	26.1%	27.3%
Normalised EBIT (\$ million)	42	75
Normalised EBIT margin (%) ²	4.5%	7.2%

Greater China^{8,9}

	JULY 2020	JULY 2021
Ingredients		
Sales volume ('000 MT) ¹⁰	691	824
Normalised revenue (\$ million)	3,513	4,259
Normalised gross profit (\$ million)	330	298
Normalised gross margin (%) ²	9.4%	7.0%
Normalised EBIT (\$ million)	179	130
Normalised EBIT margin (%) ²	5.1%	3.1%
Foodservice		
Sales volume ('000 MT) ¹⁰	257	274
Normalised revenue (\$ million)	1,531	1,691
Normalised gross profit (\$ million)	341	417
Normalised gross margin (%) ²	22.3%	24.7%
Normalised EBIT (\$ million)	223	275
Normalised EBIT margin (%) ²	14.6%	16.3%
Consumer		
Sales volume ('000 MT) ¹⁰	73	78
Normalised revenue (\$ million)	330	362
Normalised gross profit (\$ million)	107	121
Normalised gross margin (%) ²	32.4%	33.4%
Normalised EBIT (\$ million)	(36)	(2)
Normalised EBIT margin (%) ²	(10.9)%	(0.6)%
Total		
Sales volume ('000 MT) ¹⁰	1,021	1,176
Normalised revenue (\$ million)	5,374	6,312
Normalised gross profit (\$ million)	778	836
Normalised gross margin (%) ²	14.5%	13.2%
Normalised EBIT (\$ million)	366	403
Normalised EBIT margin (%) ²	6.8%	6.4%

New Zealand and Non-New Zealand Milk^{8,9}

	JULY 2020	JULY 2021
New Zealand Milk		
Sales volume ('000 MT) ¹⁰	3,003	3,016
Normalised revenue (\$ million)	17,212	17,331
Normalised gross profit (\$ million)	2,597	2,487
Normalised gross margin (%) ²	15.1%	14.4%
Normalised EBIT (\$ million)	777	791
Normalised EBIT margin (%) ²	4.5%	4.6%
Non-New Zealand Milk		
Sales volume ('000 MT) ¹⁰	839	858
Normalised revenue (\$ million)	3,070	3,234
Normalised gross profit (\$ million)	449	497
Normalised gross margin (%) ²	14.6%	15.4%
Normalised EBIT (\$ million)	70	105
Normalised EBIT margin (%) ²	2.3%	3.2%
Total		
Sales volume ('000 MT) ¹⁰	3,842	3,874
Normalised revenue (\$ million)	20,282	20,565
Normalised gross profit (\$ million)	3,046	2,984
Normalised gross margin (%) ²	15.0%	14.5%
Normalised EBIT (\$ million)	847	896
Normalised EBIT margin (%) ²	4.2%	4.4%

Discontinued Operations^{8,12}

	JULY 2018	JULY 2019	JULY 2020	JULY 2021
China Farms¹³				
Sales volume ('000 MT) ¹⁰	22	20	22	15
Normalised revenue (\$ million)	248	247	282	195
Normalised gross profit (\$ million)	(23)	(14)	34	30
Normalised gross margin (%) ²	(9.5)%	(5.7)%	12.1%	15.4%
Normalised EBIT (\$ million)	(33)	(14)	11	34
DPA Brazil				
Sales volume ('000 MT) ¹⁰	191	194	205	213
Normalised revenue (\$ million)	435	419	411	364
Normalised gross profit (\$ million)	132	116	128	100
Normalised gross margin (%) ²	30.3%	27.7%	31.1%	27.5%
Normalised EBIT (\$ million)	1	(8)	21	22

Notes to the Historical Summary

1. Fonterra Seasonal Statistics are based on the 12-month New Zealand milk season of 1 June – 31 May.

2. Refer to Glossary for definition.

3. Source: Fonterra Farmgate Milk Price Statement representing the weighted-average United States Dollar contract prices of Reference Commodity Products.

4. Source: Oceania Export Series, Agricultural Marketing Service, US Department of Agriculture.

5. During the 2021 Financial Year, the Board used the ENIBD gearing ratio to monitor the Group's gearing. In July 2021 the Board approved a new basis for calculating the Group's gearing ratio to align with the definition of debt used for the debt to EBITDA ratio, the adjusted net debt gearing ratio. This basis will be used to monitor the Group's gearing in the future.

6. Prior years' debt to EBITDA have been restated. Group changed the method of calculating adjusted net debt to align with how certain rating agencies calculate the Group's debt to EBITDA ratio. Previously, adjusted net debt included a further cash adjustment for 25% of cash and cash equivalents held by the parent.

7. For the 2021 Financial Year the notional tax charge was set to 16.1% (2020 Financial Year: 8.4%). The 2021 return on capital would be 7.2% if calculated with the prior notional tax charge. In 2021 the methodology to calculate return on capital was updated to align the definition of debt with the net debt (adjusted net debt) used in the debt to EBITDA ratio and exclude hedge reserves from total equity. The prior years have been restated for consistency with the current period attribution.
8. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.

9. Prepared on a Continuing Operations basis and includes normalisation adjustments. Comparative information has been restated for consistency with the current period attribution.

10. Includes sales to other segments.

11. Exclusive of Group Operations' attribution.

12. The China Farms business and DPA Brazil consumer and foodservice businesses both meet the definition of a Discontinued Operation. The Group's China Farms business comprises its 85% owned farm in Hangu and, up to the date of sale, its two-wholly owned farming hubs in Ying and Yutian. The financial performance of the Ying and Yutian farms up to the date the Group ceased to have control over the farms (1 April 2021), has been recognised as part of profit/(loss) after tax from discontinued operations in the Income Statement.

13. Prior year numbers have been restated for rounding.

Glossary

TERMS	DEFINITION FOR ANNUAL RESULTS
Adjusted net debt	is economic net interest-bearing debt, excluding long-term advances, plus borrowings attributable to disposal groups held for sale, less cash and cash equivalents attributable to disposal groups held for sale, plus a cash adjustment for 25% of cash and cash equivalents held by the Group's subsidiaries (including cash and cash equivalents attributable to disposal groups held for sale).
Aggregate Minimum Shareholding Requirement	means the total amount of shares required to be held by farmer shareholders to meet the Share Standard.
AMENA	represents the Ingredients, Foodservice and Consumer channels in Africa, Middle East, Europe, North Asia and Americas.
Asia Pacific	represents the Ingredients, Foodservice and Consumer channels in New Zealand, Australia, Pacific Islands, South East Asia and South Asia.
Attributable to equity holders of the Co-operative	is used to indicate that a measure or sub-total excludes amounts attributable to non-controlling interests.
Bulk liquids	means bulk raw milk that has not been processed and bulk separated cream.
Average capital employed	is a 13-month rolling average of capital employed.
Capital employed	is adjusted net debt less the cash adjustment (used in calculating adjusted net debt), plus cash and cash equivalents held by subsidiaries for working capital purposes, plus equity excluding hedge reserves and net deferred tax assets.
Capital expenditure	comprises purchases of property (less specific disposals where there is an obligation to repurchase), plant and equipment and intangible assets (excluding purchases of emissions units), net purchases of livestock, and includes amounts relating to disposal groups held for sale.
Capital invested	comprises capital expenditure plus right of use asset additions and business acquisitions, plus equity contributions and long-term advances provided to, and investments in, entities that are not controlled.
Consumer	represents the channel of branded consumer products, such as powders, yoghurts, milk, butter and cheese.
Continuing Operations	means operations of the Group that are not discontinued operations.
Voucher	means a voucher provided to a farmer shareholder who transferred the Economic Rights of a Wet Share to the Fund, and which can be used to count towards a farmer shareholder's Share Standard.
Custodian	means the Fonterra Farmer Custodian, which is the legal holder of the shares in respect of which Economic Rights are held for the Fund.
Debt to EBITDA	is adjusted net debt divided by Total Group normalised earnings before interest, tax, depreciation and amortisation (Total Group normalised EBITDA) excluding share of profit/loss of equity accounted investees and net foreign exchange gains/ losses.
DIRA	means the Dairy Industry Restructuring Act 2001, which authorised Fonterra's formation and regulates its activities, subsequent amendments to the Act, and the Dairy Industry Restructuring (Raw Milk) Regulations 2012.
Discontinued Operations	means a component of the Group that is classified as held for sale (or has been sold) and represents, or is part of a single co-ordinated plan to dispose of, a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.
Dividend yield	is dividends (per share) divided by volume weighted average share price for the period 1 August to 31 July.
Dry Shares	means any shares held by a farmer shareholder in excess of the number of shares required to be held by that farmer shareholder in accordance with the Share Standard for a season.
Earnings before interest and tax (EBIT)	is profit before net finance costs and tax.
Earnings before interest, tax, depreciation and amortisation (EBITDA)	is profit before net finance costs, tax, depreciation and amortisation.

GLOSSARY CONT.

TERMS	DEFINITION FOR ANNUAL RESULTS
Earnings per share (EPS)	is profit after tax attributable to equity holders of the Co-operative divided by the weighted average number of shares on issue for the period.
EBIT margin	is EBIT divided by revenue from sale of goods.
EBITDA margin	is EBITDA divided by revenue from sale of goods.
Economic net interest-bearing debt	is total borrowings, plus bank overdraft, less cash and cash equivalents and long-term advances, adjusted for derivatives used to manage changes in hedged risks on debt instruments. It excludes net borrowings amounts attributed to disposal groups held for sale.
Economic Rights	means the rights to receive dividends and other economic benefits derived from a share, as well as other rights derived from owning a share.
Farmgate Milk Price	means the average price that Fonterra pays for milk supplied to it in New Zealand for a season. The season refers to the 12-month milk season of 1 June to 31 May. The Farmgate Milk Price is set by the Board, based on the recommendation of the Milk Price Panel. In making that recommendation, the Panel provides assurance to the Board that the Farmgate Milk Price has been calculated in accordance with the Farmgate Milk Price Manual.
Fonterra's average NZD/USD conversion rate	is the rate that Fonterra has converted net United States Dollar receipts into New Zealand Dollars including hedge cover in place.
Foodservice	represents the channel selling to businesses that cater for out-of-home consumption; restaurants, hotels, cafés, airports, catering companies etc. The focus is on customers such as; bakeries, cafés, Italian restaurants, and global quick-service restaurant chains. High performance dairy ingredients including whipping creams, mozzarella, cream cheese and butter sheets, are sold in alongside our business solutions under the Anchor Food Professionals brand.
Free cash flow	is the total of net cash flows from operating activities and net cash flows from investing activities.
Gearing ratio (adjusted net debt)	is adjusted net debt divided by total capital. Total capital is equity excluding hedge reserves, plus adjusted net debt. It includes net borrowings attributed to disposal groups held for sale.
Gearing ratio (economic net interest-bearing debt)	is economic net interest-bearing debt divided by total capital. Total capital is equity excluding hedge reserves, plus economic net interest-bearing debt. It excludes net borrowings attributed to disposal groups held for sale.
Global Accounts	means large scale, multi-national/multi-region customers.
Global Dairy Trade (GDT)	means the electronic auction platform that is used to sell commodity dairy products.
Greater China	represents the Ingredients, Foodservice and Consumer channels in Greater China, and the Falcon China Farms JV.
Gross margin	is gross profit divided by revenue from sale of goods.
Group Operations	comprises functions under the Chief Operating Office (COO) including New Zealand milk collection and processing operations and assets, supply chain, Group IT, Sustainability and Innovation; Farm Source™ retail stores; and the Central Portfolio Management function (CPM).
Held for sale	an asset or disposal group is classified as held for sale if it is available for immediate sale in its present condition and its sale is highly probable. A disposal group is a group of assets and liabilities to be disposed of (by sale or otherwise) in a single transaction.
Ingredients	represents the channel comprising bulk and specialty dairy products such as milk powders, dairy fats, cheese and proteins manufactured in New Zealand, Australia, Europe and Latin America, or sourced through our global network, and sold to food producers and distributors.
kgMS	means kilograms of milk solids, the measure of the amount of fat and protein in the milk supplied to Fonterra.
Net debt	means economic net interest-bearing debt.
Net tangible assets per security	is net tangible assets divided by the number of equity instruments on issue. Net tangible assets is calculated as net assets less intangible assets.
Non-reference products	means all dairy products, except for reference commodity products manufactured in NZ.

TERMS	DEFINITION FOR ANNUAL RESULTS
Non-Shareholding Farm	means a farm where the owning entity is not entitled to hold shares in the Co-operative. As an example, farms supplying MyMilk.
Normalisation adjustments	means adjustments made for certain transactions that meet the requirements of the Group's Normalisation Policy. These transactions are typically unusual in size and nature. Normalisation adjustments are made to assist users in forming a view of the underlying performance of the business. Normalisation adjustments are set out in the Non-GAAP Measures section.
Normalised	is used to indicate that a measure or sub-total has been adjusted for the impacts of normalisation adjustments. E.g. 'Normalised EBIT'.
Product channel	Fonterra has three product channels, Ingredients, Foodservice and Consumer.
Profit after tax margin	is profit after tax attributable to equity holders of the Co-operative, divided by revenue from sale of goods.
Reference commodity products (also referred to as reference products)	means the commodity products used to calculate the Farmgate Milk Price, comprising Whole Milk Powder, Skim Milk Powder, Butter Milk Powder, Anhydrous Milk Fat and Butter.
Reported	is used to indicate a sub-total or total is reported in the Group's Financial Statements before normalisation adjustments. E.g. 'Reported profit after tax'.
Retentions	means profit after tax attributable to equity holders of the Co-operative, divided by the number of Co-operative shares on issue, less dividend per share. Retentions are reported as nil where Fonterra has reported a net loss after tax.
Return on capital	is Total Group normalised EBIT including finance income on long-term advances less a notional tax charge, divided by average capital employed.
Shareholding Farm	means a farm where the owning entity of the farm has a minimum required shareholding of at least 1,000 shares in the Co-operative. This includes farms where the owning entity is in the process of sharing up on a share up over time contract.
Share Standard	means the number of shares a farmer shareholder is required from time to time to hold as determined in accordance with the Constitution, currently being one share for each kilogram of milk solids obtainable from milk supplied (excluding milk supplied on contract supply) to Fonterra. For these purposes milk supplied is based on a three season rolling average of a farm's production.
Season	New Zealand: A period of 12 months from 1 June to 31 May Australia: A period of 12 months from 1 July to 30 June China: A period of 12 months from 1 August to 31 July
Total Group	is used to indicate that a measure or sub-total comprises continuing operations, discontinued operations and non-controlling interests. E.g. 'Total Group EBIT'.
Total Pay-out	means the total cash payment to a 100% share backed farmer shareholder, being the sum of the Farmgate Milk Price (kgMS) for every milk solid supplied and the dividend for every share held.
Unallocated costs and eliminations	represents corporate costs including Co-operative Affairs and Group Functions; and any other costs that are not directly associated to the reporting segments; and eliminations of inter-segment transactions.
WACC	means weighted average cost of capital.
Weighted average share price	represents the average price Fonterra Co-operative Group Limited shares traded at, weighted against the trading volume at each price over the reporting period.
Wet Shares	means any shares held by a farmer shareholder in accordance with the Share Standard for a season.
Working capital	is total trade and other receivables plus inventories, less trade and other payables. It excludes amounts owing to suppliers and employee entitlements.
Working capital days	is average working capital divided by revenue from sale of goods, multiplied by the number of days in the period.

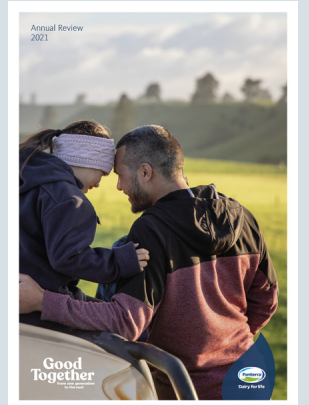
Our 2021 Suite of Reports

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



OUR REPORTS ARE AVAILABLE FROM
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Annual Review
2021



Sustainability Performance
Report 2021



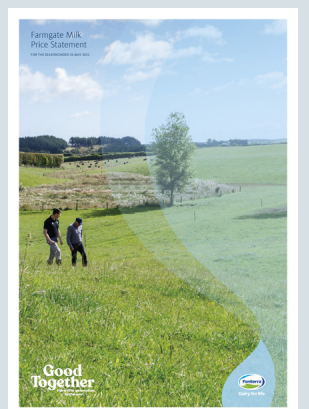
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2021



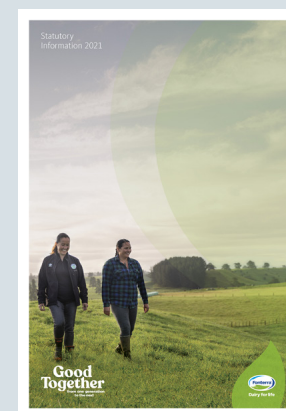
Corporate Governance
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Farmgate Milk Price
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Statutory Information
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