

Sustainability
Performance
Report 2021



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



Stephanie, Auckland

FRONT COVER:
Stephanie, Teagan & Keeley, Auckland

About this report

This report covers the activities of Fonterra Co-operative Group Limited and of joint ventures under Fonterra’s management control. It covers year ending 31 July 2021 – ‘FY21’ and is one supporting document to the Annual Review 2021, forming an integrated suite of reports.

www.fonterra.com/annualreview2021

In certain sections throughout the report, we have included data relating to periods prior to FY21 where such data is relevant to, or useful context for the reader. Where we have done so, we have made it clear which year(s) the data relates to.

This is our fifth sustainability performance report (our first was in 2017) and we intend to continue this reporting on an annual basis. This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option (see page SP-65 for an index of disclosures).

Independent assurance of the report has been completed by Bureau Veritas. This provides assurance that the report complies with GRI Standards and provides an accurate and fair representation of Fonterra’s sustainability performance. Refer to the Assurance Statement on page SP-67.

We know the importance of understanding stakeholder perspectives, so we’d appreciate your feedback on this report and our performance. Please email us at sustainability@fonterra.com

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Our approach

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



Laura & Ben, Auckland

Healthy People

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



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

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

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

Long-term contribution



Stephanie & Keeley, Auckland

Healthy Environment

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



**Tiakina te whenua i tēnei rā, hei oranga tangata
mō ngā rā e heke mai nei.**

**Caring for the land today, so that the land cares
for us tomorrow.**

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

Long-term contribution



Farmer, Waikato

Healthy Business

We are working together to deliver a sustainable business



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

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

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

Long-term contribution



Our progress



Laura & Ben, Auckland

Healthy People



9 ↓

serious harms, continued improvement on 10 in FY20 but our focus remains on achieving zero harm (see page SP-14).

3.8% ↓

gender pay gap in New Zealand, narrower than FY20 and gap closing across all job categories globally (see page SP-19).

28.1% ↑

increase in on-the-job training and reskilling hours, ahead of plan to deliver our Aotearoa New Zealand Skills Pledge (see page SP-16).

32.4% ↑

female representation in senior leadership is improving but slower than target (see page SP-18).



Stephanie & Keeley, Auckland

Healthy Environment



53% ↑

of farms supplying us milk in New Zealand now have detailed farm-specific Farm Environment Plans (see page SP-26)

11% ↓

reduction in our carbon emissions from coal use with Te Awamutu moving to renewable wood pellets (see page SP-30)

0.6% ↑

increase in total reported overall (Scope 1, 2 and 3) emissions (see page SP-32)

360 REPREEVE®

Farm Source™ launched a range of farm workwear made from recycled plastic bottles (see page SP-34)



Farmer, Waikato

Healthy Business



\$11.6 billion ↑

paid to farmers in New Zealand for the 2020/21 season (see page SP-41).

2.7x ↓

debt levels continue to reduce with debt/EBITDA down to 2.7x (see Business Performance Report page BP-13).

34c ↑

normalised earnings per share up to 34c (see Business Performance Report page BP-47).

3,246 ↑

farms in New Zealand achieved one of the recognition levels in our Co-operative Difference framework (see page SP-43).

Message from the Sustainability Advisory Panel



Bridget Coates
CHAIR



Paul Gilding



Aroha Mead



Dr. J Morgan Williams QSO



Corrigan Sowman

As an independent Advisory Panel, our primary role is one as ‘honest critic’, bringing independent challenge and advice to management and Board, on a wide range of issues. The context around the company and the global dairy industry has continued to evolve during the year, and the scale of the challenge has increased as the pressures of climate change intensify.

Our work this year has centred around the wider themes of Fonterra’s leadership through change, with farmers and across the wider Aotearoa New Zealand community. We have been evaluating latest thinking on the future for dairy and farming, considering how to celebrate and strengthen the Co-operative culture, examining ways of creating value from sustainability initiatives with global customers and consumers, and addressing material risks for Fonterra and its farmer shareholders. We have reviewed the “Net Zero” undertakings by some of Fonterra’s major global customers (such as Nestlé) and considered the scale of change for New Zealand dairy that is indicated by those plans.

Critical priorities such as climate action, improving environmental outcomes (including water quality), framing the narrative around dairy and farming, and building social license in NZ have woven through all of these themes. We have also focused on te ao Māori and the company’s engagement with tangata whenua.

During our tenure as a Panel, we are honoured to have helped accelerate the embedding of a sustainability mindset across the company as a whole, and to have assisted with the Co-operative’s wider sustainability change journey. We are pleased to see increasingly clear strategies and leadership from Fonterra which will help New Zealand dairy and its wider eco-system adjust to the new realities of the global industry, as they emerge.

Bridget Coates
Chair, Fonterra Sustainability Panel

Panel members:
Paul Gilding
Aroha Mead
Dr. J Morgan Williams QSO
Corrigan Sowman

[Read full biographies online](#)



Role of the panel:

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

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

Responding to what's important

Engaging with our stakeholders

Taking into account the views and perspectives of our stakeholders, and building relationships, is critical to the long-term success of our Co-operative.

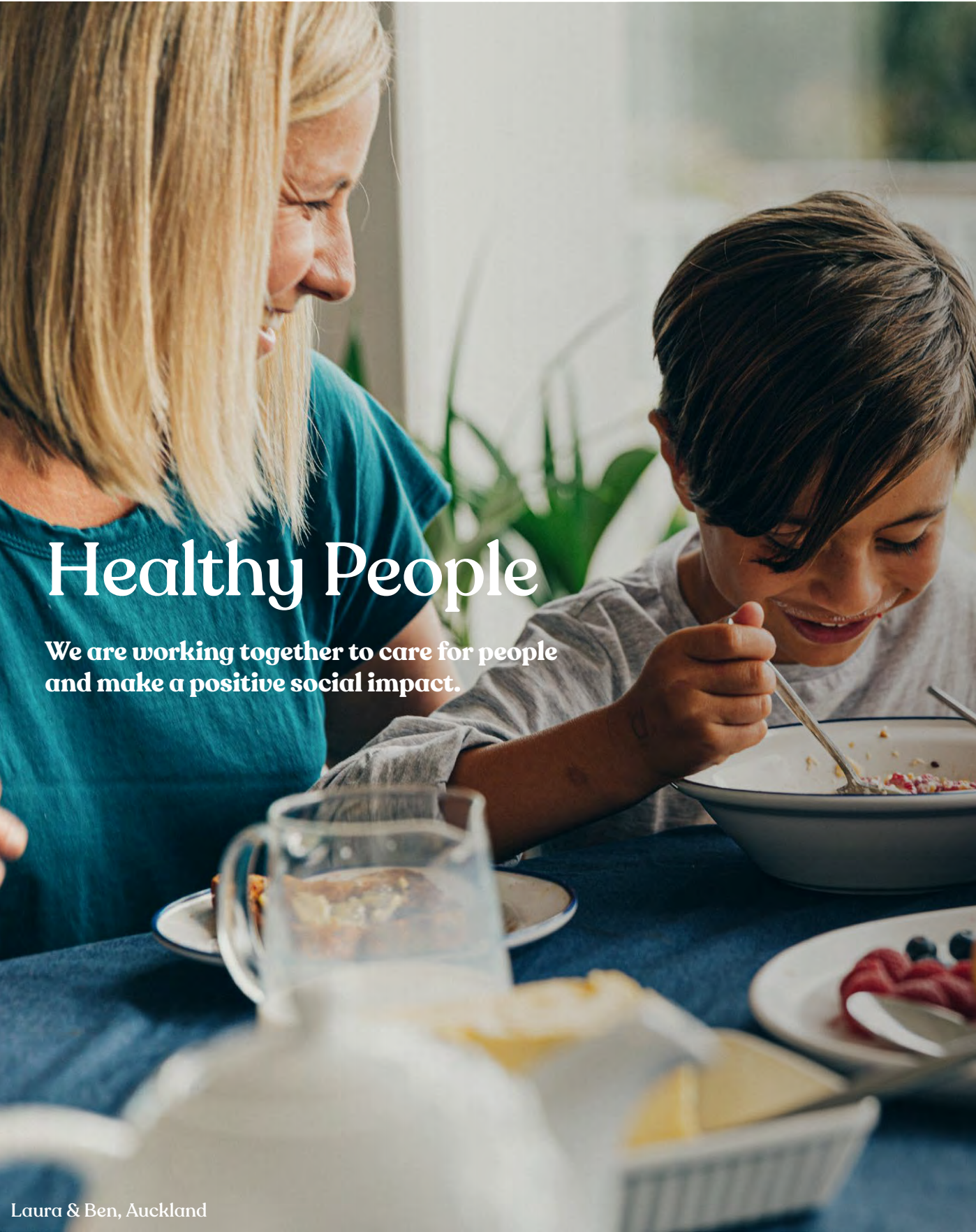
We consider our stakeholders to be those individuals or entities that are significantly impacted by our products and the activities required to source, make and distribute these or whose actions affect our ability to deliver our strategy (see Annual Review page AR-26).

Determining what's important

Using a combination of the relative importance to our stakeholder groups and the significance of our impacts, this year we have refreshed our list of most material topics. This is used to help us prioritise areas for improvements and the importance of disclosure in this report.

The table on the right lists the most important topics, in order, and identifies where we cover our response in our reporting. For further details on the process and findings see page SP-62.

Topic	Reporting on our response
Ensuring the <i>food safety and quality</i> of the products we deliver.	See Food safety and quality on page SP-12
<i>Adapting to the effects of climate change</i> , while mitigating our impacts.	See Climate change on page SP-27
Using <i>water</i> responsibly, including water quality, availability and disposal.	See Land and water on page SP-23
<i>Protecting the health and safety of people at work</i> , including their wellbeing.	See Health, safety and wellbeing on page SP-14
<i>Protecting animal health and welfare</i> within our supply chain, including caring for our cows and responsible use of antibiotics.	See Animal wellbeing on page SP-36
Supporting the livelihood of thousands of people through meaningful <i>employment and sustainable income creation</i> , including the milk price for our shareholder farmers.	See Employment and sustainable income creation on page SP-40
Protecting <i>soil health</i> which is essential for sustainable food production, including nutrient management.	See Land and water on page SP-23
Contributing to <i>nutrition and health</i> through the products and information we deliver, including reducing obesity and under-nutrition.	See Nutrition and health on page SP-08
<i>Maintaining ethical business practices</i> fundamental to the way we work, including anti-corruption and fair competition.	See Ethical business practices on page SP-46
Using <i>responsible procurement</i> to influence environmental, social and economic performance along our supply chain.	See Responsible procurement on page SP-44
<i>Protecting and enhancing biodiversity</i> and the underlying ecosystem services we rely upon, including the impact of deforestation.	See Land and water on page SP-23 See Responsible procurement on page SP-44
Protecting the <i>employment rights and working conditions</i> of our people, including diversity and inclusion, women's empowerment and learning and development.	See Employment rights on page SP-16
Minimising <i>post-consumption waste</i> , including product packaging and food waste.	See Packaging and waste on page SP-33



Healthy People

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

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

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

To do this we are:

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

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

We are looking after people’s safety and wellbeing, providing employees with development opportunities and supporting the communities we live and work in.

It’s all part of making sure dairy plays its part in a sustainable food system.

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Food safety and quality	SP-12
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Employment rights	SP-16
Supporting communities	SP-20

84% ↑

of our everyday and advanced nutrition products now meet our independently endorsed nutritional guidelines – see page SP-09

5.7 ↓

Injury rate and serious harm both reduced but our focus remains on achieving zero harm – see page SP-15

28.1% ↑

increase in on-the-job training and reskilling hours, ahead of plan to deliver our Aotearoa New Zealand Skills Pledge – see page SP-16

KickStart Breakfast grew to over **1,300 schools** across New Zealand, serving more than 180,000 breakfasts per week – see page SP-20

Laura & Ben, Auckland

Nutrition and health

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

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



Milk provides protein and a wide range of vitamins and minerals for relatively low calories, which makes it both nutrient-rich and nutrient-dense. The proteins found in dairy products have essential amino acids that are both easy to digest and in proportions that meet human needs. Many nutrients (especially calcium) are also in an easily absorbed form.

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

Our approach

The Fonterra Group Nutrition Policy sets out our overarching commitments including delivering science-based nutrition and health benefits, products tailored to specific nutritional needs and marketing these in a responsible manner. Supporting the policy are detailed guidelines that define nutrition criteria and principles for the composition and marketing of our consumer products and ingredients.

The New Zealand Nutrition Foundation has independently reviewed and endorsed these guidelines as evidence-based, founded in robust nutritional science and reflecting international

directives on nutrition and health. These guidelines complement national food standards and regulations, as well as our own educational and advocacy activities to raise awareness of the value of dairy nutrition in healthy, balanced diets.

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

We support and promote the aim and intent of the World Health Organisation (WHO) Code for the Marketing of Breast Milk Substitutes. This includes the recommendation for six months of exclusive breastfeeding and continued breastfeeding, with suitable nutritious complementary feeding, up to two years of age and beyond. We are committed to complying with the relevant industry codes and legislation in all countries where our products targeting infants and young children are sold.

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

What we've been doing

Investing in innovation

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

Human milk is the gold standard for feeding infants. However, when breastfeeding is not possible, infant formula is the only suitable alternative and an area of ongoing research. Human milk fat globule membrane (MFGM) has multifunctional health benefits and this year a Fonterra supported study, evaluating the neurodevelopment and growth of infants fed a formula enriched with bovine milk-derived MFGM, was accepted for publication. The study found that, compared to standard formula, MFGM-enriched formula supported adequate growth, increased serum gangliosides concentration and improved some measures of cognitive development in Chinese infants including social, emotional and adaptive behaviour and short-term memory.



"We work very closely with the global application centres and in-market sales teams to understand what customers want and then focus our research and development to deliver products that meet these emerging needs."

MARK PIPER – DIRECTOR OF CATEGORY, STRATEGY AND INNOVATION

Market-led innovation

To support our growing foodservice business in Southern China, we have revamped our application centre in Guangzhou. It now features different zones for various products, including a new area dedicated to beverages. Recognising that consumer preferences in different markets can be very different, our application centres provide an important link between our customers and our research and development teams.

Fonterra's Guangzhou Application Centre serves customers across nine provinces, with ten chefs able to host more than 70 large and 150 small demonstrations each year. We have other application centres located in Beijing, Shanghai, and Chengdu, and plans to open more.

Improving the nutritional profile of our consumer products

We are continuing to improve the formulation of our consumer products, taking into consideration the levels of dairy protein and calcium, while also minimising the addition of sugars, refined carbohydrates, non-nutritive sweeteners, sodium and saturated fat. Our nutrition guidelines also reflect our support for the global public health objective to reduce the intake of industrially-produced trans fats from partially hydrogenated oils.

This year we updated our nutrition guidelines to further align with international health authorities and regulatory recommendations, and to simplify the definitions. These have been re-endorsed by the New Zealand Nutritional Foundation and we have made them publicly available on our website.

Our target is for 100% of our everyday and advanced nutrition consumer products, such as yoghurt and fortified milk powders, to meet our independently endorsed nutrition guidelines by 2025. This year, on a volume sold basis and using the new guidelines, we improved from 82¹ to 84%.

Healthier options for women in the Philippines



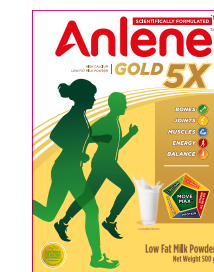
Annum™ Materna is specially formulated to meet the nutritional needs of pregnant women or women planning to have children. This year we launched a no added sugars formulation in the Philippines for pregnant women who are at risk of, or suffering from, Gestational Diabetes.

Fonterra Brands Sri Lanka – extends options at home and abroad



This year in Sri Lanka, we launched Anchor™ PediaPro, our first ever toddler cereal intended for children aged one-three years. Aligned with Anchor Pedia's product portfolio, this toddler cereal is fortified with Iron and Omega 3 to support cognitive development while adding five different grains and two fruits to the core goodness of milk.

We also reformulated our Anlene™ product extending its benefit from 'Bone Health' to bring in additional benefits in the form of 'Muscles, Joints, Energy & Immunity'. At the same time we have also improved the taste according to trials completed with potential consumers.



Looking beyond Sri Lanka's domestic value we also launched Anlene Gold 5X™ for neighbouring emerging markets. In Sri Lanka, Anlene Gold 5X™ was made and customised for export to Mauritius in FY21 and this will be extended to the Maldives in FY22. As we age, our bones, joints and muscles start deteriorating and affect our mobility, flexibility and energy to perform daily activities. Based on the findings of our 'LET's Move' study, women aged 45-65 who consumed two glasses of fortified milk along with regular exercise, experienced two times the improvement in flexibility, three times the improvement in balance and 40% more improvement in muscle mass compared to the control group².



1 Using the newly endorsed guidelines, the result for FY20 improves from 73% as reported last year, to 82%.
 2 Am J Clin Nutr 2020; 112:427 – 446.

Probiotics

Probiotics are living organisms that provide proven health benefits. Including them in our diet can support immunity and digestion by improving gut integrity and barrier function. Probiotics can help improve digestion process time, protect against tummy upsets and reduce the risk of certain types of infections.

Fonterra began this research programme over 20 years ago, screening more than 2,000 bacterial strains to identify potential probiotics. This led to the discovery of LactoB HN001™ isolated from a New Zealand cheddar cheese culture, and BifidoB HN019™ from a yoghurt culture. This research is ongoing, tapping into Fonterra's extensive culture collection, as we look for improved strains.

This year, there has been a global surge in interest for ingredients that support immune function. The clinically-proven benefits of our premium probiotic ingredients mean we have continued to gain market share with sales growth particularly strong in China.

Innovating to support customer formulation decisions

The health and wellness nutrition market is growing quickly. More people are looking for nutrition products to support their focus on a healthy, active lifestyle. Many of our NZMP™ food and beverage customers are developing new consumer ready-to-drink beverages or snack bar products to satisfy this demand. These need to be in formats that appeal to consumers and let them access the nutrition. To help these customers understand options and make ingredients and formulation decisions in these COVID-affected times of restricted travel, our Active Living team innovated to provide digital solutions.

Hosted on the NZMP website, the team built two digital tools: 'Build My Bar' launched in July 2020 and 'Build Your Beverage' launched in October 2020. These tools are available to all markets and they guide the customer through a series of steps to define the key attributes of their new or refined product and then help them select the best combination of NZMP dairy ingredients to meet them.

The 'Build My Bar' tool helps customers select suitable ingredients for nutritional snack bars considering attributes such as bar type, protein content and texture. The 'Build Your Beverage' tool helps customers in a similar way for ready-to-drink beverages, considering attributes such as sugar content, heat stability and viscosity. During FY21, the primary markets for bar products were USA and Europe and for beverages were USA, Japan, China and Europe.

These digital tools not only help our customers to understand options and investigate ways of refining formulations, it also allows our sales and innovation teams to connect with current and prospective customers in the new restricted travel and socially-distanced world. We are able to talk through our wide portfolio of ingredients, and how different options and combinations can meet specific functional attributes and benefits.

For the nutrition bar market, the team also hosted educational webinars to provide additional insights and even sent out samples to attendees in advance to allow remote guided tastings.

Lipids ingredients for adult mental wellbeing

Psychological stress is a serious and growing health concern across generations, impacting day-to-day performance.

In a market first, our Active Living team launched two new ingredients this year that include milk phospholipids to support mental wellness. One is ideal for protein fortified food and ready-to-mix applications. The other is ideal in standalone products and ready-to-drink applications.

Naturally present in milk, milk phospholipids are complex lipids that are clinically proven to manage the effects of stress, helping to maintain performance by staying focused and positive. Independent clinical trials have shown that phospholipids may help adult mental wellbeing by supporting better mental performance during a

stressful event, such as a test or an examination. The initial launch is for consumers in the USA and Europe with plans for further expansion into other regions.



According to the United Nations, sustainable healthy diets are

“dietary patterns that promote all dimensions of individuals’ health and wellbeing; have low environmental pressure and impact; are accessible, affordable, safe and equitable; and are culturally acceptable”¹

Sustainable Nutrition Initiative

The Sustainable Nutrition Initiative (SNI) is an international collaboration led by food science research centre, The Riddet Institute at Massey University. The SNI was created to improve understanding about sustainable food systems and identify opportunities for improvement. Fonterra Research and Development employees provide support to the initiative, including our Chief Science and Technology Officer in his capacity as Professor of Sustainable Nutrition at the Riddet Institute.

The global food system is under justified scrutiny from an environmental sustainability perspective. However, it is essential the nutritional implications of any change are not forgotten. The DELTA model enables future food system scenarios to be investigated from a nutrition perspective, so this can be considered alongside the other aspects of sustainability.

The DELTA model has several aspects that make it novel compared to other existing models for global nutrition. First, it is openly available for use to gain a better understanding of the problem and explore scenarios for themselves. Second, it takes into account the bioavailability of nutrients – the ability of the body to obtain and use the nutrients according to the nutrient source. Third, it includes upper and lower levels for safe intake of nutrients rather than just the recommended target.

This year, details of the DELTA model and some key results were published in the [Journal of Nutrition](#)². One of the key insights from the model is that the food system needs to be plant-based and animal-optimised, complemented by agri-tech-based production of nutrients. To a great extent this is already the situation with plant-based food accounting for 8.6 billion out of the 10.1 billion tonnes of global food that leaves the world’s farms and oceans. The model also highlights the important role that milk plays in providing many of the nutrients.

Based on 2018 data, there is enough food energy, carbohydrate, protein and fat (i.e. macronutrients) produced to feed more than 8.5 billion people. Undernourishment results from other factors such as the unequal distribution of food, affordability, geo-politics and poor personal choices. A bigger problem is the supply of micronutrients and trace elements such as Calcium, Iron, Potassium and Vitamins. A diet lacking these can have serious implications for the individual’s health and their children. Called “hidden hunger” this currently affects more than two billion people.

Expanding food production at current levels of efficiency will not be practical within environmental constraints. To close this gap, developments in technology are required to find new ways of producing nutrients, such as fermentation-produced nutrition, alongside traditional food production.

Investigating complementary nutrition

Dairy is recognised by governments and health experts around the world as a unique source of nutrition with the flexibility to play an important role in healthy, balanced diets. We are confident consumers will continue to value the natural goodness of dairy, especially our pasture-based dairy from New Zealand. We also support consumer choice and we are open-minded to this.

Complementary nutrition – where plant, insect, algae and fermentation-produced nutrition co-exist alongside animal-sourced foods – is a relatively new but fast evolving area. Being involved gives us the opportunity to learn and evaluate longer-term opportunities. In early in 2019, we made a minority investment in Motif™. Motif is a Boston-based start-up that is using biotechnology and fermentation to improve the taste, texture and nutrition of plant-based foods.

Our performance

84% 

of our everyday and advanced nutrition products now meet our independently endorsed nutritional guidelines³.

Compliance with regulations

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

What’s next

We will continue to improve the nutritional value of our consumer branded products, minimising added sugars and salt, and eliminating industrially-produced trans fats.

We will continue to invest in research and development and new innovations for our entire product range.

1 FAO and WHO. 2019. Sustainable healthy diets – Guiding principles. Rome.
2 Nick W Smith, Andrew J Fletcher, Lakshmi A Dave, Jeremy P Hill, Warren C McNabb, Use of the DELTA Model to Understand the Food System and Global Nutrition, The Journal of Nutrition, 2021.
3 Assessment of products is based on protein, calcium and added sugars. Everyday nutrition products are intended to deliver a daily source of dairy nutrition. Advanced nutrition products provide a source of dairy nutrition and are fortified for advanced nutrition and health benefits.

Food safety and quality

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

Our approach

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

Our Food Safety and Quality System ensures that, wherever we are in the world, we have a clear, consistent framework to deliver safe, quality products and services. It is made up of four key components: our Food Safety Policy, business unit requirements, partner requirements, and our food safety and quality behaviours.

All our food products are assessed for health and food safety impacts prior to initial launch and on an ongoing basis. This includes detailed processes for new product development, manufacturing and product sampling and testing, including shelf life studies. To evaluate our performance, manufacturing sites are subject to an internal audit programme and regular scrutiny from third-party audits by regulators, key account customers and certification bodies. Where areas are identified for improvement, these are acted upon.

We are guided on best-practice by multiple international food safety and quality standards and more than 95% of our manufacturing sites are independently certified to a leading food safety management system (e.g. FSSC22000, BRC).



What we've been doing

Product traceability

Having full traceability of the products we deliver back to the farms where we collected the milk, including the food-contact packaging and other ingredients, is a vital part of our food safety system. It also allows us to demonstrate the provenance of the product from a social and environmental perspective. For many years we have been able to trace our product reliably but some of the manual steps involved took significant time.

After years of innovation, design and significant investment, 93% of our global manufacturing plants are electronically connected to our integrated Global Traceability System. For these plants we have 100% electronic traceability from the farm vat or milk

collection centre to the first sale to the customer. This means we can track the origins of nearly any product and more than 99% of our New Zealand milk supply within minutes. For the remaining 7% of our global manufacturing plants, all have some electronic trace capability within their own local systems and some manual steps are required to complete the analysis.

This underlying technology lets us provide innovative new services for our customers and our teams around the world. For example, our Product Authentication service, which allows a consumer to scan a QR code with their mobile phone at point of sale or thereafter, to uniquely identify the pack in their hand and access specific information about its authenticity and provenance. This service is available in seven markets and this year we extended it to cover all Annum™ products in Malaysia and new products in China. We have also deployed product authentication with our third-party manufacturers.



Milk samples taken at each farm collection, ready for testing.

Trust in Source

This year we continued to focus on building food safety and quality (FSQ) as a core part of our organisational culture. Covid-19 restrictions mean we no longer have a small team of experts who can travel, so we are now focused on establishing local teams with the correct capabilities and tools to add further value to this essential function.

This also requires a cultural change, safely empowering the local experts and providing opportunities for them to grow. This year we've rolled out a learning programme developed in FY20 to cohorts in Europe, Sri Lanka and Middle East.

We also completed the rollout of our remote auditing approach for new and existing third-party manufacturers (TPMs). An initial risk-based assessment determines the approach to the auditing. We will continue to monitor and improve this process, recognising that it's the new operating model for the post-pandemic world.

Working to leading standards

With more than 95% of our manufacturing sites already certified to a leading food safety management system (e.g. FSSC22000 or BRC), this year we commenced our transition of FSSC22000 sites from version 5 to version 5.1. More than 13% of our manufacturing sites have now achieved certification at this new level. The enhanced requirements include expectations on culture that are well-aligned with the work we have been progressing under Trust in Source.

In line with this, when we're engaging new TPMs, we're setting the expectation that they too should be progressing towards leading standards certification, including GFSI and FSSC22000.

Our performance

During the year, there were no consumer recalls of product for safety reasons and no legal or regulatory non-compliances related to FSQ.

What's next

We will maintain our certification to leading food safety management systems by continuing our transition to the latest version of FSSC22000 and using the lessons we've learned to broaden our influence on the supply chain.

We will continue to deploy and improve our remote global assurance process to support our risk management across the full product lifecycle.

We will commence the next phase of our digital platform development to capture, manage and report food safety and quality information. It will rationalise the number of systems our teams need to use and allow them to efficiently make decisions based on reliable data.

We will continue to proactively manage the risk of food crime by further integrating food crime prevention as a core outcome, primarily through the protection of our sites and the support of our people.

We will continue to review opportunities for further automation in milk collection, manufacturing and distribution to improve the efficiency and reliability of data collection to give us even more real-time access to information.

Health, safety and wellbeing

Our ambition is for all our people to return home safely every day, everywhere. That’s why continuously improving health, safety and wellbeing is fundamental to our business.

Our approach

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

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

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

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

We monitor our performance using a number of reactive and preventative, lead and lag indicators. These include injury rates and findings from self-assurance, internal audits and event investigations. We use this information to seek improvements, identifying and controlling risk from credible hazards and maintaining a strong safety culture with regular training and employee engagement.

What we’ve been doing

Caring for our whānau (extended family) during COVID-19

Around the world COVID-19 has affected our people in different ways and to differing levels throughout the year and it continues to do so. Ensuring our employees remain healthy and safe has been our priority and we have continued to build on and improve the processes and systems we introduced in FY20, embracing new ways of healthy working into our everyday systems.

For example, recognising the increased amount of working from home, we have provided guidance on safe working at home and, more recently in New Zealand, we have worked with the Ministry of Health to make COVID-19 vaccinations available to employees at our workplaces and sites.

Our new digitalised health record system from Cority went live in March 2021, bringing our people’s health data into a secure, centralised system. Not only does this system provide employees with easy access to their own health test results and demonstrate compliance with Health and Safety and Food Safety requirements, it also helps us shape our strategic approach to improved health and wellbeing. An early win has been the use of Cority for employees around the world to register their COVID-19 vaccination status, helping in our efforts to manage our response.

Supporting the health of employees and their whānau

Through our ‘Better You’ digital platform we provide wellbeing tools and resources for our employees and whānau (up to five additional family members or friends per employee). By completing a wellbeing questionnaire the user gets an overall ‘Healthy Habits Score’ and a personal report that provides links to relevant material, which can help them enhance their scores by making improvements across a range of topics including healthy eating, sleeping, exercise and mental wellbeing. 7,333 participants have logged into the platform this year, including 5,386 new users, and 2,269 wellbeing scorecards have been completed. This platform also allows us to organise self-starter and global team challenges.

Self-starter challenges allow employees to take on a challenge, on their own or with their whānau (extended family), at any time. Our library of challenges includes topics such as Sleep Smarter, Mind Health, Resilience and Immunity Booster.

Global team challenges are designed to encourage teamwork and competition, providing our employees with valuable information and motivating them to implement new behaviours that promote improved health and wellbeing. We ran four challenges this year. The recent 21-day ‘Eat Well, Feel Well Challenge’ was created by our own Fonterra nutrition experts to encourage healthy eating, empowering our

employees with the knowledge to make positive choices with foods and drinks they consume. A total of 936 employees participated in this challenge and learned about the importance of hydration, whole food, gut health, sugar reduction, dairy nutrition and mindful eating.



Claire, Auckland

GoodYarn workshops – Enabling our people to talk about mental health

GoodYarn workshops are all about helping our employees understand mental wellbeing, building their confidence to talk about mental health and knowing how and when to get more support for themselves or others if needed. These workshops are facilitated by our very own team of ‘GoodSorts’ – colleagues who have volunteered to be trained to be people employees can reach out to at work to talk about mental health and how to get support. We have continued to expand the reach of this programme and, in addition to regular workshops, this year we also held special live webinars called GoodChats where famous New Zealanders, including John Kirwan and Mike King, talked about their personal experiences with mental health and shared their learnings with employees from around the world.

Improving critical risk management

Manufacturing processes and technology used at scale can attract unique hazards that pose a risk of serious injury or damage to the environment. Over the past two years we have significantly improved our critical risk assessment methodologies, drawing on global references (e.g. The Centre for Chemical Process Safety) and as a result incorporated 14 elements of process safety management into our Process Safety Management (PSM) System (see graphic to the right).

Working with our partners we have developed a rigorous Process Safety Assessment (PSA) methodology to ensure we have a strong understanding of significant hazards, their credible risks, and how best to control them. Using the methodology our site teams work with experts to identify and assess technology risks that might lead to a major incident and cause serious harm. We seek to understand where risk can be eliminated or more reasonably controlled and put agreed rolling action plans in place.

The concept of Safety-Critical Elements (SCEs) has been adopted to identify equipment or technology that form our last lines of defence against a major incident. These items are vital to ongoing safety assurance and need to be well looked after. So far, teams across 13 sites have identified over 700 SCEs. These are now progressing through independent verification and we are keeping them well-maintained. We plan to deploy this concept to another 10 sites in New Zealand and initiate Australia during FY22.

We have also made significant improvements to other key processes including Management of Change, Emergency Response and Preparedness, and our Asset Integrity programme. Together the 14 PSM elements and related operational process improvements help to reduce potential harm and look after the environment.

Our performance

ZERO

work-related fatalities (attributable to Fonterra – employees, contractors, on-site public)

9 ↓

serious harm injuries¹ (attributable to Fonterra – employees, contractors, on-site public)

230

recordable injuries (employees – work-related)

5.7 ↓

total recordable injury frequency rate (TRIFR per million work hours) (employees – work-related)

For more detailed information on our performance please see page SP-50.



¹ Serious harm injuries are injuries that cause temporary or permanent loss of body function and include those to both employees and contractors.

Safeguard Awards Winner

Our Health and Wellbeing Team was honoured to win the ‘work-related health’ award at the Safeguard New Zealand Workplace Health and Safety Awards 2020. This award recognised our shift from compliance health testing to a stronger focus on ‘whole person’ health risks from workplace exposures and individual perspective. Tailoring our workplace support and building new tools to meet the health and wellbeing needs of our people means we can keep our people safe, productive and engaged.

Regulatory compliance

With designated Major Hazard Facilities and an asset intensive manufacturing footprint, Fonterra will from time to time receive regulatory notices. We work collaboratively with all of our regulators to support risk management and each finding is treated as an opportunity for us to improve what we do. There have been no health and safety prosecutions in connection with Fonterra’s operations since 2014.

What’s next

We will continue to develop and deploy process safety improvements for chemical and energy hazards, improve related safety programmes (e.g. dust safety) and apply process safety thinking beyond manufacturing sites.

We will continue to seek further improvements in our injury performance by focusing on the actions arising from our investigations into actual or potential high-severity incidents, eliminating root causes, and moving towards doing work that is safe rather than doing safety work.

We will continue to improve key measures and safety assurance visibility from the frontline to the boardroom and report meaningful safety assurance in action.

Employment rights

Our success is a direct reflection of the skill and commitment of our people, so we invest in them. We are committed to creating a culture where we care about each other, encourage different views and perspectives and treat each other with respect.

We are focused on building a diverse and inclusive workforce that is highly-engaged and effective, and this involves developing our employees to help them respond to the ever-changing nature of work.

Our approach

Our Code of Business Conduct and global policies, including ethical behaviour and diversity and inclusion, set clear expectations for how our people need to act and behave. These policies are supported by local guidance to reflect relevant regulations and norms.

As part of our customer-led operating model, understanding and connecting with local markets is vital to our success. By hiring and developing local talent, we contribute towards the shared success of our Co-operative and the countries where we operate. Throughout the world, we are committed to identifying and unlocking our people's potential by developing capability, leadership and talent through

coaching, learning, and regular feedback. We respect and support everyone's uniqueness, regardless of sexual orientation, gender identity or gender expression and recognise that diversity contributes to a stronger, more successful and sustainable Co-operative.

We fund an independently administered whistle-blowing hotline (The Way We Work Hotline), facilitated by Deloitte. It's available to all employees globally to raise concerns about behaviour not aligned with our Code of Business Conduct and we provide an Employee Assistance Programme (EAP) where employees can seek advice and counselling.

Fonterra has a long-standing agreement with the International Union of Food and the New Zealand Dairy Workers Union that recognises our commitment to the Conventions of the International Labour Organisation for all Fonterra employees and is built into our Code of Business Conduct. In New Zealand, 61% of all full-time equivalent Fonterra employees are covered by collective bargaining agreements and we have union agreements and relationships in many other markets.

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



Emma & Danielle, Auckland

What we've been doing

Learning and development

In 2019, we signed the Aotearoa New Zealand Skills Pledge and by 2025, we are committed to doubling on-the-job training and reskilling hours in New Zealand from a 2020 baseline. The Skills Pledge aligns with our focus on building the right capabilities, preparing employees for their roles today and for their future careers, in New Zealand and globally.

In the past year, our New Zealand employees spent more than 346,417 hours upskilling, an increase of 28.1% on FY20, and an average of 31.6 hours per learner¹. The main areas of growth have come from technical programmes such as DAIRYCRAFT and a new Dairy Diploma offering, as well as the scaled-up deployment of our new leadership development programme.

For our New Zealand manufacturing sites and distribution centres we continue to offer our 18-month DAIRYCRAFT programme which allows employees to develop relevant technical skills and gain independently recognised qualifications². This year, 164 employees completed level 3 and 43 completed level 4.

We also responded to the New Zealand government's call to grow training through apprenticeships and committed to recruiting an extra 44 apprentices by the end of 2022. The first 13 joined us in January, in trades including electrical and mechanical engineering (see case study on next page). We receive government funding for these extra apprentices to help with the first two years of their training. Apprenticeships can take up to four years to complete so we expect to have over 80 active apprentices by the end of FY24.

¹ These figures cover New Zealand based employees only. The reporting systems for training elsewhere in the world currently do not allow us to report globally in a consistent manner.

² The DAIRYCRAFT training is recognised by the New Zealand Qualifications Authority (NZQA).



Will, Tupu Toa Graduate



Tupu Toa interns

Tupu Toa is a not for profit organisation that helps tertiary students from Māori and Pasifika backgrounds enter the corporate world.

Fonterra became a Tupu Toa partner in 2018 to help build the diversity of our early careers talent pipeline through the inclusion of Māori and Pasifika young people. The 12-week paid summer internship programme creates a pathway for students to enter a professional career once they graduate. There is also extra support for the interns, including pastoral care and coaching and Fonterra managers are offered cultural competence training.

So far, we have had seven students complete their Tupu Toa internship, with five going on to join our two-year Business Graduate programme and one gaining direct entry into an IT role.



Sparking off a bright career

While her friends enjoy their school holidays, Kendyll Blissett is hard at work at our Lichfield site in Waikato. But the 17-year-old electrical apprentice wouldn't have it any other way.

"I left school after Year 12 because I knew what I wanted to do" says Kendyll. "My friends had plans for university, but I knew I wanted to start my career doing an electrical apprenticeship."

Kendyll started in January this year and says so far, she's "loving it".

"I really enjoy the mix of theory and practical, knowing the 'what' you are doing and the 'why' you are doing it a certain way. It's quite a big workshop at Lichfield so I am learning so much from a range of different people who are mentoring me, instead of just one person."

Kendyll is one of 13 apprentices who started with Fonterra in January this year, part of the Co-op's commitment to expand its apprenticeship programme by developing an additional 44 apprentices over two years.



Apprentice Kendyll Blissett working with Lee Clark



Learning and development (continued)

For our Farm Source™ retail teams, we launched a new retail training programme and development pathway called Kura Hokohoko. This has three pillars – Retail and Sales Skills, Technical Capability and Retail Leadership.

For employees, we launched a new self-managed learning opportunity through the LinkedIn online platform. This has been rolled out to targeted groups around the world and covers a wide range of topics.

Recognising the importance of growing leadership capability, we launched our Leadership Essentials programme in FY20, for front line leaders. This year, 61 participants completed the course and we have a further 23 cohorts lined-up for FY22. We also offer, Future Leaders, for early career professionals with aspirations to accelerate their leadership development, and Supercharge, for people leaders with aspirations to move to larger leadership roles.

Culturing high performance

When we reset our strategy in FY19 we identified the importance of building a high-performing team and in FY20 we started the first phase of that by shifting to our new operating model. We know that strategy on its own is simply an intention – it needs committed, high performing people to make it happen and it is the culture of the organisation that delivers performance.

For that reason, we are continuing to invest significant time and energy in our culture to ensure alignment with our strategic aspirations. This year, we have started the next phase, with a global and cross-functional team who are empowered to lead this work for the Co-operative and, recognising the importance of this work, several members of the Fonterra Management Team are directly involved.

Through this work we will create an environment that allows our people to be their best, so they can, in turn, deliver their best performance. It will help our people understand different perspectives and be more adaptable to change. Our people will more clearly understand how their contribution impacts the Co-operative’s goals and, collectively, we will deliver consistently high performance and progress. Ultimately, our culture will enhance our competitive advantage – from improved innovation, decision-making and collaboration, to sense of belonging and wellbeing – and it will increase our ability to foster sustainable relationships with all our stakeholders.

Diversity targets

We made progress on female representation in senior leadership this year, which is up to 32.4%. Privacy concerns and the voluntary nature of reporting ethnicity information mean understanding the diversity of our employees remains challenging, but data quality is improving. Within senior leadership, 59% identify themselves as European/Caucasian; 9% identify themselves as other and 32% have not provided information. Realistically, we know we will not achieve the aspirations we set ourselves for diversity within the timeframe we originally envisaged, but we remain committed to the intent.

Nationality information is available for our people around the world and gives a much richer picture of our diversity. For example, in New Zealand we employ 78 different nationalities, in Australia 40 different nationalities and in Chile 11 different nationalities.

We launched two new online learning courses this year, Unconscious Bias in Workplaces and Mitigating Unconscious Bias in Recruitment. These have been assigned to all global People Leaders and Hiring Managers must complete both.

Embedding our Māori strategy

Over the last three years our Māori Development Team members have engaged widely with Māori farmers, iwi (tribe) partners and stakeholders, customers and employees. They’re working to understand how we can best recognise and acknowledge the importance of having a connection with our tangata whenua (people of the land) for the benefit of everyone in Aotearoa New Zealand and for the world.

Published this year, our Māori Strategy, called Haea te ata (to draw a new day), is based on three pillars designed to introduce and weave te ao Māori (the Māori world view) through the Co-op in a genuine and authentic way. Tāngata (people and relationships) – recognising the unique contribution of te ao Māori in how we interact with people; Taiao (natural environment) – recognising the unique contribution of te ao Māori in how we interact with our natural environment; and Tuakiri (pride and identity) – how we tell our unique Aotearoa New Zealand provenance story.

Building and maintaining positive relationships with tangata whenua is a fundamental goal of Haea te Ata and for Fonterra. To help us achieve this we have defined an Iwi Māori Engagement Standard to guide our employees. This builds on the Te Reo Māori Global Standard that we issued in FY20 to ensure the correct approach and guidance is sought when we use te reo Māori within Fonterra.

We have also introduced a formal Māori representative role within our Co-operative Relations Committee and, in June, Warwick Tauwhare-George became the first person to hold this position. Warwick is the Chief Executive of Fonterra’s largest Māori shareholder, Parininihi ki Waitotara (PKW), has an MBA in Finance & Marketing, extensive Executive Management experience and is a Chartered Member of the Institute of Directors.

Supporting growing families and careers

Following our principles of whanaungatanga and manaakitanga, we are extending our care for employees through one of the most important times of their lives – when they become parents.

For primary carers who have been employed for at least 12 months, we will top up their government parental leave payments to 100% of base salary or wages for 26 weeks. An increase from the current 16 weeks at 80%.

We have also started building a community of parental support. This starts with ‘Te Hokinga Mai: Returning to work with Confidence’ where a dedicated coach works with a small group of employees to help them navigate their new normal as a working parent. Returning to work can be a rollercoaster of emotions and these workshops provide our parents with tips and tricks for confidence building, helping to play to their strengths and learning from others.

Initially this will be offered to New Zealand-based employees, but we are looking at ways we can support our people in our other markets too.

Closing our gender pay gap

We believe that, after considering factors such as tenure, qualification levels or experience there should be no gender pay gap for any employees.

We believe this is a complex topic and cannot be accurately summarised by a single aggregated number. Instead we believe transparency is important, including consideration of both mean and median calculations of the pay gaps and providing a breakdown by geographies and job categories.¹

Overall, the ratio of female to male base salary narrowed from 1.08 to 1.07 on a mean basis but

widened from 0.95 to 0.93 on a median basis. This result continues to be influenced by factors such as the different proportions of men and women in lower paid and higher paid levels around the world and exchange rates when converting for comparison and illustrates the importance of tracking different breakdowns.

The gap has narrowed across all job categories and in all significant locations except Latin America. Australia has been a focus for us and it has made significant progress on both a mean and median basis. There has been a large swing and improvement for China, arising from the sale of our direct farming operations there. For New Zealand, the gap on a mean basis closed (0.96 to 0.97) and remained the same on a median basis, 0.96 which is equivalent to a 3.8% pay gap and continues to compare very favourably with the most recent national median of 9.1% at August 2021.

Our performance

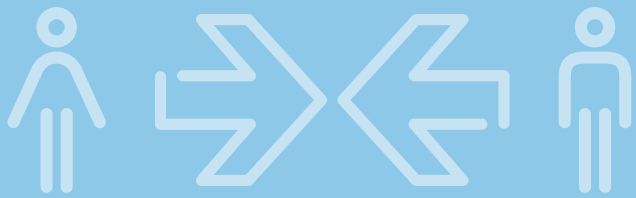
4.09 ↑
2nd highest quartile
Employee engagement

32.4% ↑
female representation in senior leadership

9% ↑
ethnic representation in senior leadership

346,417 ↑
training skills hours (NZ)

For more detail on our performance see page SP-51 and SP-56.



Gender pay gap by job category

Job category	MEAN		MEDIAN	
Senior Leaders	0.88 -> 0.90	↓ ↑	0.96 -> 0.94	↓ ↑
Manager	0.96 -> 0.97	↓ ↑	0.96 -> 0.96	↓ ↑
Professionals	1.06 -> 1.05	↓ ↑	1.14 -> 1.10	↓ ↑
Waged	0.88 -> 0.89	↓ ↑	0.82 -> 0.83	↓ ↑

Gender pay gap by location

Location	MEAN		MEDIAN	
New Zealand	0.96 -> 0.97	↓ ↑	0.96 -> 0.96	↓ ↑
Australia	0.95 -> 0.99	↓ ↑	0.96 -> 0.97	↓ ↑
Brazil	1.09 -> 1.11	↓ ↑	1.08 -> 0.96	↓ ↑
Chile	1.32 -> 1.36	↓ ↑	1.29 -> 1.31	↓ ↑
Greater China	1.60 -> 0.89	↓ ↑	3.90 -> 0.97	↓ ↑

Gap narrowed ↓

Gap widened ↑

1 Where a breakdown of information represents a small number of employees we omit this detail to protect the privacy of individuals.

Non-discrimination

Through our independently administered whistle-blowing hotline (see The Way We Work Hotline in Corporate Governance Statement page CG-02), there were five disclosures made this year related to discrimination including harassment. Following investigation, none were substantiated. In addition to concerns raised through The Way We Work Hotline, some discrimination and other employment issues are raised every year with local human resource or management teams. These are investigated and reviewed in a similar manner.

In New Zealand there were seven formal discrimination or discrimination-related harassment complaints raised (five were substantiated and resulted in disciplinary processes, one was unsubstantiated, and one remains under investigation). One complaint was raised in Australia and resolved between the parties, and one complaint was raised in Sri Lanka, which was unsubstantiated. No complaints of discrimination or discrimination-related harassment were reported in other countries.

What’s next

We will enhance the support we provide for employees returning from parental leave and introduce a diversity and inclusion aspect to our short-term incentive scheme to improve gender and ethnicity representation in global leadership.

We will continue to ramp up our on-the-job skills training, including scaling up Leadership Essentials and offering our operations staff in New Zealand a version of this programme that results in an accredited qualification (NZQA level 4).

Supporting our communities

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

In-school nutrition

A nutritious breakfast and nurturing environment can help kids reach their full potential. The KickStart Breakfast programme, which we deliver in partnership with Sanitarium and the New Zealand Government, has been operational for more than 10 years and this year grew to over 1,300 schools across Aotearoa New Zealand, serving more than 180,000 breakfasts per week.

Through the programme we provide Anchor™ milk, Sanitarium provides Weet-Bix™ and the Government assists with funding. The clubs are run by adult or student volunteers, and they continue to evolve the way they deliver the programme to suit their specific needs and its intent.

For example, at Motueka High School in the Tasman region, a long-standing club that is currently attended by about 90 students each morning, they introduced a smoothie option so breakfast can be taken as a ‘grab & go’.

At Park Estate School in Auckland, they have adapted their recycling approach to work for them. A roster of dedicated students rinse all milk cartons as they are used and then, once a week they are re-washed, dried out, and packed flat for storage until they are collected.

During the 2020 lockdowns, we saw the difference diverting the milk earmarked for school programmes to our communities made. We therefore decided to take a more holistic approach to our provision of dairy nutrition, growing the KickStart Breakfast programme and partnering with the New Zealand Food Network to distribute dairy to communities who need it the most. This means, nine years after it was first piloted in Northland, we wrapped up Fonterra Milk for Schools at the end of the 2020 school year. To avoid waste, surplus stock at the end of the programme was diverted to the New Zealand Food Network (see next page).

\$3.1m / 11m portions¹
providing dairy nutrition through our in-school programmes

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



Students at Bruce McLaren Intermediate School serving KickStart breakfast



Supporting food banks

Around the world, we support many food bank initiatives, helping to provide good nutrition for those who need it most and reducing food waste.

During FY20, we became one of the founding food donors for the New Zealand Food Network, a not-for-profit founded to provide people in need with healthy food, through sharing bulk surplus and donated food. This year, we donated more than 290 tonnes of food via this channel.

In Australia, we continued to support Foodbank, Australia's largest hunger relief organisation, donating the equivalent of 214,900 meals and 103,500 litres of fresh milk for Victorians in 2020. In Chile, we continued to support Red Alimentos, donating more than 400 tonnes of product this year.



Dairy development

By working with local stakeholders in key markets and sharing what we continue to learn, we support the sustainable development of local dairy farming. This is an area that has continued to be significantly impacted by Covid-19, including travel restrictions and social distancing.

In Sri Lanka, we re-purposed our Pannala Training Farm as a 'Dairy Hub', providing small-scale farmers with training and other support. More than 250 farmers were trained this year and the feedback was very positive.

For the Fonterra Dairy Cluster Partnership in West Sumatra, Indonesia, we are working with other dairy stakeholders including government officials. This year we switched to holding online webinars, issuing guidance podcasts for farmers and improving post-harvest processing using a semi-automatic filling machine.

Our 12-month exchange programme for young farmers from Chile is currently on hold. From the cohort who were in New Zealand during the last year, some chose to remain and are still working in the dairy industry. The remainder have safely returned to Chile.

Community investment

Fonterra Doing Good Together

Donations of product, equipment or finance, including to foodbanks but excluding other investments such as Living Water, Sustainable Catchments and In-school Nutrition.

FY21

\$2.5+ million

FY20

\$3+ million

Covid-19 has continued to be felt by communities around the world with different countries and regions being impacted in different ways at different times.

In Sri Lanka, we provided financial support to the Government-led Covid-19 task force, to help with the response in areas such as medical equipment, supplies and personal protective equipment for frontline health workers.

Elsewhere, we donated dairy products to help those working at hospitals in countries including the Philippines, Thailand, Malaysia and Vietnam.

Beyond special investments to help the Covid-19 response, we have also continued to invest in our communities through our community programme, which is administered by local committees of employees in the regions.

In New Zealand, we supported a wide range of community groups including donations of hi-vis vests for primary school children and fire brigades and support for a training manikin for the St John's Ambulance Station in Culverdon. We also donated funds to support a number of technical education events in the Bay of Plenty and Taranaki regions, to encourage interest in science and technology.

In Australia, we provided funding to emergency services and community groups, including for equipment at the Nilma, Warragul, Darnum and Yarragon Fire Brigades, and to support a new community trailer at Stanhope.

Healthy Environment

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

Tiakina te whenua i tēnei rā, hei oranga tangata mō ngā rā e heke mai nei.

Caring for the land today, so that the land cares for us tomorrow.

To do this we are:

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

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

IN THIS SECTION

Land and water	SP-23
Climate change	SP-27
Packaging and waste	SP-33
Animal wellbeing	SP-36
Managing our operations	SP-38

53% ↑

of our farmer owners in New Zealand have a Farm Environment Plan tailored to their specific farm – see page SP-26

6.5% ↓

reduction in our greenhouse gas emissions (Scope 1 & 2) since FY18, well on way to 30% by 2030 – see page SP-30

0.3%* ↑

increase in water use at our manufacturing sites in water-constrained regions – see page SP-23

53% ↑

of our farmer owners in New Zealand have an Animal Health Plan prepared with their vet – see page SP-36

* Compared to last year.

Stephanie & Keeley, Auckland

Land and water

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

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

This section covers our impact on land and water from the manufacturing operations we manage globally and the farms we collect milk from.

Our approach

When our manufacturing sites take in water to use and discharge wastewater this can impact a resource we share with others. The care of water is important to our stakeholders and their expectations around sustainable practices are changing. When setting goals and planning improvement actions we use a collaborative approach, assessing aspects such as the needs of other water users, biodiversity and risks, to establish our priorities for enhanced water security. Recovering water from milk when we make powder products means that most of our sites discharge more water than they take in. By improving processes and adopting new technologies we aim to improve water quality treatment and become even more resource-efficient.

We support farmers to ensure they meet increasing regulatory requirements, identify environmental impact risks and prioritise improvement actions specific to their situation. This includes encouraging and supporting the adoption of recognised good farming practices related to water, soil health and biodiversity, including exclusion of stock from waterways, riparian management, nutrient management and land management that minimises soil disturbance.

Please refer to 'Working with farmers' on page SP-42 and 'Managing operations' on page SP-38 for more information on our general approach to improving our performance.

What we've been doing

Using less water

Water is precious and as such, it is treated responsibly at all sites and, aligned with best-practice thinking, we prioritise our efforts to improve water efficiency in water-constrained regions¹. Our objective is to maintain access to the water we require while ensuring water security for related communities. To support this we have a target to reduce water use across these sites by 30% by 2030.

Water use increased at these sites by 0.3%, taking us to a 2.6% reduction against our 2018 baseline. Having made a significant reduction in FY20, we did not make the progress we planned for this year due to increased production and other factors. The commissioning of the new reverse osmosis plant at our Darfield site has proven challenging due to a variety of issues. This means the large reduction planned for the site was only partly delivered. Our Stanhope site in Australia that delivered a large improvement last year was negatively impacted this year by increased water use for wastewater irrigation purposes. We also encountered several abnormal events at other key sites, resulting in one-off large water usage.



During FY21, we have made a range of improvements at different sites and expect these to deliver good water reduction savings during FY22. For example, we are re-using more of the water captured from the milk drying processes at our Kauri and Maungatūroto sites. At Maungatūroto, for the first time, we are using a natural wetland process to pre-treat the water captured from the evaporation process before returning it to the factory for final treatment.

¹ We determine whether a site is in a water-constrained region using a combination of independent water-stress information (e.g. WRI Aqueduct) and local information (e.g. water allocation). In FY21, six New Zealand sites: Edendale, Clandeboye, Darfield, Lichfield, Kauri and Maungatūroto; and one Australian site: Stanhope, were identified as in water-constrained regions. Brightwater has been removed from the list because regional water availability is being significantly improved by the construction of a dam.



Improving wastewater treatment

We have recently commissioned a biological digester at our Darfield site to process wastewater. This gives us the opportunity to recover a much greater amount of residual nutrients in the wastewater before being discharged, so the water entering the environment is of very high quality. As a by-product of the process, biogas can also be captured, and we are investigating its potential use to help reduce our greenhouse gas emissions.

At our Whareroa site, we have installed a dissolved air flotation (DAF) system to treat wastewater before we discharge it to ocean. DAFs are particularly effective at removing substances common in dairy wastewater, such as fats, and the system is expected to significantly improve the quality of the water discharged.

Our target is to have all our manufacturing sites treating wastewater to leading industry standards. In previous years we have tracked our progress based on internal guidelines taking a numerical, parameter-based approach aligned to the type of discharge and the receiving environment. Recognising that stakeholders have different views and values when it comes to improving water quality, we now believe that a leading industry approach to wastewater quality requires a truly collaborative approach. This means actively engaging with stakeholders when planning new wastewater treatment facilities or upgrades, especially community and indigenous groups, to understand their concerns and plan approaches that satisfy their expectations as far as possible. Going forward we will continue to have internal standards but we will judge our success based on a combination of these and satisfying the expectations of key stakeholders at a catchment level. Using this method to assess our performance,

our progress improves from 29% as reported in FY20 to 53% at the end of FY21. By 2030, we are planning to upgrade wastewater treatment facilities at 15 sites, investing more than \$400 million and we estimate this will take us to at least 80%. We have therefore restated our target on this basis.

Our Nutrient Management team continues to innovate and improve the way we treat excess nutrients retrieved from wastewater treatment at some of our sites. This team manages 29 farms close to our factories and, while we graze some animals on this land, we continually assess the most appropriate way to use the land for the uptake of nutrients. Aligned with circular thinking, rather than the nutrients being considered waste, we use them to improve soil health on these farms. This helps with growing feed, such as grass and maize silage, which can be fed to cows to help them produce quality milk to process at our sites.

Biological digester

at our Darfield site allows us to discharge very high quality wastewater.

\$400+ million

investment to upgrade wastewater treatment at 15 more sites by 2030.

Sustainable catchments

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

Established in 2013, our Living Water partnership with the New Zealand Department of Conservation is working with farmers, scientists, councils, mana whenua and local communities in five catchments across 35,000 hectares to identify game-changing and scalable solutions that show dairying and freshwater can thrive together. To date, we have initiated 36 trials of different tools and solutions and nine solutions have been scaled or are being used by others. Of those Fonterra farmers operating in the catchments, 72% have engaged with the partnership (up from 68%) and 48% are implementing freshwater improvement actions above regulation (up from 40%). Twelve projects have directly integrated Mātauranga Māori¹ alongside western science (up from seven in 2020).

Beyond the five Living Water catchments, we are using the lessons we have learned to support farmer and community action in other catchments across New Zealand. Working alongside local stakeholders such as regional councils, the Department of Conservation, iwi, farming leaders and other industry members, our aim is to build on existing community efforts to help them achieve their priorities. In the first three years, we have delivered 48% of the 128 agreed partnership actions.

1 An indigenous Māori worldview and knowledge perspective.

Sustainable Catchments Partnerships

Northland – Ruakākā River
Supported the Whitebait Connection who are working with local farmers and landowners to identify and protect inanga spawning habitat. We have also supported their application to Government to expand this work across further catchments in Northland.

Waikato – Mangaone wetland restoration
Partnered with Waikato Regional Council to protect and enhance a privately-owned wetland on a Fonterra farm within the Mangaone catchment, where natural wetlands are scarce. An area of 10.4 hectares has been retired and planted with 39,200 native plants to improve inflows, wetland bird habitat and local biodiversity.



Hawkes Bay – Tukipo wetland
Supported Hawkes Bay Regional Council and NIWA to complete construction of a large wetland that can treat high levels of contamination while also improving biodiversity values. This wetland will be used as a regional reference site to check and model wetland risks and benefits to water quality.



Canterbury – Kaikōura
In partnership with Environment Canterbury and local farmers, we supported the protection and enhancement of one of the last remaining coastal wetlands of its kind in the South Island. The Haupuku wetland forms part of a 25 hectare QEII covenant that provides a patch of high-quality, culturally significant wetland and forest habitat.



Canterbury – Ararira-LII River (Living Water)
In early 2021, we embarked on a project with Te Taumutu Rūnanga, Selwyn District Council, LII Drainage Committee and Environment Canterbury to take a catchment scale approach to the Ararira-LII drainage network. By making the redesign more friendly for freshwater life and by monitoring the outcomes, we hope the approach can be a blueprint for drainage network managers across New Zealand.

Southland – Awarua-Waituna (Living Water)
After the seventh year of fish monitoring in Waituna Creek, we can safely conclude the restoration trial has been a success. Within three years of installing instream habitat structures (logs) the diversity, abundance and biomass of fish was significantly higher around the structures. Having permanent places for fish to hide is vital to retain them in our rural streams.



Northland - Wairua (Living Water)
A trial of two sediment detention bunds constructed in 2018 has now been completed. One of the bunds has proven to be a cost-effective solution to retaining floodwater during intense rainfall and has significantly reduced sediment and nutrients entering the downstream waterway. The second bund was found to be too small to operate effectively for the catchment area served. This has highlighted the importance of understanding the catchment characteristics before designing and installing these types of solutions.



Prioritising on-farm improvements

Helping farmers understand their current areas of strength and opportunities for improvement is a priority for us. It is where we can add value not only to the farmers but also to our customers and communities.

In New Zealand, our team of 40 Sustainable Dairying Advisors (SDA) are working with our farmer owners to establish Farm Environment Plans (FEPs). Each FEP is unique to the specific farm and since we launched the service in 2018, we have continued to develop it, listening to feedback from farmers and ensuring they can remain a step ahead of future regulations and the requirements of our customers (see also The Co-operative Difference on page SP-43).

Guided by industry-defined Good Farming Practices and considering a broad range of topics, improvement actions are identified and prioritised with the farmer. Topics covered include water, soil health, biodiversity, greenhouse gas emissions, mahinga kai (the value of natural resources), and whakapapa (recognising the people and their connection to the land over multiple generations). For the farms with irrigation systems (about 18%), our FEPs also build on regulatory requirements for metering and support water efficiency

improvements. From this year, farmers using our Dairy Diary digital application can also record their progress on improvement actions in real time rather than waiting on follow-up visits by an SDA.

We delivered more new FEPs than planned, increasing coverage from 34% to 53% of supplying farms in New Zealand, well on track for 100% by 2025.

We already provide a Nitrogen Risk Scorecard and Greenhouse Gas Report annually to all farmers in New Zealand who complete our Farm Dairy Records update. This year we piloted an extension, called our Farm Insights Report, providing the farmer with detailed information on their performance relative to the average farm in their region and nationally. It also identifies the potential financial benefits that could be achieved by making certain improvements.

In Australia, we have built on the Farm Environment Plan framework developed for New Zealand and tailored it for the slightly different needs of the Australian farming environment. These are now ready for deployment and the rollout to farmers commences in FY22.

Trialling plantain to improve freshwater quality

Plantain is a nutritious herb (*Plantago lanceolata*) that is highly palatable to animals and can be used as a component of pasture, usually with perennial ryegrass and clover or on its own as a special-purpose feed. Research has already shown that incorporating plantain into the cow's diet can reduce the concentration of nitrogen in the animal's urine, which in turn significantly reduces the leaching of nitrogen through the soil. For dairy farms it is estimated reductions of between 5% and 30% are possible, depending on soil type and proportion of plantain in the diet. The research also suggests that plantain pasture exhibits a nitrification inhibitor effect. Nitrification inhibitors prevent bacteria in the soil from converting the ammonium portion of nitrogen into nitrate. This reduces the risk of the nitrate leaching. This combination of effects can help to significantly improve freshwater quality and help reduce greenhouse gas emissions¹.

Building on a large-scale research programme led by DairyNZ, we teamed up with our customer Nestlé in FY20 to expand the promising plantain trial in the Tararua District. This year, we are also partnering with DairyNZ, PGG Wrightson Seeds in the Plantain Potency and Practice programme, which will also receive funding from the Ministry of Primary Industries over the next seven years.

The programme includes large-scale farm experiments to confirm the benefits and practical trials with farmers to co-develop the best approaches for successful incorporation into pasture-based dairy systems. Our goal is to develop a quality solution that can be demonstrated and applied at scale across farms nationwide.

¹ Nitrous oxide (N₂O) is a greenhouse gas arising from the application of nitrogen to pasture such as via synthetic fertiliser, urine and manure. Reducing nitrogen applied in turn reduces the N₂O emitted.

Our performance

53%

of our farmer owners in New Zealand now have tailored Farm Environment Plans

2.6%

reduction in water use since FY18 at manufacturing sites in water-constrained regions

2.5%

improvement in water efficiency compared to FY18 on milk processed basis.

For more detail on our performance see page SP-51

What's next

- We will continue to support our New Zealand farmer owners as they establish Farm Environment Plans, focusing on the specific priorities for their farm.
- We will use this approach to drive improvements that positively impact water quality, water use, soil health and biodiversity.
- We will continue to focus on reducing our water use and to invest in wastewater treatment at our manufacturing sites.

Climate change

We support a transition to a resilient, low-emissions economy. We are committed to playing a leading role, working with others, to ensure the New Zealand dairy industry remains at the forefront of low-emissions food production.

Global food production accounts for 20-30% of global greenhouse gas (GHG) emissions with dairy accounting for 2-3% of global GHG emissions. However, dairy delivers a significant amount of the world's total nutrients, including 12% of protein, 24% of vitamin B2 and 49% of calcium.

New Zealand's total GHG emissions represent 0.16% of global GHG emissions but its profile is very different from most developed nations. Nearly half comes from agriculture and that means, in addition to transitioning to renewable energy, New Zealand must also find ways to manage our animals' natural emissions.

Pre-farmgate, the GHG emissions associated with dairy products mostly come from the methane cows produce, with total farm-related activities accounting for about 90% of Fonterra's reported GHG emissions. The carbon footprint of New Zealand's on-farm milk supply is already one of the lowest in the world but as our business accounts for about 20% of New Zealand's greenhouse gas emissions, we are committed to helping reduce this further.

Milk is highly nutritious but very perishable and our natural pasture-based farming system means the volumes produced are highly seasonal. Pasteurising milk and drying it into powders adds significant value to the raw milk, producing safe, long-life nutrition that is efficient to store and transport, but it does require significant amounts of reliable energy. Currently a lot of that energy comes from fossil fuels and our manufacturing activities account for about 9% of our reported emissions.

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

Agriculture is facing significant disruption from changes to climate and increased variability in weather patterns. Based on climate change scenario work we have completed, most of our milk comes from regions where impacts may be less severe. With some adaptation there is a great opportunity for us to continue to produce safe, world-class quality food products.

This section covers our impact on, and our response to, climate change across our supply chain.



Alan & Michael, Bay of Plenty

Our approach

We are committed to the Paris Agreement target to keep warming below 2 degrees and to pursue efforts to limit the temperature increase to 1.5 degrees. This commitment reflects the latest science and is aligned with the New Zealand Government's ambitions in the Zero Carbon Act.

We have science-based targets for reducing our Scope 1 and 2 GHG emissions, which arise primarily from our manufacturing activities, and for engaging with our farmer owners to help reduce the GHG emissions in our supply chain.

For on-farm, we regularly commission carbon lifecycle assessments (see page SP-28) and, in New Zealand, we provide farm-specific GHG reports (see page SP-28) so farmers can understand their current performance and can prioritise improvements. In FY20, we introduced a GHG module to our Farm Environment Planning service (see page SP-26) and we are investigating a wide range of potential breakthrough technologies to help reduce on-farm GHG emissions (see page SP-29).

For our manufacturing operations our approach is to use less and emit less. Improving energy efficiency (see page SP-30) not only uses less energy, it directly reduces emissions, reduces costs and will help with our transition to lower carbon energy sources. We also emit less by continuing to transition to lower carbon energy sources (see page SP-30).

For distribution, our approach is to partner with transportation organisations and other import/exporters to continuously improve resilience and efficiency and to pursue low-carbon options for heavy goods transportation (see page SP-31).

Please refer to 'Working with farmers' on page SP-42 and 'Managing operations' on page SP-38 for further details of our approach.

What we've been doing

Understanding our on-farm emissions

To understand the full carbon life cycle of the milk we collect in different regions of the world we regularly commission analysis by AgResearch, an independent New Zealand Government research agency, using internationally recognised methodologies and tools. The approach considers the full life cycle from feed production (including purchased supplementary feed), to the milk leaving the farm gate. We use this information to estimate our absolute GHG emissions related to farming (see graphs on page SP-32), to identify opportunities for further reduction and to support new service offerings to customers (see Annual Review page AR-46).

In New Zealand, for the 2019/20 milk season, the estimated cradle-to-farm-gate carbon intensity, including land use change (LUC) is 0.95 kilograms of carbon dioxide equivalent per kilogram of fat-and-protein-corrected milk (kg CO₂-e/kg FPCM). Excluding land use change this is 0.80 kg CO₂-e/kg FPCM, which is up slightly on 0.78 kg CO₂-e/kg FPCM for the 2018/19 season, corresponding primarily to an increase in the proportion of PKE within brought-in feeds.

Our most recent assessments for other regions are: Australia 2017/18 season at 0.99 kg CO₂-e/kg FPCM; China 2016/17 season at 1.40 kg CO₂-e/kg FPCM; Soprole our subsidiary in Northern Chile 2017/18 season at 1.34 CO₂-e/kg FPCM; and Prolesur our subsidiary in Southern Chile 2017/18 season at 2.33 CO₂-e/kg FPCM.

Reducing on-farm emissions

For farmers, understanding the amount of emissions produced on their farm and how they are performing relative to their peers, is a key step to identifying and prioritising improvement opportunities.

For the second season, in October 2021, we will issue farm-specific reports in New Zealand. Each report has a breakdown of the estimated GHG emissions for the specific farm by the source of those emissions so farmers can understand their current performance and prioritise improvements. The calculation method we use and the contents of these GHG reports have been independently assessed as meeting the requirements for the Climate Change Response Act milestones. While our shareholder farmers have been making gains in on-farm efficiency, the total on-farm emissions intensity has remained relatively flat since 2010 (accounting for land use changes and increases in brought-in supplementary feeds).

For now, the main improvements farmers can deliver will continue to come from adopting good management practices on-farm. This includes being efficient with feed and fertiliser, having the right number of cows for the specific areas of land, improving animal husbandry and genetics, and ensuring good animal health. There are also opportunities to optimise pasture quality and use of supplements to meet feed demand, use alternative forages to reduce protein in the cow's diet, improve manure storage and spreading, and reduce on-farm energy use.

0.95 kgCO₂-e/kg FPCM

Cradle-to-farm-gate carbon intensity of our New Zealand milk including land use change.



Andrew & Karla, Northland

Delivering continued productivity gains will be challenging. This is because, to reduce GHG, productivity gains need to be achieved without increasing farming inputs. Achieving this type of change at scale and within relatively short timeframes will require partnerships between the Government and industry to support farmers. We are pleased that the Government has chosen to partner with the Primary Sector and Māori through the He Waka Eke Noa joint action climate partnership, to find practical ways to support farmers with emission reductions.

To help our shareholder farmers we are continuing to update the reporting we provide. This year the reports will contain insights on opportunities for improved productivity related to milk quality, animal welfare and milking efficiency, including the potential financial paybacks of doing so. Farm Environment Plans now contain a specific GHG emissions module and farmers can also access additional guidance from our Sustainable Dairying Advisors and a network of farmer ambassadors, who understand the sources of GHG emissions and the management practices that can reduce these.

In addition to continued productivity gains we also need a range of approaches to solving the methane challenge, that when combined, make a significant difference.

Game-changing solutions for methane

For New Zealand farmers to meet expectations for methane reduction by 2030 and 2050, significant investment is required from both Government and industry in research and development to create practical steps that farmers can take.

Fonterra is working with partners and other stakeholders on a wide range of potential solutions to help reduce the biological emissions for dairy farmers and the wider global agricultural sector. This, in turn, will help our customers further reduce the footprint of their products too. For any game-changing solution to be successful it needs to be good for the environment (GHG reduction), good for the farmer (practical and cost-effective), good for the cow (her health and performance) and good for the milk (composition and food safety). We are dealing with a complex system that has an animal at its centre. This animal has a rumen to process what it eats, and in the rumen, there is complex ecosystem. There is unlikely to be a single silver bullet here, so we are pursuing a wide range of potential options (see next page).



1 Pastoral Greenhouse Gas Research Consortium.



Hayley, Te Awamutu, with renewable wood pellets

Energy efficiency

Improving energy efficiency in our manufacturing operations has been a long-term focus for us and it remains a vital part of our GHG reduction strategy. In FY20, we delivered our target of a 20% reduction at our New Zealand ingredients and foodservice manufacturing sites from our 2003 baseline. Cumulatively since 2003, that was equivalent to saving enough energy to power all the households in New Zealand for 1.5 years.

We have continued to make improvements, including at Whareroa, where upgrading to equipment that very efficiently removes water from whey permeate, will allow us to retire ageing and inefficient evaporator assets. This project reduces thermal energy use and therefore carbon emissions, and it also improves water recovery, chemical safety and lactose yield.

This year, our manufacturing energy efficiency improved in nine out of 10 countries, giving an overall improvement of almost 2% to 7.1 GJ/tonne of finished goods.



Renewable wood pellets

Transitioning to renewable energy sources

During the 2020 winter shutdown we converted the boiler at our Te Awamutu site from coal to wood pellets. This helped us reduce our carbon emissions from coal use by more than 11% this year, a reduction of more than 98,000 tonnes CO₂-e. Taupo-based Nature's Flame supply the renewable wood pellets, made from sawdust and shavings from nearby sawmill operations, and produced using geothermal energy.

Recognising the significance of this project, at New Zealand's 2021 Energy Excellence Awards, Fonterra and Nature's Flame won the 'Low Carbon Future Award'.

We are now working on the transition of our Stirling cheese plant in Otago. In the 2022/23 season, Stirling will be our first site to use 100% wood biomass as renewable thermal energy, reducing our annual emissions by a further 18,500 tCO₂-e. When transitioning to wood biomass it is important that a

reliable and renewable source can be obtained locally and, in this case, we are pleased to be working with locally-owned Pioneer Energy. Installation of the new infrastructure is expected to contribute more than \$10 million to the local region and support an estimated 10 jobs in the wood biomass industry.

Our goal is to transition our remaining nine sites that still use coal to renewable energy by 2037. This aligns with the New Zealand Climate Commission's recommended pathway for coal, but is ambitious and will be challenging to achieve. The pace at which we can replace coal boilers is also constrained. While we're working on this transition, we must make sure we can process our farmer owners' milk every day and meet our customers' needs. This means we need a secure energy supply and very high availability of our manufacturing facilities. Each milking season there is only a short window of time during the winter period when we can complete major changes to factories and the current capacity of boiler vendors to deliver equipment upgrades is limited due to growing global demand.

In other parts of our business we have also made changes to emit less, including the use of solar. Installations of solar at our manufacturing sites in Indonesia and Malaysia last year have helped deliver a combined reduction of almost 1,400 tCO₂-e and five of our Farm Source™ stores have installed solar, generating more than 100% of their energy requirements at times this year.

Collaborating to investigate options

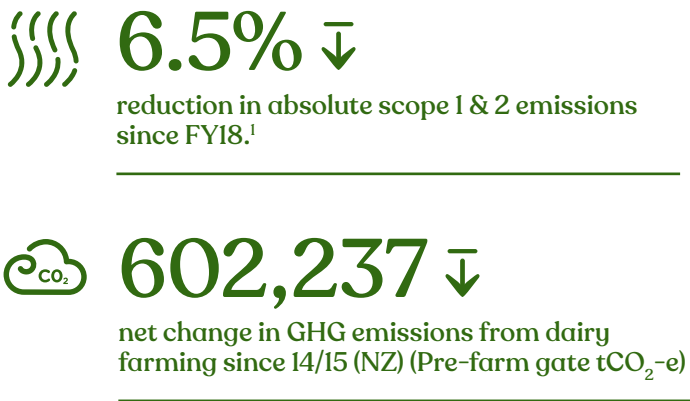
The transition to a low carbon future is a complex problem, there are going to be lots of pieces involved in solving the puzzle and collaboration is vital to making progress efficiently.

This year we undertook a study with Beca, Firstgas Group, and the Energy Efficiency Conservation Authority (EECA) to evaluate the potential of locally produced biomethane as a possible substitute for natural gas. The report, published in July 2021, concluded that by 2050, biomethane from the anaerobic digestion of organic waste in New Zealand could replace 7-8% of natural gas consumption. This would reduce New Zealand's gross GHG emissions by 2% and dairy manure was one of the most significant potential sources of organic waste identified.

We have also partnered with other Major Electricity Users' Group members to stimulate the development of renewable generation in New Zealand. The project aims to accelerate progress by providing a stable commercial platform from which to launch projects. New Zealand's electricity already has a high percentage of renewable generation (more than 80% for the last five years) but we would like to see this expanded and avoid situations like this year, where the emissions factor for grid electricity was significantly impacted by increased coal usage at the Huntly Power Station.



Our performance



For more detail on our performance see next page and SP-54

Electric vehicles

In New Zealand, one of the fastest growing sources of GHG emissions is road transport and it is now at the same level as methane from dairy cows. With solutions already available to reduce the emissions from transport it is important that we leverage these.

With our heavy transport fleet we invest and seek practical ways to reduce the carbon footprint through driver training focused on fuel efficiency, optimising the routes tankers travel, and moving our fleet to lower emissions vehicles.

We have been piloting the use of electric vehicles (EVs) in our fleet of pool cars and have some fast charging stations at our main offices in Auckland and Hamilton. We have now implemented a new policy that all light vehicles that can be electric should be, when they are next replaced. Our aim is to transition more than 300 light vehicles (about one third of our light vehicle fleet) to EVs by the end of 2023 and, with some co-funding from EECA, expand our network of charging stations, including to four regional hubs in the South Island.

Milk vat monitoring system

We have almost completed the installation of electronic monitoring systems on the milk vats at supplying farms in New Zealand. This technology not only helps our shareholder farmers ensure they supply high quality milk, it also improves the efficiency of our milk collection. To date, our computer system has sought to optimise the milk collection based on estimated volumes of milk in the vats and fixed milking times. This new system gives us more precise information about actual volumes and milking times, allowing us to further improve collection efficiency and reduce the number of milk tankers we need.

Partnering on ocean freight

Our supply chain partner, Kotahi, has worked collaboratively with Maersk to launch a new coastal freight service in FY21. As well as reducing emissions by taking freight off road, it has improved transit times to many key markets and improved the distribution of containers around New Zealand at a time of severe global supply chain disruption.

Like Fonterra, Maersk and other carrier partners working with Kotahi, are committed to the Science-Based Targets Initiative (SBTi) and they are in the target-setting phase. Earlier in 2021, SBTi issued draft target-setting guidance specifically for the maritime industry. Recognising that there is likely to be a significant increase in maritime shipping due to its better climate performance, there is a strong focus on continuing to improve emissions intensity within shipping.

This will require fuel switching by our carrier partners. CMA Group is supporting the production of biomethane and Maersk has accelerated its plans for container shipping powered by carbon-neutral fuels, now expecting the first vessel in 2023, seven years ahead of its original plan.

What's next

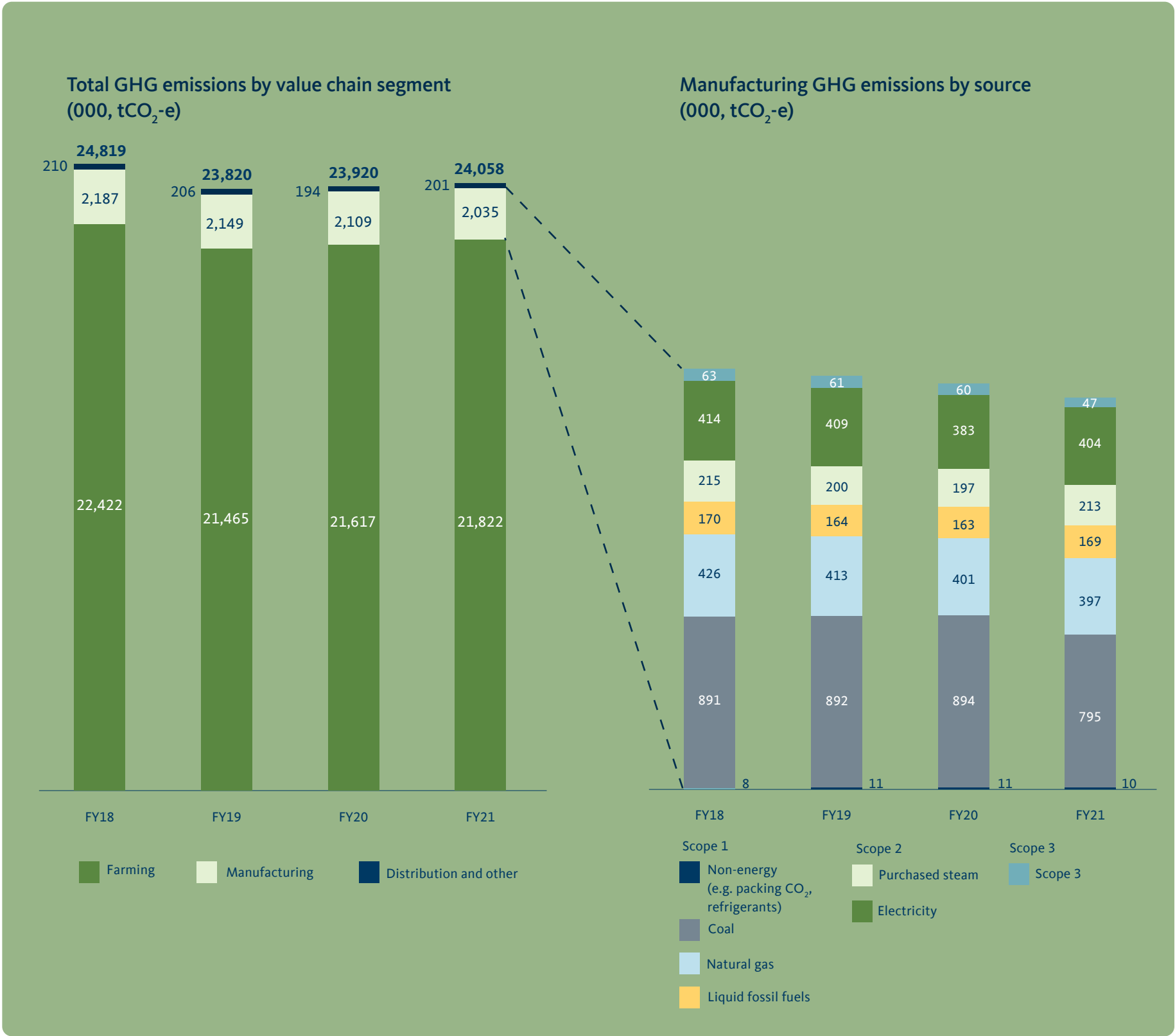
We will continue to use farm-specific GHG emission reports and Farm Environment Plans to help our shareholder farmers understand their on-farm footprint and prioritise improvements.

We will continue to invest in research and development to investigate breakthrough mitigation technologies for animal emissions.

We will continue to focus on energy efficiency to deliver direct emission reductions, cost savings and help prepare for the transition to low carbon energy sources.

We will continue to develop and deliver our decarbonisation plan, starting with our Stirling site during FY22.

¹ The China farms that we sold during FY21 have been excluded for all years so the underlying progress can be demonstrated.



Adding the individual numbers together may not add up to the totals due to rounding.

The CO₂ emissions from biofuels are not shown as protocol excludes them from the total. Biofuels emissions in FY21 rose dramatically to 82,155 tCO₂-e due to the wood pellets being used at Te Awamutu. For further detail see page SP-54 and for supporting information on the scope, methodology and assumptions, including restatements of prior years, see page SP-59.

Packaging and waste

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

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

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

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

Our approach

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

Our Group Environment Policy and supporting standards, requires all our sites to: manage hazardous substances responsibly; reduce waste, including packaging; maximise manufacturing yield and support local waste solutions. For packaging, we have design guidelines and a group of experts from across the business to set the direction and support progress towards our targets.

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

What we've been doing

Our Sustainable Packaging Programme

In 2019, we set a target of making Fonterra's packaging 100% reusable, recyclable or compostable by 2025, not knowing if this was possible, or how we would get there. Over the past two years, we've audited our products to understand the materials used and the recycling infrastructure available in the markets we sell to.

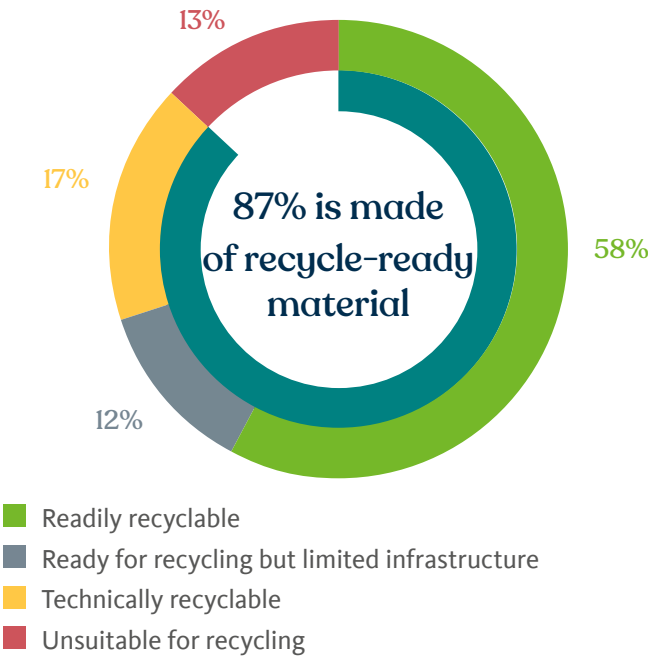
We believe it is important to track our progress based on the tonnes of packaging material associated with our finished goods because this better represents our impact on communities and the environment. Our current global data systems limit the accuracy of our assessment but this year we have integrated data from systems representing over 60% of our packaging designs into a single reporting system and improved the quality of our master data. This makes it more efficient and accurate to assess our full portfolio and further improvements are being planned.

Using material recyclability status at end of FY21 and sales volumes during FY20¹, on a total tonnage of packaging basis: 58% is readily recyclable (e.g. cardboard), 12% is ready for recycling but limited infrastructure (e.g. rigid plastic) and 17% is technically recyclable (e.g. liquid carton board). This leaves 13% that is unsuitable for recycling (e.g. foil-based sachets).

We have developed tools to help our teams analyse our packaging and the markets where it is used. This allows us to prioritise the improvements to deliver the biggest positive impacts.

Where new materials are being used with food products the evaluation of these materials and the quality assurance testing takes a long time. This is because testing needs to be completed across the full shelf-life of the product. For this reason, while we expect to demonstrate some steady progress for the next few years, our more significant gains will occur towards 2025.

Recyclability assessment



¹ This applies to all items except tertiary packaging and some third party manufactured items, representing about 10% of tonnage, where we have used the same data as for baseline reporting in FY20.



Farm Source™ Stores



Jono, Hamilton

Fonterra operates a network of 66 Farm Source™ stores throughout New Zealand retailing farm supplies. As part of their continued work supporting the sustainability commitments of our farmer owners and those of the wider rural community, this year the stores have been helping reduce waste by eliminating non-recyclable packaging, facilitating recycling and using recycled materials.

Eliminating non-recyclable packaging
Using guidance from our sustainable packaging programme, our Farm Source™ team has carefully reviewed the specification of each product in our house brand Country Mile range with the goal of reducing on-farm waste.

The first preference is to eliminate the packaging completely, for example, by displaying the items loose in display bins or hanging from hooks rather than in bags or boxes. This reduces material use and avoids the need to recycle it. At the end of FY21, about 33% of our Country Mile product range achieved this.

Where elimination is not possible, the next preference is to use the minimum amount of a material that is already or soon to be readily recyclable. For example, this year plastic blister packs made from PVC or mixed plastics have been replaced with either cardboard backings printed using water-based ink or PET plastic.

Some of our Country Mile product lines still need plastic, for example to maintain the sterility of needles, but 56% of the range now has no plastic

packaging. The plastic packaging has either been eliminated completely or replaced with a recyclable paper-based alternative.

Facilitating recycling
AgRecovery, run by a not-for-profit charitable trust, provides recycling and chemical recovery services for New Zealand’s farmers and growers. The recovery rates it achieves are already high but there is still opportunity for improvement.

Partnering with AgRecovery, Farm Source™ is making it easier for farmers to recycle by increasing the number of stores that are approved collection points for rigid plastic (HDPE 2) containers. During FY21 we extended this to 12 stores and plan to make this available at all stores during FY22.

Using recycled materials
This year we were also excited to launch our new 360 REPREVE® range. This is the first range of farm workwear in the world to use the REPREVE® fibre, which is made from recycled plastic bottles, without compromising on performance. This is part of our programme to replace virgin polyester with recycled materials that can be verified as such. This helps drive demand for recycled materials. For example, about 74 500ml PET bottles are recycled to produce each 360 REPREVE® mens' long sleeve bush shirt.



Sustainable packaging in Australia

Achieving sustainable packaging is about transitioning packaging to materials that are reusable, recyclable or compostable and using less material where possible. In all cases we need to progress carefully, so we do not compromise on food safety or increase food waste.

Every year in Australia we sell more than 25 million packs of Bega™ and Mainland™ natural cheese slices in re-closable plastic containers called clamshells. The clamshells were moulded from non-recyclable PVC, which is used in a wide range of consumer packaging. By working closely with our suppliers, and conducting production trials, we have transitioned these to a clamshell that is moulded from PET. This is recyclable in Australia as indicated by the Australian Recycling Label printed on pack. Globally, PVC accounts for about 0.5% of the packaging materials we use, and we are actively working on alternatives so we can phase this out completely as we know it causes contamination of PET recycling streams.

At our Bayswater site we also changed the packing line for part of our range of Mainland™ snack products to remove the single use cardboard sleeves. This will reduce annual cardboard consumption by over 75 tonnes and deliver a cost savings of over \$400,000 each year.

Australia has made good progress towards our 100% recyclable target and, based on careful analysis we know that 94% of packaging on products sold in Australia is now made from recycle-ready¹ materials.

Analysing soft plastics

In prior reporting we had assumed that most of the soft plastics we used for packing cheese and milk powders were non-recyclable. This year, working with our suppliers, we have tested some of these packaging materials against international standards for recyclability using protocols for benchmark testing published by both the Plastics Recyclers Europe (PRE) and the Association of Plastics Recyclers (APR). These protocols assess the compatibility of packaging materials to be mechanically recycled in the soft plastic polyethylene stream (marked number 4). We are pleased to report that the testing demonstrated acceptability, and based on FY21 volumes, a further 2,203 tonnes of our packaging has been proven to be recycle-ready¹. This allows us to communicate appropriate recycling pathways to our customers and consumers which in turn should lead to increased recycling. We are continuing to test other packaging materials in our portfolio.

¹ The exact level of recyclability achieved will vary depending on the scope and availability of collection, sorting and recycling in the given market.



Collaborating on waste reduction

We continue to identify opportunities to reduce solid waste to landfill by analysing our waste streams and by working with our waste management vendors. Our largest reductions this year have come from programmes of work at our South American and Australian manufacturing sites.

In New Zealand, we are also collaborating with several companies to find new technologies and solutions to divert waste streams from landfill. For example, Tetra Pak packaging is being upcycled into low carbon building materials by saveBOARD and used process filters from our manufacturing sites are now being incorporated into fenceposts through our partnership with Future Post.

We also support food bank initiatives around the world (see page SP-21).

Our performance



For more detail on our performance see page SP-55.

What's next

We will continue to transition our finished goods into packaging that is more readily recyclable.

We will continue to decrease the amount of solid waste we send to landfill from all our operational sites.

Animal wellbeing

We want all animals to be valued and treated with respect and care throughout their lives.

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

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

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

Our approach

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

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

Five Domains¹, and eliminate practices that contravene the Five Freedoms.

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

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

Globally, our international audit and compliance team assesses animal welfare as part of its milk sourcing audits in all markets outside of New Zealand where we collect milk. This enables us to identify any issues and recommend improvements to farmers. Many markets also have local veterinary and milk quality support teams to manage this work. See 'Working with Farmers' on page SP-42.

What we've been doing

Animal Health Plans

Ultimately, we want to see these on every farm that supplies milk to Fonterra, but our initial focus is New Zealand, where this season, the percentage of farms with an established Animal Health Plan increased from 50% to 53%.

Experience has shown that those farmers who actively focus on animal wellbeing and who have a good relationship with their vet will usually achieve better outcomes. Therefore, these plans are developed with, and signed-off by, a registered vet. As a minimum, each plan for the 20/21 season covered rates of mastitis and lameness, mortality, body condition scoring and prudent use of antibiotics.

For the 21/22 season, achieving recognition levels within The Co-operative Difference framework (see page SP-43) is linked with increased payments to farmers. Developing and implementing an Animal Wellbeing Plan with a vet is one of the minimum criteria. We continue to further embed the Five Domains model of animal welfare, changing the plan name to an 'Animal Wellbeing Plan'. We've also expanded the required coverage of the plan to include mitigation options for heat stress and other extreme weather events, and ways that animal wellbeing can be enhanced through genetic improvement strategies. As part of our continuous improvement process, this is expected to drive even more conversations around the importance of high-quality animal care and practical steps to achieve it.

Cared for Cows

When consumers are purchasing food from livestock, they are increasingly looking for assurance that those animals are well cared for. To help meet this need we have developed our Cared for Cows Standard to formalise our process for assessing and managing animal wellbeing on farms supplying Fonterra New Zealand. This year we achieved independent certification that means we can provide our ingredients to customers with substantiated claims for their products, adding further value to the milk from our New Zealand farms.

New Zealand's Animal Welfare regulations and supporting codes define minimum standards along with recommended best practices relating to animal care. These are set by the New Zealand Government and enforced by the Ministry for Primary Industries (MPI) and New Zealand Society for the Prevention of Cruelty of Animals.

Our Cared for Cows Standard goes beyond regulatory compliance. We use key on-farm indicators to identify farms with the potential for animal wellbeing issues so they can be proactively investigated and provided with additional support. AsureQuality, an independent Conformity Assessment Body, performs a management system audit and a data compliance audit annually, to ensure the integrity of our Cared for Cows claims. In addition, anyone internal or external to Fonterra can notify issues of concern for follow-up with urgency. We work closely with DairyNZ's Early Response Service, a network of animal care specialists around New Zealand who can provide farmers with independent advice on good farming practices and will involve MPI when appropriate.

¹ The Five Domains recognise that both positive and negative experiences in each of the four physical domains (nutrition, environment, health, behaviour) contribute to the overall mental state of an animal.

Supporting the Biosecurity Business Pledge

Covid-19 has provided businesses around the world with a demonstration of the impacts that can arise from unwanted pests and diseases and the need for effective biosecurity.

In 2020, Fonterra became a founding member of The Biosecurity Business Pledge, a partnership aiming to help all Aotearoa New Zealand companies. Developed by businesses in partnership with Biosecurity New Zealand, the Pledge provides a framework for managing the risk of unwanted pests and diseases (plant or animal) disrupting individual businesses and sectors.

By building a collaborative forum to raise awareness and equip businesses with information and practical tools, the Pledge enables a proactive approach to biosecurity risk management that will lead to better biosecurity outcomes for all.

Activity is organised in two layers – an engagement programme that encourages the free flow of information, insights and perspectives, and a project-based programme to address gaps in the toolbox to support businesses. This year, we have supported the engagement programme by sharing content via our website and a biosecurity fact plinth at our stand at the three-day National Fieldays event. We are also participating in projects to enhance the resources available to other members, which support the integration of biosecurity thinking into governance and procurement.

Our performance

Somatic cell count (SCC) is not only an indicator of milk quality, a low SCC also gives an indication of good animal husbandry. Farmers have continued to deliver excellent results in this area this year, with small improvements in all countries except Australia and China. The overall global result remains the same and well below the European Union import/export standard of 400,000 cells/ml, which is a widely quoted standard. We will continue to work towards lower counts.

We are pleased to have our work with farmers on animal wellbeing over recent years acknowledged by the Business Benchmark on Farm Animal Welfare (BBFAW). Now in its ninth year and covering 150 of the largest food companies in the world, BBFAW is a leading global measure of farm animal welfare management, policy commitment, performance and disclosure by food companies. This year our progress was recognised by our ranking improving from Tier three to Tier two.

53% 

of farms in New Zealand established an Animal Health Plan with their vet.

175,000 

Global weighted average somatic cell count (cells/ml)

What's next

Our dedicated team will continue to work with farmers, veterinarians and regulators to support strong biosecurity and work towards optimising animal health and welfare practices.

We will continue to encourage the adoption of Animal Wellbeing Plans as part of the Co-operative Difference.

We will extend the Farm Insights Report that we provide to farmers in New Zealand (see page SP-26) to include benchmarking of key animal wellbeing metrics such as mastitis rates, lameness, heat stress and milking efficiency.



Craig, Auckland

Managing operations

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

Our Global Environmental Policy defines our approach to the management of all environmental aspects relevant to our activities including, but not limited to, water, climate and energy, waste and pollution prevention across our global value chain. This includes assessing and managing environmental risks, taking a precautionary approach to decision-making to prevent damage to the environment or human health where serious threats may exist and implementing best-practice environmental management systems. We set aspirations, objectives and targets that drive environmental performance, and continuously improving towards these.

The policy is published on our web site:
www.fonterra.com/environmentalpolicy

We expect all our people to demonstrate a commitment to environmental management, including in their strategic planning and the way they run the business, such as developing innovative approaches for managing and restoring the environment.

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

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

Independent evaluation and certification of sites

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

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

Other third-party audits are part of independent certification of site Environmental Management Systems (EMS) to international standards, such as ISO14001. Independent certification to ISO14001, or an equivalent such as EnviroMark Diamond, provides a third-party evaluation of the performance of our EMS.



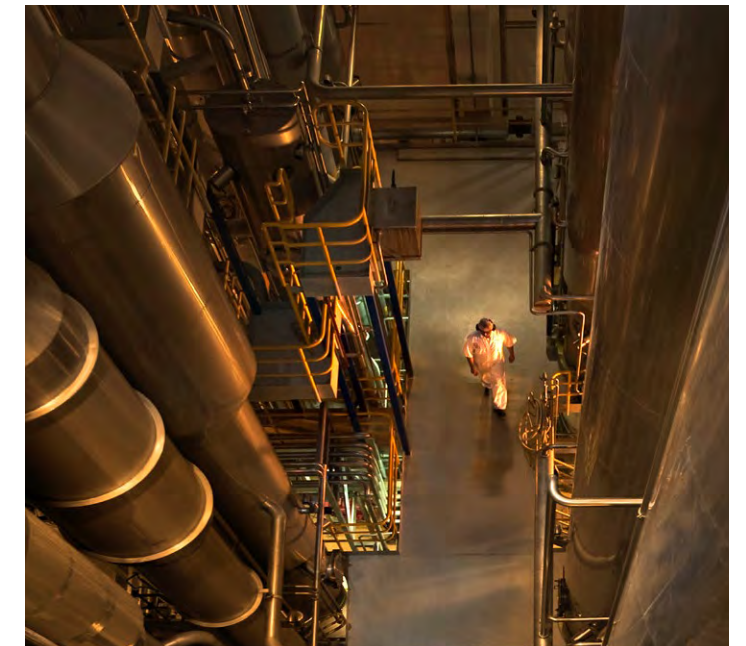
This year, our Studholme site achieved certification for the first time. Globally, 69% of our manufacturing sites are certified to this level or equivalent. This is down slightly from 70% in FY20, due to the closure of our Te Roto site which had certification and the acquisition of two new sites in Australia which are not currently certified.

Environmental compliance

In New Zealand, our Whareroa site had two incidents of non-compliance with environmental regulations that resulted in a \$750 fine and one abatement notice. One was for unauthorised discharge of skim milk via ocean outfall (see Significant Spills) and the other for exceeding a consent limit. Our Tirau site incurred \$1,750 in fines for two incidents of non-compliance, one for odour from wastewater system and the other for exceeding consent limits. At Pahiatua, a spill of about 50 litres of thermal transfer fluid incurred a fine of \$750.

We also experienced some trade waste non-compliances at our production sites in Takanini, Palmerston North and Eltham. The situation has improved during the year but there are still operating conditions where the pre-treatment on-site does not meet our trade waste agreement levels. At our Palmerston North site, over the year we incurred a total of \$56,857 in penalty charges.

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



Significant spills

In New Zealand, there were a total of 19 significant spills. At our Whareroa site, 170,000 litres of skim milk was released to ocean via the site wastewater system when a valve failed (see Environmental Compliance). At our Takanini site, 7,000 litres of milk and 600 litres of glucose were released to trade waste. While irrigating wastewater on-farm there were two spills, totalling about 11,500 litres, primarily to the farm roadway.

There were also 14 spills of milk, cream or permeate associated with tanker events either on-farm or on a highway and totalling about 70,000 litres.



Healthy Business

We are working together to deliver a sustainable business.

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

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

To do this we are:

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

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

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\$11.6 billion

↑

paid to farmers in New Zealand for the 2020/21 season (see page SP-41).

2.7x

↓

debt levels continue to reduce with debt/EBITDA down to 2.7x (see Business Performance Report page BP-13).

34c

↑

normalised earnings per share up to 34c (see Business Performance Report page BP-47).

3,246

↑

farms in New Zealand achieved a recognition level in The Co-operative Difference framework, up from 2,685 (see page SP-43).

SP/

39

⏪ ⏩

Employment and income creation

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

Delivering sustainable returns to our farmer owners is at the core of our Co-op's purpose. By supporting the success of their farming businesses, the people they employ and the vendors they rely on, we contribute significantly to regional economic development. This year through the milk price we returned more than \$11.6 billion to regional New Zealand.

We also support the livelihoods of our employees. On a full-time equivalent basis, Fonterra directly employs 19,354 people, with over 60% of those based in New Zealand (see Annual Review page AR-4 for the distribution of our people around the world).

In New Zealand, industry-wide figures from 2017¹ showed that, in addition to those working in dairy processing the dairy sector employed 26,500 on farm and thousands more in jobs supporting the local industry.



Neil & Tupaea, Te Rapa

Our approach

Being a farmer owned co-operative gives farmers control of their own destiny. Because they own Fonterra, they know the Co-op will always collect their milk and work hard to ensure the best price for it. We believe that the scale efficiencies that come with that provide our Co-op with an important advantage that enables us to compete against some of the largest and most efficient companies in our industry in the world.

Maintaining a strong national dairy co-operative supports all dairy farmers in New Zealand by setting a Farmgate Milk Price which acts as a benchmark.

New Zealand is unique in that 95% of milk production is exported and Fonterra collects a large proportion of this milk. As a result, there is no 'market price' set through competition for supply. We calculate a Farmgate Milk Price using an independently approved methodology. This enables total returns to be allocated between payments for milk and returns on the share capital invested by farmer shareholders and unit holders in the Co-operative (see Farmgate Milk Price Statement).

A well-designed remuneration framework helps the Co-operative attract and retain talent, and both motivates and recognises the role our people play in the success of the Co-op. For our direct workforce

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

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

1 Source: How does the dairy sector share its growth. NZIER report to DCANZ October 2018. Data from 2017

What we’ve been doing

Easing cashflow for existing and new suppliers

We understand the importance of cashflow on farm. Unlike some agricultural products, milk production provides a regular income and we pay farmers monthly for their milk. In New Zealand, the price paid is based on an advanced rate that is adjusted during the season and with any shortfall in payment paid at the end of the season.

Last year, we changed our Advance Rate policy to pay farmers five days earlier each month, to pay the final settlement payment for the season no later than five working days after the Annual Results are published and to start the Advance Rate at 65% of the mid-range of the forecast Farmgate Milk Price range.

This year, we improved our credit approval process for new suppliers. Rather than waiting until they’ve started supplying milk, new suppliers are now allocated an account and a default credit limit once they’ve completed their application to supply, up to four months before the start of the season. This makes it easier to prepare for the start of the new season and earn Farm Source™ Reward Dollars at the same time.



Adrian & Ian, Northland

Our performance

ECONOMIC VALUE DISTRIBUTED	FY20	FY21
Payment to suppliers (farmers) for NZ-sourced milk	\$10,888 million	\$11,660 million
New Zealand Farmgate Milk Price	\$7.14 per kgMS	\$7.54 per kgMS
Payment to suppliers (farmers) for non-NZ sourced milk	\$1,007 million	\$994 million
Profit after tax attributable to equity holders of the Co-operative	\$686 million profit – (earnings of \$0.43 per share)	\$578 million profit – (earnings of \$0.36 per share)
Dividend payment to equity holders of the Co-operative	5 cents	5 cents interim dividend and 15 cents final dividend
Employees (FTE)	20,278	19,354 ¹

Detailed commentary on our financial performance is included in our Annual Review, see -> www.fonterra.com/annualreview2021 and our detailed Financial Statement, see -> www.fonterra.com/financialstatement2021.

What’s next

We will continue to support regional New Zealand by paying a competitive milk price to farmers.

We will deliver on our financial commitments for FY22 (see Annual Review page AR-18).

1 Our reduction in full-time equivalent (FTE) employees is primarily due to the divestment of our farming operations in China.

Working with farmers

Farmers are at the heart of our Co-operative and we add value to their milk and businesses by supporting continued innovation. This helps them prepare for changing regulations and meet expectations that are valued by our customers and communities, so they can continue to farm for generations to come.

About 90% of the milk we collect comes from our farmer owners in New Zealand. We also collect milk in other countries to help meet the needs of our customers and generate the greatest value from our New Zealand milk (see map in Annual Review page AR-04).

In this section, we explain our approach to working with farmers to ensure minimum standards are met and how we encourage and support the continuous improvement of good farming practices on farms supplying milk directly to our manufacturing sites.

Farms we manage

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

In China, we did operate seven large-scale dairy farms to produce raw milk for use in local products but during this year we completed the sale of six of these and we plan to sell the seventh. Previously we also managed the operations of two farms for training and demonstration purposes – one in Sri Lanka and one in Chile – but for FY21 that is no longer the case.

Setting expectations for supplying farms

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

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

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

- In New Zealand, in addition to visits by our own team, every supplying farm is visited each year by an independent farm assessor. A more-detailed assessment is also completed for each farm, around once every five years. This year a total of 19% of farms were placed into our performance management process at some point



during the season to address an identified area of concern. There was an increase this year arising from bringing milking shed structural items into this process and most were resolved after the first warning.

- In Australia, farms are visited multiple times each year by our own staff and independent assessments are scheduled based on prior compliance levels. Every farm is assessed at least once every two years. In FY21, 45% of farmers were assessed and 22% of the assessed farms were referred for follow-up and resolution, one for a critical non-compliance and the remainder for major.
- In Latin America, each farm is assessed by a combination of our own staff and third parties.

In addition, our New Zealand-based team visits and audits a random selection of farms once every three years.

- In China, our farms are under our direct control. These farms are subject to assessments by our New Zealand On-Farm Excellence team and Internal Audit team.

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



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

The Co-operative Difference

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

The Co-operative Difference makes Good Together ‘real’ on the farm. It pulls the best of what we do into five focus areas, bringing together what our farmers need to know, for today (‘Our Core’), recognising farms who go above and beyond (‘Our Next Steps’) and providing guidance on things to consider in future planning (‘Our Future’).

‘Our Core’ covers the things we can never afford to compromise on, such a regulatory compliance, producing safe, high-quality milk and looking after people, animals and environment.

Beyond this, ‘Our Next Steps’ allows farmers to grow through three levels of achievement, using the analogy of a journey up a mountain, to reach greater things. To be recognised for the 2020/2021 season, the farm had to meet pre-defined criteria including: having a farm-specific Farm Environment Plan (see page SP-26); having an Animal Health Plan developed

with a veterinarian (see page SP-36); having a Health and Safety Plan; and delivering safe, high quality milk.

The level achieved was determined by elapsed time with:

- 1,201 achieved Te Tihi – ‘the summit of the mountain’ for entire season
- 1,065 achieved Te Puku – ‘the mid poin’ for six months
- 980 achieved Te Pūtake – ‘the start of the journey’ for three months

From the start of the 2021/2022 season, farms meeting the specific on-farm targets will be eligible for The Co-operative Difference payment of up to 10 cents per kg of milk solids, with 7 cents for reaching Te Pūtake and a further 3 cents for reaching Te Puku. Reaching Te Tihi is about celebrating the farmer leaders in our Co-operative through recognition, and is not linked to payments. The specific criteria for this season builds further on the last season. For Te Pūtake, these include: accurate and timely completion of Farm Dairy Records; completing a DairyNZ Workplace 360 assessment; having a Farm Environment Plan and achieving certain key practices and standards related to topics such as nitrogen surplus, dairy shed effluent, on-farm plastics and farm-grown feed. Te Puku, is then based on providing milk that achieves a milk quality excellence rating.

‘Our future’ ensures that we can also help farmers future proof decisions being made on farm today by giving them guidance on likely requirements and trends.

Responsible procurement

We have the opportunity to use our influence for good.

When it comes to procurement, this means promoting the adoption of responsible practices within our supply chain and working to source goods and services produced in an environmentally and socially responsible way.

By far the largest single input to our business is raw milk, collected directly from farmers. For more information on how we work with our farmers in New Zealand and around the world, see page SP-42.

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



Our approach

Our Global Procurement Policy and Procurement Standard set out our requirements for the procurement of non-milk goods and services, including capital projects. We are committed to purchasing decisions that set us up for a sustainable future and these requirements apply to all purchasing. For significant items our specialist procurement team must be involved in the purchasing decisions and ongoing management of the vendors.

The Global Policy is approved by the Board of Directors and the COO is accountable for ensuring the Global Standard is fully implemented across the organisation. Business Unit procurement leads are accountable for guiding and approving major procurement activities, ensuring procurement

control activities are operating effectively and addressing any actual or potential non-compliant behaviours. All employees are responsible for complying with the standard.

Vendors are assessed against a range of criteria, during initial selection and on an ongoing basis. This includes food safety and quality, financial stability and cyber risk, where relevant. Suppliers of any material or services that may impact our sustainability commitments must be approved by the Group Sustainability team.

The Fonterra Supplier Sustainability Code of Practice sets our expectations of vendors including upholding standards related to human rights, fair working conditions and environmental protection.

www.fonterra.com/sustainabilitycop

What we've been doing

Embedding social and environmental criteria

We continue to further integrate social and environmental criteria into our procurement processes. This year, we updated our Group Procurement Policy and Procurement Standard to ensure we are adopting a consistent approach to vendor due-diligence and vendor performance evaluation now we have de-centralised procurement teams.

Sustainability is now one of the key pillars considered when we refresh our category strategies, when building vendor strategy plans and is a fixed item on the agenda in our vendor meetings for providers of ingredients, packaging and engineering categories.

We have also continued to develop the capabilities of our procurement team, holding five specific training workshops on Human Rights and Modern Slavery this year with 70 employees from around the world attending including 48 from our procurement teams.

Vendor assessments

Building on the vendor risk assessment that we completed in the past, this year we undertook a detailed assessment with our top 50 strategic vendors. None of these vendors were identified as high risk of non-compliance with our standards but it allowed us to develop a two-phase approach for targeting our assessment of vendors. Phase one comprises of a standard online questionnaire. Based on the findings of phase one, a detailed discussion is undertaken with vendors around any areas of risk identified. We expect to grow the coverage of these detailed assessments as a percentage of global procurement spend in the coming years.

Social procurement

We are a member of the ‘Fwd: platform’ – a marketplace website that connects buyers like ourselves with organisations that have been certified by the Ākina Foundation as social enterprises, trading to deliver positive social and environmental impact.

We used the platform this year to check for alternative suppliers across 12 sub-categories. While we identified some coverage in food and beverage,

facilities management and waste management, in all cases the available solutions were very localised and will require further investigation to assess their capability and capacity. We continue to spend about \$1.5m per year with Kilmarnock, a provider of high-quality food packing services who have been certified as a social enterprise by Ākina. We also hosted four Buyer Networking events with other like-minded organisations to share understanding about integrating social enterprise into procurement processes and the associated challenges.

Forest products

Palm products are one of the highest-profile raw materials in our supply chain. The production of palm products has been linked to unsustainable practices, including deforestation, habitat destruction and poor human rights. We therefore have a specific focus on this area but we also consider the risk of deforestation more widely in our supply chain and completed our fourth response to CDP on forests this year.

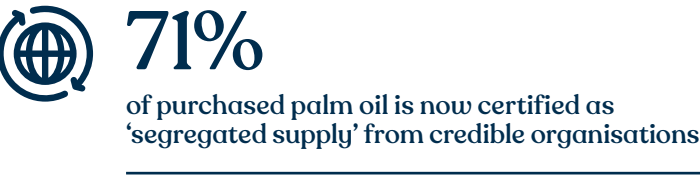
We have been a member of the Roundtable for Sustainable Palm Oil (RSPO) since 2010 and since 2015, all our palm oil purchases have been certified

by RSPO. In 2016, we launched our Palm Product Standard. This requires palm product vendors within our supply chain to publicly commit to “No Deforestation, No Peatland Development, and No Exploitation” and have processes to meet these commitments. We had planned to publish a new version of this in FY21 but that has been delayed until FY22.

During the 2020 calendar year, we purchased 27,487 tonnes of palm-related products as an ingredient with 71% RSPO certified as segregated supply and 22% certified as mass balance. While we missed our original deadline of 2018, we made good progress in CY2020 and expect that to continue.

Early in FY21 we divested of our interest in Agrifeeds, a joint venture between Fonterra and Wilmar. The Agrifeeds joint venture was formed in 2008 to secure the competitive supply of palm kernel expeller (PKE) and other imported feed ingredients for New Zealand farmers. As part of our ongoing review of investments it was concluded that a competitive animal feeds market had been established and investment in Agrifeeds was no longer required to ensure farmers have access to responsibly sourced and competitively priced feed.

Our performance



What’s next

We will continue to expand our assessment and engagement with vendors to better understand the practices in their supply chains, including establishing a new online portal for use with new vendors and as contracts are renewed.

We had planned to update our Sustainability Code of Practice and Palm Products Standard this year, but this will now be completed in FY22.

Working with our chemical partner Ecolab we will audit our manufacturing sites in New Zealand to identify opportunities to recycle chemical waste and regenerate it for reuse.

We will continue to work with suppliers of direct and indirect palm oil ingredients to work towards 100% certified segregated supply.

Ethical business practices

So that we live up to the intent of our Purpose, the experiences and interactions that our customers, farmers, business partners and communities have with our people must foster trust and credibility. We earn that trust by acting ethically and living our Values every day.

Our approach

The Board, Co-operative Council and Management of Fonterra consider that strong governance plays a critical role in the success of our Co-operative and are committed to achieving the highest standard of corporate governance, representation and leadership (for details see Corporate Governance Statement page CG-02).

Our Group Legal and Compliance Policy requires all of Fonterra’s business units to clearly assign roles and responsibilities for compliance, with all applicable laws and regulations applying to our operations. We are committed to embedding compliance with all applicable laws, regulations and Fonterra Global Policies into our operations and creating a culture of compliance, including appropriate monitoring, assurance, reporting and continuous improvement.

We are committed to operating in a manner that builds trust and lasting relationships through behaving with honesty, integrity and transparency. We protect the reputation of our business by ensuring robust practices in the areas of actual or potential conflict of interest, gifts and corporate hospitality, bribery and corruption, and the disclosure of fraudulent and unlawful activity.

For more information on our Code of Ethical Behaviour, see Corporate Governance Statement page CG-02.

Our performance

Legal compliance

We have not identified any incidents of non-compliance with laws and regulations in the social and economic area in the past year. There were also no fines or non-financial sanctions related to anti-competitive behaviour, anti-trust, and monopoly practices over this period.

Fonterra is currently a defendant in climate change litigation commenced by Mr Mike Smith, a Māori climate change representative, which was commenced in the Auckland High Court. Fonterra is a co-defendant along with six other major New Zealand corporates. In basic terms, Mr Smith is claiming that the defendants undertake or enable emitting activities that release greenhouse gases into the atmosphere, that these actions have contributed to climate change, and that Mr Smith has suffered, or will in the future suffer, losses as a result of climate change. Fonterra and the other defendants are vigorously defending these proceedings and the High Court has already struck out two of the plaintiff’s three specific claims. The decision of the High Court to strike out the two claims was appealed by Mr Smith in the Court of Appeal (and Fonterra cross-appealed the decision of the High Court not to strike

out the third claim). The parties are awaiting the Court of Appeal’s judgement in the appeal.

For further details on environmental compliance see page SP-38, for healthy and safety compliance see page SP-15 and for product marketing compliance see page SP-11.

Anti-corruption

Each year our Internal Audit team assesses all Fonterra businesses for the risk of potential fraud. This risk assessment helps determine the priorities for audits across our global business. During FY21, over 80% of the internal audits completed across our global business included an assessment of the risks related to corruption, including five manufacturing sites where we have management control. Particular areas of focus include segregation of duties, delegated authorities, procurement practices, and sensitive inventory management. This year, following further investigation, one case resulted in an individual’s employment being terminated after a conflict of interest with a customer was discovered.

Responsible political behaviour

Fonterra does not allow corporate contributions of any kind to a candidate or political party in connection with political elections. No political contributions were made in the past year. We do not offer money or anything of material value to government officials, parties or candidates for the purposes of influencing the acts or decisions of officials.

Principled approach to tax

Fonterra has a clear set of principles that guide how we manage our tax obligations in New Zealand and around the world. We pay our fair share of tax in all jurisdictions, and do not use tax havens to avoid our tax responsibilities. We are transparent and work with tax authorities to ensure we continue to act responsibly.

In New Zealand co-operatives and corporates are treated differently in tax law. Rather than being taxed directly, Fonterra passes our income on to our farmer shareholders, who pay the tax at their level.

Our Values

Developed collaboratively with employees, our values guide our behaviour every day:



Do what’s right
We act with care, empathy and respect and we hold ourselves and others to high standards.



Co-operative spirit
We pitch in and work as one connected team to create goodness together.



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



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



Appendices

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Our contribution to United Nations’ Sustainable Development Goals

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

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

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

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

The dairy sector’s global approach to sustainable development is represented by the Dairy Sustainability Framework (DSF). Fonterra is a founding and implementing member of the DSF. We are committed to addressing all 11 DSF criteria within our supply chain, through a process of continuous improvement prioritised in conjunction with the findings of our materiality assessment. Whenever we refresh our materiality assessment we ensure that the 11 DSF criteria plus human rights and deforestation are always considered as potential topics in the process.

For more information, see:
www.dairysustainabilityframework.org

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

SDG		OUR CONTRIBUTION	INDICATORS	DAIRYING	OPERATIONS	CONSUMPTION
	No Poverty	Create positive employment opportunities along our value chain	1.2	●	●	
	Zero Hunger	Provide access to safe, affordable nutrition	2.1			●
		Address malnutrition through products tailored to specific health needs	2.2			●
		Lift dairy productivity to meet growing nutritional needs	2.4	●	●	●
	Good health & wellbeing	Responsibly provide products to support wellbeing of mothers and infants	3.1 3.2			●
		Continue to improve the nutritional profile of our products	3.4			●
		Promote healthy and informed consumer choices	3.4			●
		Provide a safe working environment	3.9	●	●	
	Gender Equality	Ensure equal participation and opportunities for women in the workforce	5.5	●	●	
	Clean water and sanitation	Reduce the impact of farming and manufacturing on water quality and ecosystems	6.3 14.1 15.1 15.2	●	●	
	Life below water	Increase water efficiency in areas of constrained supply	6.4	●	●	
	Life on land	Protect and restore freshwater ecosystems	6.6	●	●	
	Decent work and economic growth	Provide positive and inclusive employment for all groups	8.5	●	●	
		Address labour and human rights issues in our supply chain	8.7 8.8	●	●	
		Provide a safe and secure working environment	8.8	●	●	
	Responsible consumption & production	Reduce food waste throughout our supply chain	12.3	●	●	●
		Reduce waste generation through our operations and product packaging	12.5		●	●
	Climate change	Support farmers to build resilience to climate change	13.1	●		
		Reduced emissions across our supply chain		●	●	

Governance of sustainability

The Board, Co-operative Council and the Fonterra Management Team (FMT) consider that strong governance plays a critical role in the success of our Co-operative and are committed to achieving the highest standard of corporate governance, representation and leadership. For details of our principles and approach see Corporate Governance Statement page CG-02.



The Board Charter is available at www.fonterra.com. Its responsibilities include:

- Overseeing Fonterra's accountability, decision-making and compliance procedures.
- Ensuring that Fonterra's goals are clearly established and that strategies are in place for achieving them.
- Overseeing progress towards objectives including engagement with those managers responsible for championing imperatives around social and environmental sustainability.
- Establishing Fonterra's risk profile and ensuring that Fonterra has appropriate risk management and regulatory compliance policies in place and that they are monitored on a regular basis.

The Board has formed a Sustainability Advisory Panel, made up of five external experts who provide independent guidance on the Co-operative's strategy from a sustainability perspective.

Accountability for sustainability rests with the Fonterra Board, our Chief Executive Officer and the FMT. Regular performance updates are provided at this governance level. Accountability for individual elements of sustainability performance cascades through the organisation and from FY20 has been integrated into our Group Short-Term Incentive scheme for permanent employees. The related Key Performance Indicators cover our environmental, economic and social performance.

Oversight of sustainability issues by the Board includes reviewing and guiding strategy and risk management policies (including approval of the Group Environmental Policy), public policy positions, specific sustainability commitments and targets and major investment plans required to support achievement of these goals.

Two sub-committees of the Board, that assist the Board in fulfilling its corporate governance responsibilities related to sustainability, are the Co-operative Relations Committee and the Safety and Risk Committee.

The Chief Operating Officer and Managing Director of Co-operative Affairs report directly to the Chief Executive Officer and sit on the FMT.

Responsibilities of the Chief Operating Officer include oversight of sustainability, innovation and the safety, quality and regulatory teams. This includes responsibility for integrating sustainability into strategy and business planning and ensuring sustainability-related issues are monitored and reported to the FMT.

Responsibilities of the Managing Director of Co-operative Affairs include oversight of governance, risk and audit, Farm Source (our farmer-facing services), global stakeholder affairs, communications, legal, inclusion and Māori strategy.

Our performance

		PERFORMANCE					
INDICATOR	TARGET	FY18	FY19	FY20	FY21	COMMENTARY	SEE PAGE
Healthy People - Nutrition and health							
Percentage of everyday and advanced nutrition products that meet endorsed nutritional guidelines ¹ Fonterra consumer branded products (Global)	100% by 2025			82%	84%	We are continuing to improve the formulation of our consumer products. On a volume sold basis, we improved from 82% to 84% this year. This year we updated our nutrition guidelines to further align with international health authorities and regulatory recommendations, and to simplify the definitions. These have been re-endorsed by the New Zealand Nutritional Foundation and we have made them <u>publicly available</u> on our web site. To be transparent on the scale of change we have re-assessed FY20 using the new guidelines. This resulted in an increase from 73% to 82%.	SP-08
Healthy People - Health safety and wellbeing							
Work-related fatalities (attributable to Fonterra – staff, contractors, on-site public)	Zero harm	0	1	0	0		SP-16
Number of serious harm injuries ² (attributable to Fonterra – employees, contractors, on-site public)	Zero harm	14	18	10	9	We have achieved a further reduction in the number of serious harm injuries this year. Our goal remains to eliminate serious harm so we will continue to seek further improvements. Four of these injuries resulted from contact with moving equipment/vehicles, while another three injuries were the result of slips/trips and falls. We continue to work on our vehicle safety and traffic management across the business.	SP-14
Number of recordable injuries (employees – work-related)	Measure and report	284	222	247	230	230 injuries required medical treatment, restricted work duties or time away from work, so we will continue to seek further improvements in both rate and severity. Manual handling, slips, trips and falls continue to be the main cause of recordable injuries.	SP-14
Total recordable injury frequency rate (TRIFR per million work hours) (employees – work-related)	Less than 5	6.1	4.9	5.8	5.7	This year we have succeeded in reducing our injury rate again but not back to the lowest level that we achieved in FY19. The total hours worked covered by this injury rate was 40 million hours.	SP-14
Healthy People - Employment rights and working conditions							
Employee engagement	World-class (Top quartile)	4.00 (2nd highest quartile)	4.07 (2nd highest quartile)	N/A ³	4.09 (2nd highest quartile)	Engagement has continued to improve and the result almost achieved the top quartile threshold.	SP-16

1 Assessment of products is based on protein, calcium and added sugars. Everyday nutrition products are intended to deliver a daily source of dairy nutrition. Advanced nutrition products provide a source of dairy nutrition and are fortified for advanced nutrition and health benefits.

2 Serious harm injuries are injuries that cause temporary or permanent loss of body function and include those to/involving both employees and contractors.

3 Prior to FY21 engagement surveys were completed early the financial year and reported as the result for the prior FY (e.g. early FY20 survey reported as FY19 result). In FY21 the Co-operative wide survey was completed mid-year and is considered to represent FY21. This means there is no result reported for FY20.

FY21 progress is evaluated against stated targets:

- Progressing well or target achieved.
- Progressing but not as strongly as we'd like.
- Not progressing well or original timeline significantly delayed.

PERFORMANCE							
INDICATOR	TARGET	FY18	FY19	FY20	FY21	COMMENTARY	SEE PAGE
Healthy People - Employment rights and working conditions (continued)							
Training skills hours (NZ)	Double by 2025 from FY20 baseline	-	-	270,355	346,417	We have made good progress this year, increasing the hours of skills training by 28.1% compared to FY20, with the average hours per learner being 31.6 hours. In addition to skills-related training there were an additional 194,085 hours of onboarding and compliance learning in New Zealand, covering things such as safety and environmental management.	SP-16
Female representation in senior leadership	50% by 2022	30.1%	28.6%	29.1%	32.4%	For the first time since we set this aspirational target, we made some progress. Realistically we know we will not be able to achieve our aspiration within the timeframe originally envisaged but we remain committed to the intent.	SP-18
Ethnic representation in senior leadership	20% by 2022	9%	9%	8%	9%	Privacy concerns and the voluntary nature of reporting ethnicity information continue to limit our understanding and ability to improve. Within senior leadership, 59% identify themselves as European/Caucasian; 9% identify themselves as other and 32% have not provided the information. Realistically we know we will not be able to achieve our aspiration within the timeframe originally envisaged. Therefore, in the short-term we intend to focus in New Zealand.	SP-18
Healthy Environment – Land and water, on-farm New Zealand							
Farms with Farm Environment Plans (FEPs)	100% by end 2025	12%	23%	34%	53%	Our goal for FY21 was to reach 45% and this has been exceeded.	SP-26
Farms with waterways have documented riparian management plan	100% by end 2025	25%	37%	46%	58%	This is now being progressed with Farm Environment Plans (see above) and due to prior work completed, overall progress remains more advanced.	SP-26
Healthy Environment – Land and water, manufacturing							
Water reduction at manufacturing sites in water-constrained regions	30% reduction by 2030 from FY18 baseline	–	3.9% Increase from FY18	2.9% Reduction from FY18	2.6% Reduction from FY18	We did not make as much progress as we planned this year. The commissioning of the new reverse osmosis plant at our Darfield site has proven difficult due to a variety of factors including the distances involved. This means the large reductions planned there were only partly delivered. Our Stanhope site in Australia which delivered a large improvement last year through process improvements was negatively impacted this year by water consumption for wastewater irrigation purposes. All progress has been restated to reflect the latest set of sites considered in water-constrained regions.	SP-23
Improvement in water efficiency (water used per cubic metre of milk processed)	Measure and report (global)	–	0.4% Improvement from FY18	1.9% Improvement from FY18	2.5% Improvement from FY18	While our main focus is on reducing our water use at sites in water-constrained regions, we have delivered significant improvements at other sites too. This is reflected in water efficiency based on milk processed and finished goods produced.	
Improvement in water efficiency (water used per tonne finished goods)	Measure and report (global)	–	1.3% Improvement from FY18	4.7% Improvement from FY18	5.5% Improvement from FY18		

FY21 progress is evaluated against stated targets:

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		PERFORMANCE					
INDICATOR	TARGET	FY18	FY19	FY20	FY21	COMMENTARY	SEE PAGE
Percentage of manufacturing sites treating wastewater to leading industry standards	>80% of sites by 2030 (global)				53%	We have reviewed our approach and restated our target on this basis. Recognising that stakeholders have different views and values when it comes to improving water quality, we now believe that a leading industry approach to wastewater quality requires a truly collaborative approach. We will judge our success based on a combination of internal guidelines and satisfying the expectations of key stakeholders at a catchment level. By 2030, we are planning to upgrade wastewater treatment facilities at 15 sites, investing more than \$400 million and we estimate this will take us to at least 80%.	SP-24
Water withdrawal by source overall - Volume (000 m³)							
Freshwater (≤1,000 mg/L Total Dissolved Solids)	Surface water (water that occurs naturally on the Earth’s surface)		25,842	24,918	25,726	Includes Indonesia rainwater harvesting.	
	Ground water (water that is in an underground formation)		16,256	16,086	15,613		
	Seawater (sea or ocean)		0	0	0		
	Produced water (through the extraction, processing or use of any raw material)		0	0	0		
	Third-party water (municipal water supplies or other public or private water utilities)		9,288	8,476	8,541		
Total withdrawal from freshwater			51,386	49,481	49,881		
Other water (>1,000 mg/L Total Dissolved Solids)	Surface water		0	0	0	Water is extracted from milk during some processing. The volume is a conservative estimate of produced water, for sites where discharge volumes exceed withdrawal.	
	Ground water		903	875	871		
	Seawater		0	0	0		
	Produced water		10,865	11,253	11,929		
	Third-party water		15	13	4		
Total withdrawal from other water			11,783	12,141	12,804		
Grand Total			63,169	61,622	62,685		
Water discharge by destination overall - Volume (000 m³)							
Freshwater (≤1,000 mg/L Total Dissolved Solids)	Surface water		24,993	24,980	25,528	By agreement or for emergency community support we provide some water to third parties. Theses volumes are included elsewhere. They are not easy to separate and deemed immaterial compared to total volume.	
	Ground water		5,564	5,465	5,612		
	Seawater		0	0	0		
	Third-party water (total)		0	0	0		
	Third-party water - for use by other parties		0	0	0		
Total discharged to freshwater			30,557	30,444	31,140		

FY21 progress is evaluated against stated targets:

- Progressing well or target achieved.
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		PERFORMANCE					
INDICATOR	TARGET	FY18	FY19	FY20	FY21	COMMENTARY	SEE PAGE
Other water (>1,000 mg/L Total Dissolved Solids)	Surface water		62	160	121		
	Ground water		12,226	11,002	11,066		
	Seawater		13,241	12,936	13,265		
	Third-party water (total)		5,026	5,226	5,390		
	Third-party water - for use by other parties		0	0	0		
Total discharged to other water			30,556	29,323	29,843		
Grand Total			61,113	59,768	60,983		
Water discharge overall – Quality (COD ¹ mg/L)							
Discharged to surface water			74	69	59		
Discharged to ground water			1,220	1,208	1,084		
Discharged to seawater			2,105	2,062	2,264		
Discharged to third-party water			1,874	1,703	1,531		
Water withdrawal by source from areas with water stress - Volume (000 m³)							
Freshwater (≤1,000 mg/L Total Dissolved Solids)	Surface water		0	0	0		
	Ground water		2,023	1,996	1,862		
	Seawater		0	0	0		
	Produced water		0	0	0		
	Third-party water		2,525	1,839	2,051		
Total withdrawal from freshwater			4,547	3,835	3,913		
Other water (≤1,000 mg/L Total Dissolved Solids)	Surface water		0	0	0		
	Ground water		0	0	0		
	Seawater		0	0	0		
	Produced water		54	125	117		
	Third-party water		0	0	0		
Total withdrawal from other water			54	125	117		
Total sourced from areas with water stress			4,601	3,959	4,030		
Water discharge by destination to areas with water stress - Volume (000 m³)							
Discharged as freshwater (≤1,000 mg/L Total Dissolved Solids)			2,578	1,964	2,168		
Discharged as other water (>1,000 mg/L Total Dissolved Solids)			1,358	1,422	1,495		
Total discharged to areas with water stress			3,936	3,386	3,663		
Water consumption - Volume (000 m³)							
Total consumption from all areas			2,056	1,854	1,702		
Total consumption from areas with water stress			665	574	366		

1 Chemical Oxygen Demand – an indicator of water quality measuring chemicals in water that can be oxidized.

FY21 progress is evaluated against stated targets:



Progressing well or target achieved.



Progressing but not as strongly as we'd like.



Not progressing well or original timeline significantly delayed.



		PERFORMANCE					
INDICATOR	TARGET	FY18	FY19	FY20	FY21	COMMENTARY	SEE PAGE
Healthy Environment – Climate change							
Reduction in absolute Scope 1 & 2 emissions ¹	30% reduction by 2030 from FY18 baseline (Global)	–	1.7% reduction from FY18	3.5% reduction from FY18	6.5% reduction from FY18	The conversion of the coal boiler at our Te Awamutu site delivered the largest reduction by a single project and this was also supported by a significant reduction in Australia. Some of this improvement was negated by the New Zealand grid electricity having a lower renewable content than in recent years but we remain on track to achieve our science-based target.	SP-30
Net change in GHG emissions from dairy farming since 14/15 (NZ) (Pre-farm gate tCO ₂ -e)	Neutral to 2030	720,339 reduction on 14/15 (3.7%)	1,113,088 reduction on 14/15 (5.7%)	870,957 reduction on 14/15 (4.5%)	602,237 reduction on 14/15 (3.1%)	Our estimated absolute GHG emissions remain well below the baseline season. Emissions intensity on farm for 19/20 season (including LUC) is 1.57% higher than the 14/15 baseline. The increase from FY20 to FY21 is based on increased milk volume. The lifecycle assessment for 19/20 is the most recent available and is applied to both seasons.	SP-28
Total energy used by manufacturing							
Fuel consumption	Energy (PJ)	20.0	19.8	19.5	19.3		
	Renewable energy (%)	0%	0%	0%	5%		
Steam consumption	Energy (PJ)	4.2	4.1	4.0	4.1		
	Renewable energy (%)	4%	6%	6%	6%		
Electricity consumption	Energy (PJ)	5.2	5.1	5.0	5.1		
	Renewable energy (%)	53%	55%	55%	56%		
Energy used	Energy (PJ)	29.5	29	28.5	28.6		
	Renewable energy (%)	10%	11%	11%	14%		
	Non-renewable energy (%)	90%	89%	89%	86%		
Global consolidated emissions (000 tCO ₂ -e)							
Scope 1	Scope 1	1,716	1,690	1,696	1,534		
	On-farm	221	210	227	164		
	Manufacturing	1,495	1,480	1,469	1,371		
	Distribution and other	0	0	0			
Scope 2	Scope 2	692	659	632	652		
	On-farm	64	51	52	35		
	Manufacturing	628	608	580	617		
	Distribution and other	0	0	0	0		
Scope 3	Scope 3	22,411	21,471	21,592	21,872		
	On-farm	22,138	21,204	21,338	21,623		
	Manufacturing	63	61	60	47		
	Distribution and other	210	206	194	201		
Total Scope 1,2, & 3	Total Scope 1,2, & 3	24,819	23,820	23,920	24,058		
	On-farm	22,422	21,465	21,617	21,822		
	Manufacturing	2,187	2,149	2,109	2,035		
	Distribution and other	210	206	194	201		

1 The China farms that we sold during FY21 have been excluded for all years so the underlying progress can be demonstrated. This results in a re-statement of FY19 and FY20.

FY21 progress is evaluated against stated targets:

- Progressing well or target achieved.
- Progressing but not as strongly as we'd like.
- Not progressing well or original timeline significantly delayed.

		PERFORMANCE						
INDICATOR		TARGET	FY18	FY19	FY20	FY21	COMMENTARY	SEE PAGE
Global consolidated emissions intensity								
Scope 1 & 2	Emissions intensity by finished goods (000 tCO ₂ -e)		0.60	0.59	0.59	0.55		
	Emissions intensity by revenue (tCO ₂ -e /million NZ\$)		118	118	111	103		
Scope 1, 2 & 3	Emissions intensity by revenue (000 tCO ₂ -e)		6.2	6.0	6.1	6.0		
	Emissions intensity by revenue (tCO ₂ -e /million NZ\$)		1,215	1,196	1,140	1,139		
Healthy Environment – Solid waste and packaging								
Solid waste sent to landfill (tonnes)	Zero by 2025			17,491	16,577	12,492	Solid waste to landfill reduced by over 4,000 tonnes (24.6%), through a combination of activities across our manufacturing sites. See page SP-35 for some examples. Prior years have been restated to include previously unidentified waste streams.	SP-35
100% reusable, recyclable or compostable packaging	100% by 2025	-	-	50%	58%		Using material recyclability status per market at end FY21 and sales volumes during FY20 ¹ , on a total tonnage of packaging basis: 58% is readily recyclable (e.g. cardboard); 12% is ready for recycling but there is limited infrastructure (e.g. rigid plastic); 17% is technically recyclable (e.g. liquid carton board). This leaves 13% that is unsuitable for recycling (e.g. foil-based sachets).	SP-33
Healthy Environment – Animal health and biosecurity								
Somatic cell count average (mean) (000 cells/ml)			2017/18	2018/19	2019/20	2020/21		
New Zealand			180	168	171	170	Farmers have continued to deliver excellent results in this area this year, with small improvements in all countries except Australia and China. The overall global result remains the same and well below the European Union import/export standard of 400,000 cells/ml, which is a widely quoted standard.	SP-36
Australia			178	171	172	173		
China			168	183	160	167		
Chile			319	312	317	309		
Brazil			533	467	395	342		
Sri Lanka			634	599	662	629		
Global weighted average (by volume)			184	173	175	175		
Healthy Business – Employment and income creation								
For full information about our Financial Performance please refer to the Financial Statements.								
Healthy Business – Responsible procurement								
Palm products			(CY 2017)	(CY 2018)	(CY 2019)	(CY 2020)		
Sourcing ‘segregated supply’ palm oil from credible organisations.			7%	23%	55%	71%	We missed our original target date, but we have continued to make good progress during CY2020. In addition to the 71% ‘segregated supply’, 22% was certified by mass balance and the remaining 7% was certified using RSPO credits. By volume, 96% of all palm oil being purchased by our New Zealand business and 100% of all palm oil being purchased by our Australian business is certified as segregated supply.	SP-45

1 This applies to all items except tertiary packaging and some third party manufactured items, where we have used the same data as for baseline reporting in FY20. These represent about 10% of total tonnage.

FY21 progress is evaluated against stated targets:

Progressing well or target achieved.

Progressing but not as strongly as we'd like.

Not progressing well or original timeline significantly delayed.

Employee data¹

Full-time equivalent employees by employment contract by gender			
		PERCENTAGE PER CONTRACT TYPE	
CONTRACT TYPE BY GENDER		FY20 (%)	FY21(%)
Male	Permanent	96.6%	96.8%
	Fixed-term	3.4%	3.2%
Female	Permanent	96.7%	95.6%
	Fixed-term	3.3%	4.4%
Gender diverse	Permanent	100.0%	100.0%
	Fixed-term	0.0%	0.0%
Undeclared	Permanent	100.0%	100.0%
	Fixed-term	0.0%	0.0%

Full-time equivalent employees by region		
FTE (PERMANENT & FIXED TERM)		
GLOBAL EMPLOYEE NUMBERS		
New Zealand		11,757
Australia		1,276
Greater China		1,774
Brazil		1,350
Chile		1,596
Rest of Asia		2,014
Rest of World		511
Global Total		20,278

Employment type by gender			
		PERCENTAGE PER EMPLOYMENT TYPE	
EMPLOYMENT TYPE BY GENDER		FY20 (%)	FY21(%)
Male	Full-time	99.5%	99.4%
	Part-time	0.5%	0.6%
Female	Full-time	96.2%	95.9%
	Part-time	3.8%	4.1%
Gender diverse	Full-time	100.0%	100.0%
	Part-time	0.0%	0.0%
Undeclared	Full-time	100.0%	100.0%
	Part-time	0.0%	0.0%

Employment contract by region			
		PERCENTAGE PER EMPLOYMENT TYPE	
CONTRACT TYPE BY REGION		FY20 (%)	FY21(%)
New Zealand	Permanent	97.6%	97.1%
	Fixed-term	2.4%	2.9%
Australia	Permanent	95.5%	94.8%
	Fixed-term	4.5%	5.2%
Greater China	Permanent	97.1%	99.1%
	Fixed-term	2.9%	0.9%
Brazil	Permanent	100.0%	100.0%
	Fixed-term	0.0%	0.0%
Chile	Permanent	100.0%	100.0%
	Fixed-term	0.0%	0.0%
Rest of Asia	Permanent	88.4%	89.0%
	Fixed-term	11.6%	11.0%
Rest of World	Permanent	88.7%	89.5%
	Fixed-term	11.3%	10.5%

1 Some percentages shown in tables may not sum to 100% due to rounding.

Diversity of governance bodies and employees by age

		PERCENTAGE PER CONTRACT TYPE	
	AGE	FY20 (%)	FY21(%)
All employees	<30	14%	13%
	30-50	57%	56%
	>50	26%	28%
	Unknown	4%	3%
Fonterra Management Team (FMT)	<30	0%	0%
	30-50	50%	25%
	>50	50%	75%
	Unknown	0%	0%
Fonterra Board	<30	0%	0%
	30-50	9%	9%
	>50	91%	91%
	Unknown	0%	0%

Diversity of employee categories by age

		PERCENTAGE PER CONTRACT TYPE	
	AGE	FY20 (%)	FY21(%)
Senior Leaders	<30	0.3%	0.0%
	30-50	63.3%	57.2%
	>50	31.8%	37.9%
	Unknown	4.6%	4.9%
Managers	<30	7.3%	5.7%
	30-50	68.9%	66.4%
	>50	20.4%	24.7%
	Unknown	3.4%	3.1%
Supervisory & Professional	<30	22.3%	18.1%
	30-50	57.4%	58.3%
	>50	16.9%	20.6%
	Unknown	3.5%	2.9%
Operators, Techs, Drivers, Farm Workers	<30	15.8%	13.7%
	30-50	49.3%	47.0%
	>50	31.0%	36.1%
	Unknown	3.9%	3.1%

Diversity of governance bodies and employees by gender

		PERCENTAGE BY GENDER	
	GENDER	FY20 (%)	FY21(%)
All employees	Male	72%	72%
	Female	27%	28%
	Gender diverse	0%	0%
	Undeclared	0%	0%
Fonterra Management Team (FMT)	Male	75%	75%
	Female	25%	25%
Fonterra Board	Male	73%	64%
	Female	27%	36%

Diversity of employee category by gender

		PERCENTAGE BY GENDER	
	GENDER	FY20 (%)	FY21(%)
Senior Leaders	Male	71%	68%
	Female	29%	32%
Managers	Male	63%	62%
	Female	37%	38%
Supervisory & Professional	Male	52%	50%
	Female	48%	50%
Operators, Techs, Drivers, Farm Workers	Male	84%	83%
	Female	16%	17%

Hiring from Local Communities

		PERCENTAGE OF SENIOR MANAGEMENT	
GLOBAL EMPLOYEE NUMBERS		FY20	FY21
New Zealand		97%	100%
Australia		90%	92%
Brazil		100%	100%
Chile		100%	100%
Greater China		69%	89%

New hires and leavers by age and gender ¹								
AGE AND GENDER	NEW HIRES BY AGE AND GENDER				LEAVERS BY AGE AND GENDER			
	FY20 (#/%)		FY21 (#/%)		FY20 (#/%)		FY21 (#/%)	
Aged <30	435	32.5%	501	31.6%	369	18.0%	314	17.3%
Aged 30-50	662	49.5%	893	56.3%	1020	49.8%	917	50.5%
Age 50 +	96	7.2%	169	10.7%	366	17.9%	495	27.2%
Age unknown	145	10.8%	22	1.4%	292	14.3%	91	5.0%
Male	789	59.0%	1005	63.4%	1323	64.6%	1194	65.7%
Female	549	41.0%	579	36.5%	723	35.3%	623	34.3%
Gender unknown	0	0.0%	1	0.1%	1	0.0%	0	0.0%
Total new employees	1338	7.3%	1585	9.0%	2047	11.1%	1817	10.3%

New hires and leavers by region								
REGION	NEW HIRES BY REGION				LEAVERS BY REGION			
	FY20 (#/%)		FY21 (#/%)		FY20 (#/%)		FY21 (#/%)	
New Zealand	725	54.2%	866	54.6%	1023	50.0%	1050	57.8%
Australia	69	5.2%	251	15.8%	183	8.9%	120	6.6%
Greater China	235	17.6%	180	11.4%	334	16.3%	234	12.9%
Brazil ²	0	0.0%	0	0.0%	10	0.5%	0	0.0%
Chile	87	6.5%	94	5.9%	145	7.1%	119	6.5%
Rest of Asia	161	12.0%	153	9.7%	267	13.0%	243	13.4%
Rest of World	61	4.6%	41	2.6%	85	4.2%	51	2.8%
Overall	1338	7.3%	1585	9.0%	2047	11.1%	1817	10.3%

Turnover by reason			
PERCENTAGE TURNOVER BY REASON			
TURN OVER REASON	FY20 (%)	FY21 (%)	
Voluntary	1255 (6.7%)	1168 (6.6%)	
Involuntary	610 (3.2%)	389 (2.2%)	
Other (Contract end, Legal Retirement, or deceased)	182 (1.0%)	260 (1.5%)	
Total Turnover Rate	2047 (11.1%)	1817 (10.3%)	

GENDER PAY GAP BY COUNTRY AND BY EMPLOYEE CATEGORY – BASIC SALARY					
REGION	EMPLOYEE CATEGORY	MEAN		MEDIAN	
		FY20	FY21	FY20	FY21
New Zealand	Senior Leaders	0.86	0.85	0.95	0.93
	Managers	0.96	0.96	0.95	0.96
	Supervisory & Professional	0.88	0.90	0.84	0.87
	Operators, Techs, Drivers, Farm Workers	0.84	0.84	0.85	0.85
	Overall	0.96	0.97	0.96	0.96
Australia	Senior Leaders	0.97	0.98	0.79	0.78
	Managers	0.95	0.98	0.95	0.96
	Supervisory & Professional	0.84	0.85	0.85	0.86
	Operators, Techs, Drivers, Farm Workers	0.78	0.80	0.74	0.78
	Overall	0.95	0.99	0.96	0.97
Greater China	Senior Leaders	0.94	1.03	1.13	1.17
	Managers	1.10	1.04	1.26	1.11
	Supervisory & Professional	1.27	1.03	1.39	1.03
	Operators, Techs, Drivers, Farm Workers	0.95	1.05	0.90	1.09
	Overall	1.60	0.89	3.90	0.97
Brazil	Senior Leaders ³	-	-	-	-
	Managers	0.90	1.03	0.93	1.08
	Supervisory & Professional	1.15	1.04	1.06	0.98
	Operators, Techs, Drivers, Farm Workers	0.97	0.89	1.01	0.95
	Overall	1.09	1.11	1.08	0.96
Chile	Senior Leaders	-	-	-	-
	Managers	0.86	0.86	0.90	0.85
	Supervisory & Professional	0.98	1.03	0.99	1.06
	Operators, Techs, Drivers, Farm Workers	0.98	1.00	0.98	1.02
	Overall	1.32	1.36	1.29	1.31
Rest of Asia	Overall	1.67	1.84	3.69	4.10
Rest of the World	Overall	1.23	1.38	1.63	1.89
Overall	Senior Leaders	0.88	0.90	0.96	0.94
	Managers	0.96	0.97	0.96	0.96
	Supervisory & Professional	1.06	1.05	1.14	1.10
	Operators, Techs, Drivers, Farm Workers	0.88	0.89	0.82	0.83
	Overall	1.08	1.07	0.95	0.93

1 A small number of new hire and leaver events are backdated after year end reporting has been completed. Analysing for FY20 there were 39 leavers and 37 new hires not included in the analysis. This is considered immaterial and FY20 has not been restated. This allows FY20 and FY21 to be considered on a like-for-like basis

2 Our JV in Brazil is excluded from new hires and leavers analysis but we did have some directly employed staff in Brazil during FY20.

3 Where a breakdown of information represents a small number of employees, we omit this detail to protect the privacy of individuals.

Data reporting notes

This section provides supporting guidance on the scope, definitions and approach used for the people and environmental data presented in this report.

In general, reporting covers the activities of Fonterra Co-operative Group Limited and joint ventures under Fonterra’s management control. The following sections identify the specific exceptions where data availability prevents this.

People data reporting

Scope

Our employee data is drawn from our global SAP-based employee data systems, primarily our MY FONTERRA system and from remuneration systems.

Numbers are generally reported for all fixed-term and permanent employees on a full-time equivalent (FTE) basis.

Gender pay gap is on headcount basis with pay compared on an FTE basis.

Turnover and new hires cover permanent employees on a headcount basis but exclude employees in our Brazilian joint venture.

There are no significant seasonal variations in the employee data reported. Casual staff contracted by Fonterra are excluded from these figures as this represents only a very small proportion of the regular workforce. Employees on leave of absence are also excluded.

All analysis, other than turnover and new hires, is as at 31st July 2021.

Definitions	
TERM	DEFINITION
Significant locations of operation	Countries where more than 5% of our employees are located. Some items are reported for significant locations of operation only.
Employee categories	Our organisation has a banded approach to remuneration based on business roles.
• Senior Leaders	Bands 14 and above
• Managers	Bands 10-13
• Supervisory & Professional	Bands 3 ¹ -9
• Operators, Techs, Drivers, Farm Workers	Waged or equivalent workforce
Locally hired employees	Citizens or permanent residents of the given country.

1 Threshold varies according to country.

Hiring from local communities

To support the recruitment of senior management roles we run talent forums across the different disciplines.

One of the aspects assessed when appointing senior management roles into countries where we have significant operations, is the composition of employees from local communities versus employees on international assignments. We recognise the value of a high representation from local communities but balance that with the opportunity for talent development from other countries. We review the composition and effectiveness of senior management teams on a regular basis.

‘Senior Management’ is defined as the most senior employee working in a country, plus all direct reports to the senior manager, but excluding employees working in a different country and non-management staff (e.g. Personal Assistants, Technical Assistants, other admin staff). The CEO and members of the Fonterra Management Team who have regional responsibilities are excluded. For New Zealand, this means the multiple New Zealand-based managers reporting to the CEO and their direct reports are assessed.

New employee hires and employee turnover

The analysis of new employee hires and turnover is used to inform decision-making within our People and Culture team. For example, for diversity and inclusion, statistics are used on a 12-month rolling basis to assess implications to the make-up of the organisation and the achievement of specific targets.

During FY21 we divested six of our seven farms in China. Due to the large number of employees, they have been excluded from the turnover analysis.

Environmental data reporting

Reporting Period

The primary reporting period is for the Financial Year 2021 (FY21), 1 August 2020 – 31 July 2021.

To align with Australian regulatory reporting (NGERS), Australian data is reported for period 1 July 2020 – 30 June 2021.

Common principles

Baseline years

For our science-based global Scope 1 and Scope 2 emissions reduction target of 30% by 2030, our baseline year is FY18 (1 August 2017 – 31 July 2018).

For our water reduction target at sites in water-constrained regions of 30% by 2030, our baseline year is FY18 (1 August 2017 – 31 July 2018) to align with our science-based emissions reduction target.

Data collection and aggregation

Wherever possible, data is sourced from a verifiable source. For energy this is usually records from supplier invoicing. For water this is from supplier invoicing where relevant or from metering used to satisfy environmental resource permits. Data is aggregated and analysed via Excel.

Missing or delayed data

Where measured data is normally available for a given item in a given region, but it is not available for a given time period (e.g. one particular month), it is estimated based on the specific circumstances.

Where there is uncertainty about fuel sources and emissions factors, a conservative approach has been taken. For example, where a site purchases steam from a third party that generally uses biomass but relies on LPG as the back-up energy source, we have assumed that 20% of the input energy comes from the LPG.

If the data subsequently becomes available, the estimated value will be replaced with the actual and totals recalculated. If this difference is significant, prior year data will be restated in the next public reporting period.

Finished goods

Where an output from any factory is then subject to secondary processing, we only count the finished goods once for intensity purposes.

Greenhouse gas (GHG) emissions

Scope

For our GHG reporting we have chosen to report on Scope 1, 2 where we have operational control and also our main Scope 3 emissions. Farms supplying milk to us account for the largest portion of our emissions and fall within our sphere of influence so we believe it is important to report these under Scope 3 emissions.

Fonterra directly operates a small number of farms in New Zealand and China. For these farms we have adopted the same approach as for other farms but allocated the emissions to Scope 1 and 2 where required.

Our GHG reporting applies the principles of the GHG Protocol. We also report our GHG emissions via the Carbon Disclosure Project (CDP), with our first submission completed in 2015.

Energy

Our use of energy dominates our Scope 1 and Scope 2 reporting. These figures include energy used by our manufacturing sites, main research centre, large corporate sites and our own milk collection transport fleet in New Zealand and Australia. It excludes energy used by some smaller offices and support facilities which are considered immaterial.

Energy used on the farms where we have operational control is excluded from our energy reporting because it is immaterial to our overall energy usage. The associated emissions from this energy use are already captured in our on-farm GHG emissions reporting based on the full lifecycle analysis.

Energy used is sourced from electricity, purchased steam and purchased fuels. Fuels used include coal, natural gas, diesel, liquid petroleum gas (LPG), furnace oil, petrol and biofuels. Coal and natural gas are primarily used for process heating while liquid fossil fuels are primarily used for vehicles.

Based on the proportion of renewables used to generate the electricity and steam we purchase, and including the biofuels we directly use, we estimate that 14% of our total energy comes from renewable sources.

Our co-generation facilities in New Zealand generated excess electricity which was sold. The total sold during FY21 was 883GJ.

We are unable to report energy used for heating separate to that used for cooling but heating dominates our energy use.

Methodologies

On farm

For on-farm information, the estimated emissions are reported using a lifecycle analysis (LCA) methodology which considers the full on-farm carbon lifecycle, from ‘cradle-to-farm gate’ and provides an estimated kgCO₂-e/kg fat-and-protein-corrected milk (FPCM) factor for the given country. For each country where we collect milk, the total quantity of milk collected during the financial year is multiplied by the most recently available factor.

The extent of analysis required to complete an LCA means these cannot be completed for the current season within the reporting timetable. We complete an analysis for New Zealand milk each year because it dominates our on-farm emissions. For other countries we do this less frequently.

For this report, the most recently available LCA results are as follows: 2019/20 season for New Zealand; 2017/18 for Australia and Chile; and 2016/17 for our China farms.

For New Zealand LCA, we commissioned AgResearch to complete this analysis based on regional data from DairyNZ/ LIC statistics, a DairyNZ DairyBase survey of 352 farms and Fonterra milk production data.

For Australia LCA, this has been calculated based on data drawn from the 17/18 Dairy Farm Monitor Project Annual reports for Tasmania and Victoria. The data are reported for Tasmania and for all three Victorian dairy regions (Northern Victoria, South West Victoria and Gippsland) which covers Fonterra’s Australian milk pool.

For our China farms, we commissioned AgResearch to complete this analysis based on detailed data for all seven farms from our farm management systems.

For Chile LCA, we commissioned AgResearch to complete this analysis based on data from a sample of farms from the northern region supplying Soprole and the southern region supplying Prolesur.

For the smaller milk volumes purchased in Brazil and Venezuela we have used the average of the two lifecycle factors determined for Chile.

For the very small volumes sourced in Sri Lanka, the emission factor has been taken as the average for South Asia in 2015 from the UN FAO/GDP GHG emissions fact sheet.

The main methodology used is common across all LCA and conforms to IDF (2015) and LEAP (2015) guidelines. It considers Methane (CH₄), Nitrous oxide (N₂O) and Carbon dioxide (CO₂) arising from feed sources, animals, fertilisers, energy and land use change. For supplying farms, emissions

are split between the milk and meat co-products, with only the milk component being counted. For the few farms that we manage, full emissions are allocated here. The LCA methodology includes emissions related to all on-farm activities and emissions related to supplementary feed, including emissions related to overseas production for PKE.

We have adopted IPCC AR5, with GWP factors of CO₂ = 1; N₂O = 265 and CH₄ = 28. This means that our reported figures for New Zealand may be higher than figures reported in other publications that consider a New Zealand inventory only which still uses IPCC AR4.

Manufacturing

For countries where energy contents and emission factors are well understood and supported by local regulations and/or reporting guidelines, the local factors have been applied. In other countries, if officially sanctioned factors are available, we have used them, otherwise internationally accepted default factors have been applied.

For thermal energy, the convention in New Zealand and Australia is to report energy totals in gross terms (higher heating value). Therefore, for consistency, we have adopted this approach for reporting across all countries.

The sources of the default factors were as follows:

CATEGORY	SOURCE	COMMENTS
Energy contents	International Energy Agency (IEA) ‘Energy Statistics Manual’	Electricity use has been converted to energy terms at 0.0036 GJ per kWh while fuel use has been converted on a gross calorific, or higher heating value, basis ¹ .
Electricity emission factors	IEA ‘Emission Factors (2019 edition)’	The factors used were as tabulated by country for the 2017 calendar year as this was the most recent complete set available.
Fuels emission factors	Greenhouse Gas (GHG) tools library	Emission_Factors_from_Cross_Sector_Tools_March_2017.xlsx

The sources used for the percentage of renewable energy in grid electricity were as follows:

COUNTRY	SOURCE
New Zealand	Ministry of Business, Innovation & Employment, Quarterly electricity generation and consumption.
Australia	Australian Energy Statistics 2020, Table 09: Australian electricity generation, by fuel type, 2018/19.
Other	World Bank Data: Renewable electricity output (% of total electricity output).

Carbon dioxide (CO₂), Methane (CH₄), Nitrous oxide (N₂O), and hydrofluorocarbons (HFCs) have been considered with IPCC Assessment Report 5 global warming potential factors (GWPs). Perfluorinated compounds (PFCs) and sulphur hexafluoride are not used or generated.

1 Many countries report energy use in net calorific value (lower heating value) terms where the latent heat available in the water formed during combustion is excluded from the available energy. Typically, the gross values are about 5% higher than net values for solid and liquid fuels and up to 10% higher for gaseous fuels.

Scope 3 Emissions

Distribution

Data has been collected and reported for movement within New Zealand, including coastal shipping around New Zealand. We have also reported all international ocean freight under the control of our shipping partner Kotahi. This includes exports from New Zealand, Australia, Europe and North America to the final destination port. We also report additional ocean freight from New Zealand by our consumer branded business. We make minimum use of air freight but data has been collected and reported for air freight from New Zealand since FY18.

Overall, this is estimated to account for more than 80% of our GHG emissions from the distribution of finished goods.

Travel

Data has been collected and reported for all business air travel, most rental car, and most hotel accommodation. This emission data has been provided by our nominated travel agents.

Other

Energy transmission and distribution losses have been included for gas and electricity purchases in New Zealand and Australia.

Our Scope 3 emissions reporting aims to account for all main items. Contributions not reported include items such as use of taxis, personal travel to and from work, some finished product transportation and milk collection outside of New Zealand and Australia, emissions associated with packaging, chemicals, and non-dairy ingredients, and capital spend.

In line with the GHG reporting protocol, we also do not report the GHG emissions arising from the end use of our products due to the diverse range of customers and potential applications.

A screening exercise completed when submitting our emissions reduction target to the Science-Based Target initiative estimated that the excluded items account for less than 10% of Scope 3 emissions.

Water use and discharge

Scope

Water use and wastewater discharge are reported for our manufacturing sites only.

Water discharge by destination

We do not discharge any volumes of wastewater directly to groundwater. Under regulatory conditions we irrigate some wastewater in Australia and New Zealand to land. Given the options available to meet GRI reporting guidelines we use groundwater as the closest match to irrigation to land.

Water quality – Total Dissolved Solids

Total Dissolved Solids (TDS) is one method for analysing the quality of water, but not commonly tested for as part of our monitoring processes. Where TDS data is unavailable, we have converted representative conductivity (EC) measurements using a correlation ratio derived from research for fresh water or typical dairy effluent to estimate a TDS equivalent.

The correlation ratios we have used are: k = 0.55 for freshwater and k = 0.64 for dairy effluent.

Equation: TDS (mg/l) = Correlation ratio (k) * EC (µS/cm)

For each manufacturing site, the available information has been assessed by internal subject matter experts to estimate the quality level. This allows us to identify high-quality water sources and to provide a measure of our wastewater discharge quality.

Water quality – Chemical oxygen demand

Chemical oxygen demand (COD) is the most common water quality measure used by our manufacturing sites but some sites use biological oxygen demand (BOD). We have therefore chosen to report on discharge water quality using COD.

Where only BOD results are available for a given wastewater destination, we have converted the BOD results to COD using a conversion factor derived from research into typical compositions for wastewater from dairy manufacturing sites (COD = BOD/0.6).

Water quality sampling frequency varies between sites and destination of wastewater but is in line with the requirements of relevant regulations or permits. At some sites it is tested internally to a procedure approved by the relevant authority, while at other sites it is analysed by external laboratories.

Aggregation of global wastewater quality data

For each site outlet, the overall COD result for the reporting period is calculated as an average from the individual test results for that outlet. The average is generally calculated as a median but in some cases a mean is used.

To aggregate these into global results per discharge destination, a weighted average is calculated based on the volume discharged for each overall COD result.

If a facility provides a volume but is unable to provide the matching COD, or BOD, that volume has been excluded from the globally aggregation calculation.

Water in areas of water stress

Using the Aqueduct Water Risk Atlas¹, we have identified three of our manufacturing facilities as being in areas where current water stress indications are high. Our threshold recognises areas which specifically note a high risk of water scarcity, in addition to the overall risk score, which factors quality and regulatory or reputational risk.

Data changes

Acquisitions and Divestments

During FY21 we divested six farms in China which have been within the scope of our environmental reporting in prior years. The environmental data from these businesses remains included in our reporting for FY21 for the time that these businesses were under our operational control (see table below).

For reporting progress against targets, we have adopted the approach recommended by the GHG Protocol. This means that, where the target depends on a baseline value in a given financial year, we have adjusted the baseline value and all subsequent years to reflect divestment of the businesses and reported progress on a like-for-like basis (i.e. as if we had never owned that business).

BUSINESS	DATA INCLUDED UNTIL
6 farms, China	31/03/2021

During FY21 we acquired two small manufacturing facilities in Australia. Production, energy use and emissions for the period they were under Fonterra control are included in the FY21 totals but they are deducted from comparative measures until an appropriate baseline adjustment can be developed. Data for water withdrawal, wastewater and solid waste to landfill is not yet available for these sites.

Restatements of prior year results

Scope 3 emissions for FY20 have been restated to reflect the findings of the LCA assessment for milk sourced in New Zealand during the 2019/2020 season which was completed during FY21. The results of this LCA have been applied to both FY20 and FY21 as this is the most recent LCA available. This has also resulted in a restatement of the FY20 Scope 1 and 2 emissions arising from the small number of farms where we have operational control (see page SP-42).

Scope 1 and 2 emissions were also updated to reflect minor adjustments to energy consumption and the calculation of the New Zealand electricity emission factors. The combined increase to FY20 reported emissions was less than 0.3%.

Scope 3 emissions for prior years have been restated for distribution. More complete data has been obtained for New Zealand road and rail movements and international freight. This improvement in data quality results in an increase of about 7% increase in reported emissions related to distribution (see page SP-54).

Solid waste to landfill for prior years have been restated to include previously unidentified waste streams (see page SP-55).

Reduction in water use at our sites in water-constrained regions has been restated to reflect the latest set of sites (see page SP-51).

1 Aqueduct is a peer reviewed global water risk mapping tool provided by the World Resources Institute (WRI) www.wri.org/data/aqueduct-water-risk-atlas

Materiality assessment

Determining what’s important

In FY21, we refreshed our materiality assessment. Starting from the results of previous assessments, we identified potential topics of importance based on industry guidance and reports, customer reports and emerging issues derived from risk assessments and media coverage. This long list of topics was assessed and clustered into a set of topics at a common level of granularity for further analysis.

The relative importance of the topics to our stakeholder groups was determined by a combination of specific surveying, findings of specific engagement workshops and interviewing owners of existing relationships. We engaged directly with more than 400 individual stakeholders, who in turn represented many more from their respective stakeholder group. The findings for each stakeholder group were combined into an overall ordered list of importance, treating all stakeholder groups on an equal basis.

We also assessed the significance of our impact on society for each topic by considering the positive and negative impact of our activities against five criteria: the extent of our impact (i.e. local, regional, global), the severity of our impact, the duration of our impact, Fonterra’s ability to influence this impact and the likelihood of the impact occurring.

Using the combination of importance to stakeholders and the significance of our impact, we generated an ordered list of topics that was discussed with our Sustainability Advisory Panel and approved by the Fonterra Management team.

The final findings were also reviewed with and supported by external stakeholders including dairy sector representatives in New Zealand and Australia and a sustainable business organisation.



Alan, Bay of Plenty

Material topics

For the purpose of reporting we have focused our disclosure on those topics which rated medium or above for importance to stakeholders or significance of impact. The following table lists these topics, in order, and where we cover our response in this report. For each topic we have assessed and defined

the scope of our impact and identified which stakeholder groups raised the topic most strongly. We also provided cross-referencing to the GRI indicators we are reporting against and the UN SDG targets where our actions make a related contribution.

TOPIC	SCOPE	STAKEHOLDER GROUPS THAT RAISED THE TOPIC MOST STRONGLY	OUR RESPONSE	RELATED GRI INDICATORS	RELATED CONTRIBUTION TO UN SDG TARGETS
Ensuring the food safety and quality of the products we deliver.	All food products we sell, including ingredients, foodservice and consumer products.	All except iwi and NGOs.	See Food safety and quality on page SP-12	416-1	2.1
Adapting to the effects of climate change , while mitigating our impacts.	Our contribution to climate change from the activities in our value chain, including sourcing, farming, manufacturing and distribution; and the potential impact on those activities arising from predicted climate change.	All	See Climate change on page SP-27	302-1,3 305-1 to 4 308-2	13.1
Using water responsibly, including water quality, availability and disposal.	The water used by, and the potential impact on water quality arising from, our manufacturing sites and the farms which supply us with milk.	All except Investors and Vendors	See Land and water on page SP-23	303-1 to 5 306-3 307-1 308-2	6.3 6.4
Protecting the health and safety of people at work , including their wellbeing.	The health and safety of employees and contractors working at Fonterra sites and visitors to those sites. The wellbeing of our employees and farmers. Influencing the health and safety at work on supplying farms and the other businesses which provide us with goods and services.	Employees Iwi Vendors	See Health, safety and wellbeing on page SP-14	403-1 to 9	8.8
Protecting animal health and welfare within our supply chain, including caring for our cows and responsible use of antibiotics.	All dairy animals on farms directly or indirectly supplying fresh milk to Fonterra.	Customers Consumers Employees	See Animal wellbeing on page SP-36		
Supporting the livelihood of thousands of people through meaningful employment and sustainable income creation , including the milk price for our farmers.	Local economies in the locations where we operate and source milk, goods and services from, including our impact on the national New Zealand economy.	Farmers Government Iwi	See Employment and sustainable income creation on page SP-40	201-1 202-2 401-1	1.2 8.5
Protecting soil health which is essential for sustainable food production, including nutrient management.	Directly on Fonterra-managed farms, and influencing best-practice on farms directly supplying fresh milk to Fonterra.	Farmers NGOs	See Land and water on page SP-23		2.4

TOPIC	SCOPE	STAKEHOLDER GROUPS THAT RAISED THE TOPIC MOST STRONGLY	OUR RESPONSE	RELATED GRI INDICATORS	RELATED CONTRIBUTION TO UN SDG TARGETS
Contributing to nutrition and health through the products and information we deliver, including reducing obesity and under-nutrition.	The nutritional profile, impact and accessibility of our products, and our role in promoting healthy, balanced diets.	Investors	See Nutrition and health on page SP-08	416-1 417-2,3	3.1 3.2 3.4
Maintaining ethical business practices fundamental to the way we work, including anti-corruption and fair competition.	All activities undertaken by, or on behalf of, Fonterra, in all markets.	Vendors Iwi	See Ethical business practices on page SP-46	102-17 205-3 206-1 415-1 419-1	
Using responsible procurement to influence environmental, social and economic performance along our supply chain.	All direct procurement of goods and services.	Iwi	See Responsible procurement on page SP-44	308-2	Many
Protecting and enhancing biodiversity and the underlying ecosystem services we rely upon, including the impact of deforestation.	The direct impact of our operations and supplying farms, and the indirect impact through procurement of goods, including procurement of animal feed by our farmers.	Governments Iwi NGOs	See Land and water on page SP-23 See Responsible procurement on page SP-44		
Protecting the employment rights and working conditions of our people, including diversity and inclusion, women’s empowerment, and learning and development.	All Fonterra permanent and temporary employees, and those working at our sites.	Customers and consumers	See Employment rights on page SP-16	102-41 405-1,2 406-1	5.5 8.7 8.8
Minimising post-consumption waste , including product packaging and food waste.	All Fonterra consumer branded products and packaging of ingredients products.	No stakeholder group raised this particularly highly	See Packaging and waste on page SP-33		12.5

Protecting the **human rights** of individuals impacted by our business actions, including modern slavery did not make the materiality threshold for inclusion in this report but we recognise our responsibility to care for the human rights of people directly or indirectly impacted by our operations and decisions. Rather than manage human rights as a standalone topic, our approach is to embed our respect of human rights

across our range of policies and standards including our Code of Business Conduct (see Corporate Governance Statement page CG-02). This means our main activities are covered already in our reporting: see Employment rights page SP-16, Health, safety and wellbeing page SP-14, Responsible Procurement page SP-44 and our first Modern Slavery Report.

GRI Content Index

This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option. The GRI Standards are the world’s most widely used standards for sustainability reporting, enabling organisations to measure and report their most important sustainability topics.

For more information see -> www.globalreporting.org

REF	TOPIC TITLE	REFERENCE	
GRI 102: GENERAL DISCLOSURES 2016			
102-1	Name of the organisation	Fonterra Co-operative Group Limited	X ¹
102-2	Activities, brands, products, and services	About Fonterra. See page AR-04	X
102-3	Location of headquarters	Directory. See page SP-71	X
102-4	Location of operations	About Fonterra. See page AR-04	X
102-5	Ownership and legal form	About Fonterra. See page AR-04	X
102-6	Markets served	About Fonterra. See page AR-04	X
102-7	Scale of the organisation	About Fonterra. See page AR-04 How we create value. See page AR-24 Financial Statements. See page FS-02	X
102-8	Information on employees and other workers	Employee information. See page SP-56	X
102-9	Supply chain	How we create value. See page AR-24 About Fonterra. See page AR-04	X
102-10	Significant changes to the organisation and its supply chain	We divested six of the seven farms in China where we had operational control. The seventh farm is still held for sale.	X
102-11	Precautionary principle or approach	Managing operations. See page SP-38	X
102-12	External initiatives	External initiatives. See page SP-69	X
102-13	Membership of associations	Membership of associations. See page SP-69	X
102-14	Statement from senior decision-maker	Message from the Board Chair. See page AR-08 Message from the CEO. See page AR-10	X
102-16	Values, principles, standards, and norms of behaviour	Ethical business practices. See page SP-46 Code of Ethical Behaviour. See page CG-02	X
102-17	Mechanisms for advice and concerns about ethics	Code of Ethical Behaviour. See page CG-02	X

REF	TOPIC TITLE	REFERENCE	
102-18	Governance structure	Governance of sustainability. See page SP-49	X
102-20	Executive-level responsibility for economic, environmental, and social topics	Governance of sustainability. See page SP-49	X
102-40;	List of stakeholder groups	How we create value. See page AR-26	X
102-42;	Identifying and selecting stakeholders	Responding to what’s important. See page SP-06	
102-43;	Approach to stakeholder engagement	Materiality assessment. See page SP-62	
102-44	Key topics and concerns raised		
102-41	Collective bargaining agreements	Employment rights. See page SP-16	X
102-45	Entities included in the consolidated financial statements	For the list of entities see page FS-57	X
102-46	Defining report content and topic boundaries	Materiality assessment. See page SP-63	X
102-47	List of material topics	Responding to what’s important. See page SP-06	X
102-48	Restatements of information	See Data reporting notes on page SP-61	X
102-49	Changes in reporting	No significant changes	X
102-50	Reporting period	Period is 1 August 2020 – 31 July 2021	X
102-51	Date of most recent report	November 2020 for period 1 August 2019 – 31 July 2020	X
102-52	Reporting cycle	Annual	X
102-53	Contact point for questions regarding the report	Email: sustainability@fonterra.com	X
102-54	Claims of reporting in accordance with the GRI Standards	About this report. See page SP-02	X
102-55	GRI content index	GRI Content Index. See page SP-65	X
102-56	External assurance	Bureau Veritas Assurance Statement. See page SP-67	X

This table refers to pages in this report and in other reports that are part of our integrated suite of reports. The referencing is as follows:

- SP-XX – page in this Sustainability Performance Report
- AR-XX – page in Annual Review (www.fonterra.com/AnnualReview2021)
- CG-XX – page in Corporate Governance Statement (www.fonterra.com/CorporateGovernance2021)
- FS-XX – page in Financial Statements (www.fonterra.com/FinancialStatements2021)
- SI-XX – page in Statutory Information (www.fonterra.com/StatutoryInformation2021)

1 X – Within scope of assurance.

REF	TOPIC TITLE	REFERENCE	
ECONOMIC TOPIC DISCLOSURES			
GRI 201: ECONOMIC PERFORMANCE 2016 – Employment and income creation. See page SP-40			
201-1	Direct economic value generated and distributed	About Fonterra. See page AR-04. Supporting Communities. See page SP-20 Remuneration. See page SI-02 and FS-22	X
GRI 205: ANTI-CORRUPTION 2016 – Ethical business practice. See page SP-46			
205-3	Confirmed incidents of corruption and actions taken	Anti-corruption. See page SP-46	X
GRI 206: ANTI-COMPETITIVE BEHAVIOR 2016 – Ethical business practice. See page SP-46			
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	Legal compliance. See page SP-46	X
ENVIRONMENTAL TOPIC DISCLOSURES			
GRI 302: ENERGY 2016 – Climate change. See page SP-27			
302-1	Energy consumption within the organisation	Our performance. See page SP-54	X
302-3	Energy intensity	Our performance. See page SP-55	X
GRI 303: WATER AND EFFLUENTS 2018 – Land and water. See page SP-23			
303-1	Interactions with water as a shared resource	Land and Water. See page SP-23	X
303-2	Management of water discharge-related impacts	Improving wastewater treatment. See page SP-24	X
303-3	Water withdrawal	Water withdrawal. See page SP-52	X
303-4	Water discharge	Water discharge. See page SP-52	X
303-5	Water consumption	Water consumption. See page SP-53	X
GRI 305: EMISSIONS 2016 – Climate change. See page SP-27			
305-1;	Direct (Scope 1) GHG emissions	Our performance. See page SP-54	X
305-2;	Energy indirect (Scope 2) GHG emissions	Data reporting. See page SP-60	
305-3;	Other indirect (Scope 3) GHG emissions		
305-4	GHG emissions intensity		
GRI 306: EFFLUENTS AND WASTE 2016 – Managing operations. See page SP-38			
306-3	Significant spills	Significant spills. See page SP-38	X
GRI 307: ENVIRONMENTAL COMPLIANCE 2016 – Managing operations. See page SP-38			
307-1	Non-compliance with environmental laws and regulations	Environmental compliance. See page SP-38	X
GRI 308: SUPPLIER ENVIRONMENTAL ASSESSMENT 2016 – Working with farmers. See page SP-42			
308-2	Negative environmental impacts in the supply chain and actions taken	Working with farmers. See page SP-42	X

REF	TOPIC TITLE	REFERENCE	
SOCIAL TOPIC DISCLOSURES			
401 EMPLOYMENT 2016 – Employment rights. See page SP-16			
401-1	New employee hires and employee turnover	See page SP-58	X
403 OCCUPATIONAL HEALTH AND SAFETY 2018 – Health, safety and wellbeing. See page SP-14			
403-1	Occupational health and safety management system	Health, safety and wellbeing. See page SP-14	
403-2	Hazard identification, risk assessment, and incident investigation	Health, safety and wellbeing. See page SP-14	
403-3	Occupational health services	Health, safety and wellbeing. See page SP-14	
403-4	Worker participation, consultation, and communication on occupational health and safety	Health, safety and wellbeing. See page SP-14	
403-5	Worker training on occupational health and safety	Health, safety and wellbeing. See page SP-14	
403-6	Promotion of worker health	Health, safety and wellbeing. See page SP-14	
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Health, safety and wellbeing. See page SP-14	
403-8	Workers covered by an occupational health and safety management system	Health, safety and wellbeing. See page SP-14	
403-9	Work-related injuries	Health, safety and wellbeing. See page SP-14	
404 TRAINING AND EDUCATION 2016 – Employment rights. See page SP-16			
404-2	Programmes for upgrading employee skills and transition assistance programmes	Learning and development. See page SP-16 Employee Assistance Programme. See page CG-03	
405 DIVERSITY AND EQUAL OPPORTUNITY 2016 – Employment rights. See page SP-16			
405-1	Diversity of governance bodies and employees	Employee data. See page SP-57	X
405-2	Ratio of basic salary and remuneration of women to men	Gender pay. See page SP-19 and SP-58	X
406 NON-DISCRIMINATION 2016 – Employment rights. See page SP-16			
406-1	Incidents of discrimination and corrective actions taken	Non-discrimination. See page SP-19	X
415 PUBLIC POLICY 2016 - Ethical business practice. See page SP-46			
415-1	Political contributions	Responsible political involvement. See page SP-46	
416 CUSTOMER HEALTH AND SAFETY 2016 – Food safety and quality. See page SP-12			
416-1	Assessment of the health and safety impacts of product and service categories	Food safety and quality. See page SP-12	X
419 SOCIOECONOMIC COMPLIANCE 2016 – Ethical business practice. See page SP-46			
419-1	Non-compliance with laws and regulations in the social and economic area	Legal compliance. See page SP-46	

Assurance Statement



INDEPENDENT ASSURANCE STATEMENT

To: The Stakeholders of Fonterra Co-operative Group Limited

Introduction and Objectives of Work

Bureau Veritas New-Zealand Ltd (“Bureau Veritas”) was engaged by Fonterra Co-operative Group Limited (“Fonterra”) to undertake a limited assurance engagement on selected information and data presented in the Fonterra 2021 Sustainability Report (the Report). This Assurance Statement applies to the related information included within the scope of assurance described below.

Scope of Limited Assurance

The scope of assurance was limited to the information and data related to sites and operations under which Fonterra has operational control for the period of 1st August 2020 to 31st July 2021.

The complete list of assured disclosures is referred to within the GRI Index of the Report.

Our assurance engagement does not extend to any other information included in the Report or information in respect of earlier periods.

Limited Assurance Conclusion

On the basis of our procedures as described under “Methodology” and the evidence we have obtained, we provide limited assurance that nothing has come to our attention:

- to indicate that the statements reviewed within the scope of our assurance engagement are inaccurate and the information included therein is not fairly stated.
- that causes us to believe that the information, within the scope of our assurance engagement, is not prepared, in all material respects, in accordance with the criteria indicated under “Understanding how Fonterra has Prepared the Information”.

It is our opinion that Fonterra has established systems for the collection, aggregation and analysis of relevant information and quantitative data.

Understanding how Fonterra has prepared the Information

The Report was prepared in accordance with the GRI Standards: Core option including appropriate considerations of the reporting principles for defining report content and report quality, profile disclosures, management approach disclosures and performance indicators.

Fonterra’s Responsibilities

Management of Fonterra was responsible for:

- Selecting and establishing suitable criteria for preparing the Report and information subject to our limited assurance;
- Preparing the information in accordance with the criteria; and
- Designing, implementing and maintaining internal controls over information relevant to the preparation of the Report that is free from material misstatement, whether due to fraud or error.

Our Responsibilities

Bureau Veritas was responsible for:

- Planning and performing the engagement to obtain limited assurance about whether the information included within the scope of assurance is free from material misstatement, whether due to fraud or error;
- Forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- Reporting our conclusion.

Bureau Veritas was not involved in the drafting of the Report and our independence has not been compromised. This is the fifth year in which we have provided limited assurance over the Fonterra’s Report.



Assurance Statement

Methodology

Our limited assurance engagement was performed in accordance with International Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements other than Audits or Reviews of Historical Financial Information* issued by the International Auditing and Assurance Standards Board, and informed by Bureau Veritas' standard procedures and guidelines for external verification of Sustainability Report.

Our work was planned and executed in a manner designed to produce a limited level of assurance and to provide a sound basis for our conclusions. We undertook the following activities:

- Review of the suitability of the criteria used as the basis for preparing the information subject to assurance;
- Interviews and follow-up communication with relevant individuals;
- Review of documentary evidence produced by Fonterra representatives;
- Audit of performance data and factual information including source verification; and
- Review of Fonterra's processes for identification, aggregation and analysis of relevant information, report content and performance data.

Limitations and Exclusions

Excluded from the scope of our work is any assurance of information relating to:

- Activities outside the defined reporting period;
- Statements of commitment to, or intention to undertake future actions by Fonterra;
- Statements of position, opinion, belief and/or aspiration by Fonterra;
- Financial data audited by an external third party; and
- Other sites and/or activities not included in the scope.

This independent assurance statement should not be relied upon to detect all errors, omissions or misstatements that may exist within the Report.

Statement of independence, impartiality and competence

Bureau Veritas is a global leader in Testing, Inspection and Certification ("TIC") services. The Group's mission is to reduce its clients' risks, improve their performance and help them innovate to meet the challenges of quality, health, safety, hygiene, environmental protection and social responsibility. Leveraging its renowned expertise, as well as its impartiality, integrity and independence, Bureau Veritas has helped build trust between companies, public authorities and consumers for more than 190 years.

Bureau Veritas has implemented a Code of Ethics across the business to maintain high ethical standards among its personnel in their day to day business activities. We are particularly vigilant in the prevention of conflicts of interest.

No member of the assurance team has a business relationship with Fonterra, its Directors or Managers beyond that required of this assignment. We have conducted this assurance engagement independently and there has been no conflict of interest.

The assurance team was selected based on its extensive Industry Sector knowledge and experience in conducting independent verification, validation and assurance of Environmental Social and Governance (ESG) information and associated systems and processes.

Jeremy Leu
General Manager – Certification Pacific



14th September 2021
Bureau Veritas New Zealand Ltd



External initiatives

Fonterra is a supporter of the following voluntary initiatives:

INITIATIVE	DATE ADOPTED
CDP	2015
Science-based targets initiative	2020
Dairy Sustainability Framework	2013
New Zealand Climate Leaders Coalition	2017
Rainbow Tick	2019
Global Food Safety Initiative (AUS/NZ forum)	2019
Tupu Toa	2018
New Zealand Plastic Packaging Declaration	2019
The Australian Packaging Covenant	2011
Chilean Plastics Pact	2019

Non-GAAP measures

Fonterra uses several non-GAAP measures when discussing financial performance. These measures include normalised profit after tax, normalised EBIT, EBIT, normalised earnings per share, normalisation adjustments and total Group measures. Total Group measures present the combined financial performance of the Group's continuing and discontinued operations. Non-GAAP financial measures are not defined or specified by NZ IFRS.

Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They are used internally to evaluate the underlying performance of business units and to analyse trends.

Membership of associations

Fonterra is a member of the following organisations:

International Dairy Federation
Global Dairy Platform
Dairy Companies Association of New Zealand
Sustainable Agriculture Initiative Platform
Roundtable for Sustainable Palm Oil
Business New Zealand
Sustainable Business Council
Sustainable Business Network
Fwd: Buyer
The Aotearoa Circle
Dairy Womens' Network

These measures are not uniformly defined or utilised by all companies. Accordingly, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS. Non-GAAP measures are not subject to audit unless they are included in Fonterra's audited Financial Statements.

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

Disclaimer

This report contains some forward-looking statements, targets and projections relating to Fonterra Co-operative Group Limited (Fonterra) and its subsidiaries (the Fonterra Group) that are based on the beliefs of the Fonterra Group's management as well as assumptions made by and information currently available to the Fonterra Group's management.

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

While all reasonable care has been taken in the preparation of this report, none of Fonterra or any of its respective subsidiaries, affiliates and associated companies (or any of their respective officers, employees or agents) (Relevant Persons) makes any representation, assurance or guarantee as to the accuracy or

completeness of any information in this report or likelihood of fulfilment of any forward-looking statement, target or projection or any outcomes expressed or implied in any forward-looking statement, target or projection. The forward-looking statements, targets and projections in this report reflect views held only at the date of this report. None of the forward-looking statements, targets or projections in this report shall be construed as profit or revenue forecasts.

Accordingly, no-one should place reliance on any forward-looking statements, targets or projections in this report. All forward-looking statements, targets and projections in this report are qualified by reference to the cautionary statements set forth in this section.

Statements about past performance are not necessarily indicative of future performance. Except as required by applicable law or any applicable Listing Rules, the Relevant Persons disclaim any obligation or undertaking to update any information in this report.

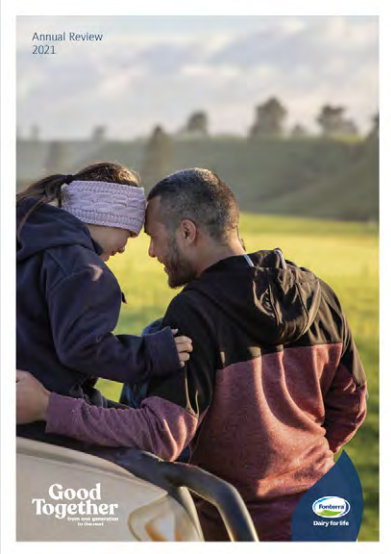
This report does not constitute investment advice, or an inducement, recommendation or offer to buy or sell any securities in Fonterra or the Fonterra Shareholders' Fund.

Our 2021 Suite of Reports

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



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



Annual Review
2021



Sustainability Performance
Report 2021



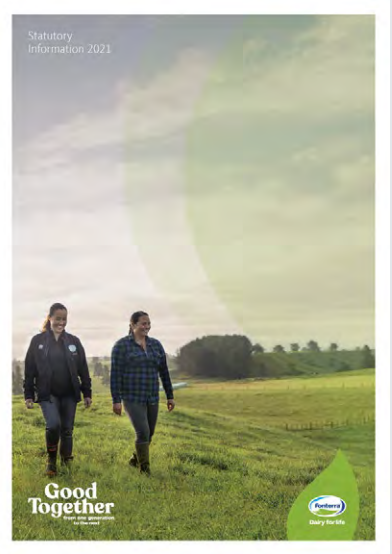
Financial Statements
2021



Corporate Governance
Statement 2021



Farmgate Milk Price
Statement 2021



Statutory Information
2021



Business Performance
Report 2021

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