Our Path to 2030
Te Huanui ki 2030

Fonterra

Dairy for life

Contents

This is just the beginning...

Kia ora

When I was asked by the Board to step into the CEO role in 2018, it came with both an element of trepidation and a great sense of responsibility to do what's right for our farmer shareholders. I knew the next couple of years were going to be tough as we went about resetting the business.

To pen this letter three years on, having completed our reset phase and knowing what it means for our Co-op to have shored up our foundations, is hugely satisfying. I feel proud of what our team has achieved, and want to thank you for giving me your support through this period.

And this is just the beginning...

We know farming is an intergenerational business and it is now the right time for us to shift our focus to the future – and we are excited to share with you our Co-op's long-term strategy.

We want to give you visibility of what our next decade looks like so you can see how the recommended capital structure changes enable our strategy and the value we are aiming to create for you.

As we look out to 2030, the fundamentals of dairy – in particular, New Zealand dairy – look strong. Put simply, the world wants what we've got – sustainably produced, high-quality, nutritious milk. This comes at a time when we see total milk supply in New Zealand as likely to decline, and flat at best.

On one hand, this requires the right capital structure to help ensure we don't lose the benefits of what generations of farmers have built – a New Zealand dairy co-operative of scale.

But on the other hand, it gives us more options to be selective about what we do with our Co-op's milk. In doing so, we can increase the value we generate for farmers and New Zealand over the next decade.

To make this happen we have **made three strategic choices** – continue to focus on New Zealand milk, be a leader in sustainability and be a leader in dairy innovation and science. We've heavily stress tested these choices and know they are the right choices to give us a competitive edge, mitigate risks and position us to have a sustainable future well beyond 2030.

1. Focus on New Zealand milk

We believe New Zealand milk is the most valuable milk in the world due to our grass-fed farming model, which means our milk has a carbon footprint one third the global average for milk production. But we have an opportunity to differentiate our Co-op's milk further in the global market and earn a premium. This requires us to focus our capital and our people on enhancing the natural goodness of New Zealand milk.

To help make this happen, we are continuing to refine our asset portfolio. We will invest in some of our existing manufacturing sites and businesses to ensure we have the capability to grow our Foodservice channel, continue momentum in our Consumer channel and move towards higher value specialty products in our Ingredients channel. Recently, we reviewed the ownership of our two other milk pools – in Australia and Chile.

We have begun considering the most appropriate ownership structure for **Fonterra Australia**, one option is an IPO, with the intention that our Co-op retains a significant stake. Fonterra Australia has transformed its business over the last three years and now operates efficiently with the leading dairy brands in the Australian market. We believe now is the time to bring in external capital to take this business to the next level but given the strong linkages to New Zealand-sourced milk, maintaining a significant stake remains a priority. As we continue this review and our thinking becomes clearer, we will provide regular updates.

We have also started a process to divest our integrated Chilean investment (**Soprole and Prolesur**). Soprole is a high performing business with a strong market position, including being one of the most recognisable food and beverage brands in Chile, and Prolesur is a subsidiary of Soprole focused on sourcing milk and manufacturing in Southern Chile. Chile is a complete stand-alone business that does not require any New Zealand-sourced milk or expertise and therefore is not the right strategic fit for our Co-op as we look out to the long term.

We see both these moves as critical to enabling greater focus on our New Zealand milk and, importantly, allowing us to free up capital, much of which is intended to be returned to shareholders.

2. Be a leader in sustainability

We're all striving for a better future than the one we have today – and that's particularly the case when we look at the environment.

New Zealand has the unique position of being the most carbon-efficient dairy nation on the planet and when you combine this with our pasture-based model, animal welfare standards and scale efficiency, we have something that can't be replicated.

But we can't slow down now. Customers and consumers want to know where their food comes from and the environmental impact it leaves, which is why it's important we continue to support the hard work our farmer owners have been doing to reduce the environmental impact of their business. A farmer's livelihood depends on producing good quality milk and that relies on a stable climate and healthy ecosystems.

It's for all these reasons, we aspire to be Net Zero carbon by 2050 and intend to invest around $1 billion in sustainability initiatives over the next decade. Much of this will be required to upgrade our core manufacturing assets as we look to decarbonise our footprint and improve water use and quality. We also know that to maintain our relative carbon footprint advantage against the northern hemisphere farming system, we must solve the methane challenge and will be doubling our innovation efforts to look for solutions.

Doing so will allow us to invest in our brands to showcase our New Zealand sustainable nutrition story. This will put us in a position to further grow our Foodservice and Consumer channels across our markets in the Asia Pacific region and gain more value through our Ingredients channel by helping customers meet their own sustainability goals.

3. Be a leader in dairy innovation and science

Our Co-op has a long and proud heritage of dairy innovation, pioneering many world firsts and, increasingly, new solutions which aim to solve problems our customers face in their operations and help people live healthier and longer lives.

When we look to our markets, we know the world's population is growing and getting older. Asia's middle class is rapidly increasing – they want more protein and more convenience in their life. People are more aware than ever of the links between nutrition and health, and they are taking more interest in their immunity, cognition and mental health.

Over the past decade we have developed a world-class Foodservice channel in China. Any dairy company globally can produce a product to sell into this category. But we believe no one can replicate our completely unique offering – the combination of pasture-based taste profile that is heavily sought after, our chef-led go-to-market model, our manufacturing scale, our innovation and our global reach. This sets us apart from our competitors and gives us the confidence to take this proven model to new regions throughout Asia Pacific.

The next phase of the nutrition journey is just being discovered. Food has evolved over many years from a simple energy source towards what consumers seek today – taste, convenience and pleasure. We are now seeing that some types of food, and in particular, dairy, could help with the answer to many of life's current challenges – cognition, immunity and even stress. This is why we will look to understand more of this health and wellness trend and where we can build a competitive advantage.

Good Together
from one generation to the next

The value we're aiming to create

Our focus on New Zealand milk, sustainability, and innovation and science will see us shift every aspect of our business to create more value. In doing so we aim to continue to improve our financial performance and, as a result, strengthen our ability to repeatedly generate cash and create value for our shareholders and New Zealand.

There are four key value targets we're aiming to achieve by FY30:

1. **An average Farmgate Milk Price range for the decade of $6.50-$7.50 per kgMS.**
2. **A 40-50% increase in operating profit** from FY21 and, with the reduced interest from having less debt, this should translate into an approximately 75% increase in earnings, giving us the ability to steadily increase dividends to around 40-45 cents per share by FY30.
3. **A Group Return on Capital of 9-10%**, up from 6.6% in 2021.
4. Through planned divestments and improved earnings, an intended **return of about $1 billion to shareholders by FY24**, and **around $2 billion of additional capital available** for a mix of investment in further growth and return to shareholders. This is in addition to the approximately $2 billion expected to be invested in sustainability and moving milk into higher value products.

Our strategy and ability to achieve these targets depend on a sustainable supply of New Zealand milk and in turn a capital structure that enables this. This is why the changes to our capital structure that are being recommended by your Board and Management team are so important to our future.

We have an incredible raw material made on the pastures of New Zealand farms, a business supported by a talented and committed team who want to do right by you and an exciting opportunity to create value. It's up to us as a Co-op to work together, make the necessary changes and ensure we're creating goodness for generations – you, me, us together, tātou, tātou.

Miles

Miles Hurrell
Chief Executive Officer

Our strategy and plans

Our Co-operative's strategy is to enhance people's lives through convenience, health and wellbeing by unlocking the goodness of NZ milk.

THE VALUE WE'RE AIMING TO CREATE BY 2030

Average Farmgate Milk Price range for the decade
$6.50-$7.50
per kgMS

Operating Profit
40-50%
increase from FY21

Group ROC
~9-10%

~$1b
invested in sustainability

~$1b
invested in moving milk into higher value products

~$1b
intended to be distributed to shareholders after asset sale

~$2b
available for a mix of investment in further growth and return to shareholders

Make progress towards 2050 aspiration to be
Net Zero Carbon

~$160m
per annum invested in R&D, up ~50% from FY21

Note: The figures in this section are targets that we are aiming to achieve only. They should not be taken as forecasts or as a guarantee of returns to shareholders. They are subject to successfully completing a number of business initiatives, and assumptions, each of which could materially affect the actual outcomes. The target years assume long-term average levels of price relativity and lag pricing impacts, and individual years are likely to vary from this assumption. The key assumptions and risks relating to these targets are set out in the Appendix to the booklet *Our Path to 2030*. Please also refer to the important cautions and disclaimer at the beginning of the booklet *Our Path to 2030*.

WE AIM TO

Prioritise the Farmgate Milk Price

Grow Foodservice

Strengthen Consumer

Move towards higher value products in Ingredients

OUR PLANS

Focus on

New Zealand Milk

- Sharpen portfolio
  - Sell Chile business
  - Explore ownership structure of Fonterra Australia, one option is an IPO
- Continue our shift to higher value

Be a leader in

Sustainability

- Make the most of our operational footprint and invest in sustainability
- Support further on-farm change to stay in front of customer expectations
- Bring our NZ dairy story to life

Be a leader in dairy

Innovation & Science

- Prioritise innovation, IP, simplification and digitisation
- Extend further into health and wellbeing
- Embed culture to drive high performance
- Develop our people capabilities for a changing and technological world
- Create competitive advantage through nutrition solutions

The financial value we're aiming to create

Over the next decade we aim to continue to improve our financial performance, align our asset portfolio to our strategy and look for more capital-light ways of doing business.

Our plans are based on a target average Farmgate Milk Price range of $6.50-7.50 per kgMS.

An improved performance will give us the ability to increase dividends. It will allow us to fund necessary investments which are critical to our aspiration to be Net Zero carbon by 2050 and give us the manufacturing capability to direct our Co-op's milk into the highest value products.

We are starting a divestment process for our integrated investments in Chile (Soprole and Prolesur) and are reviewing ownership options for Fonterra Australia, one option is an IPO, with the intention that the Co-op retains a significant stake. Subject to successfully completing these processes and achieving our ongoing business targets, we intend to return a significant portion of the net sale proceeds from these transactions to our shareholders by FY24. The combination of these divestments and our targeted earnings provides further capacity to return capital to our shareholders and this is assumed to occur from FY25 onwards.

Our focus on value creation also opens up choices for investing in exciting new, high value growth opportunities in nutrition science. However, if we are not confident that we can achieve a double-digit risk adjusted return on capital, there would also be an option to return further capital to shareholders.

Moving milk into the highest-returning products will be key to unlocking our earnings potential. We plan to increase milk solids in our Foodservice channel by around 50% by FY30. We will seek to achieve this by growing our global Foodservice presence across Greater China, South East Asia and the USA.

Note: The figures in this section which relate to dates in the future (including those in the table and graphs which follow) are targets that we are aiming to achieve only. They should not be taken as forecasts or as a guarantee of returns to shareholders. They are subject to successfully completing a number of business initiatives, and assumptions, each of which could materially affect the actual outcomes. The target years assume long-term average levels of price relativity and lag pricing impacts, and individual years are likely to vary from this assumption. The key assumptions and risks relating to these targets are set out in the Appendix. Please also refer to the important cautions and disclaimer at the beginning of this document.

Our aspirational financial profile for the next decade

	FY20 Actual	FY21 Actual	FY22 Forecast	FY24 Year 3 Target	FY27 Year 6 Target	FY30 Year 9 Target
Improved performance						
EBIT ($m)	$879m	$952m	$875-$975m	$1,025-$1,125m	$1,150-$1,250m	$1,325-$1,425m
Earnings per share (CPS)	24c	34c	25-40c	45-55c	50-60c	55-65c
Return on capital	6.6%	6.6%	6.5-7.0%	7.0-8.0%	7.5-8.5%	9.0-10.0%
Financial position						
Capital investment ($m)	$525m	$608m	$650m	$980m	$980m	$980m
Debt to EBITDA ratio	3.3x	2.7x	2.4x**	<2.5x	<2.5x	<2.5x
Gearing ratio*	44%	39%	35%**	<35%	<35%	<35%
Dividend to shareholders						
Assumed Payout Ratio	–	–	–	50%	60%	70%
Dividends (CPS)	5c	20c	15-20c	22-27c	30-35c	40-45c

* Updated measure of debt to align with credit rating agency methodology.

** Calculated using an earnings per share of 35 cents.

By 2030, we are aiming for our EBIT to increase by about 40-50% and our net earnings to grow by more than 75% to around 60c per share.

Over the next four years we are aiming to improve our margins in Consumer, using our New Zealand provenance and sustainability credentials to differentiate our brands. This will be supported by our ability to realise e-commerce opportunities.

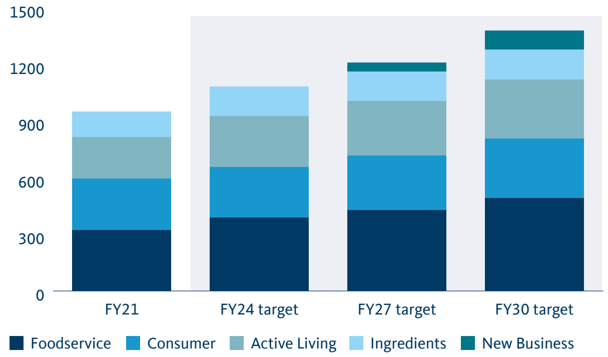
We believe our ongoing focus on product innovation in the Active Living portfolio[1], which includes advanced sports, active, healthy ageing and medical nutrition ingredients, will help continue improving margins. In addition, we will look to invest about $1 billion in new growth business opportunities, including nutrition science opportunities to accelerate our growth in Active Living and aim to deliver a total Group return on investment of almost 10% over this period.

Given the constrained milk environment we expect to be operating in and the growth we are targeting for our Consumer, Foodservice and Active Living channels, we expect to reduce the amount of milk solids we direct to our core Ingredients channel from 74% of our portfolio in 2021 to about 64% in 2030.

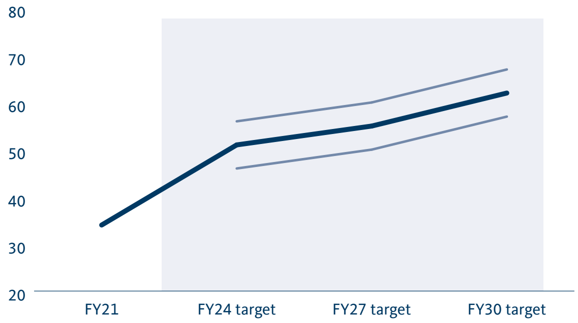
We are targeting an EBIT improvement of about 40-50% by 2030, taking into account the proposed sale of our investment in Soprole and potential ownership changes to our Australian business over the next two years. In FY21, Soprole contributed around 3 cents to our earnings per share and Australia contributed around 3 cents.

On an earnings per share basis, we expect to see the benefit of reducing interest expense through lower rates and debt levels.

EBIT[2]
(NZD millions)



Earnings per share
(Cents per share)



1 Active Living is substantially the same as Speciality Ingredients as reported in our Business Performance Report 2021.

2 These channel EBIT amounts include the allocation of unallocated costs and the breakdown of Ingredients into core Ingredients and Active Living. As a result, the EBIT splits will vary from those summarised in the Annual Review and Business Performance Report.

2030 targets we are aiming to achieve

Average Farmgate Milk Price range for the next decade: $6.50-$7.50 per kgMS

40-50% increase in operating profit from FY21

Increase dividends to ~40-45 cents cents per share

Group Return on Capital of ~9-10%

An intended return of about ~$1 billion to shareholders by FY24

~$2 billion of additional capital available for a mix of investment in further growth and return to shareholders.

We expect that investing in a sustainable future for our Co-op will require an increase in capital investment from about $600 million per annum to about $980 million per annum by 2030.

Our Co-op has invested significantly over the last two decades and it is obviously important we maintain our existing manufacturing sites and business infrastructure in good working condition. Doing this and making necessary ongoing efficiency improvements, requires about $550 million per year – this is what we call essential capital.

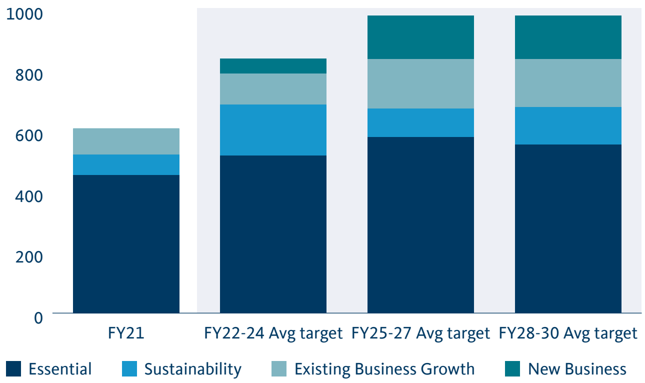
Over the next decade we intend to significantly increase our investment in sustainability related activities throughout our supply chain to both mitigate environmental risks and continue to differentiate our New Zealand milk. By FY30 we intend to invest around $1 billion in reducing carbon emissions and improving water efficiency and treatment at our manufacturing sites. In doing so, we will be taking significant steps towards our aspiration to be Net Zero carbon by 2050.

Capital investment will also be needed to support growth in our Consumer and Foodservice channels and accelerate the growth of our Active Living channel, particularly in areas underpinned by nutrition science capability. We will support this by increasing our R&D and innovation budget. We are aiming to increase our current total annual R&D investment by over 50% to around $160 million per annum in 2030, with about $60 million per annum specifically targeted at growth in Active Living.

In a constrained milk environment, we expect to have enough capacity across our manufacturing network to process all our farmer owners' milk and therefore no new investment in processing capacity should be required over the next decade. However, we intend to invest in some of our manufacturing sites so we can move more milk into higher value products.

Capital investment

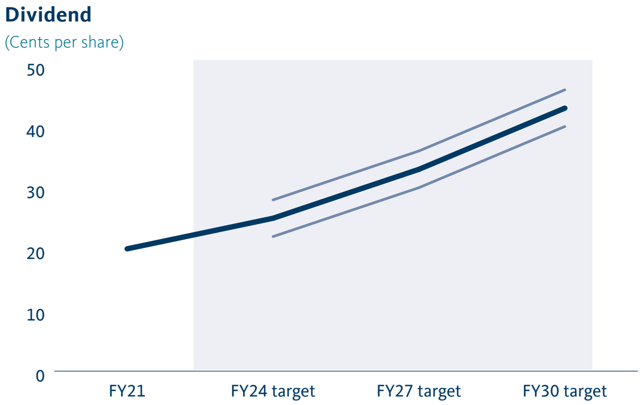
(NZD millions)



By 2030 we are targeting a dividend of around 40-45 cents per share, up from 20 cents per share in 2021.

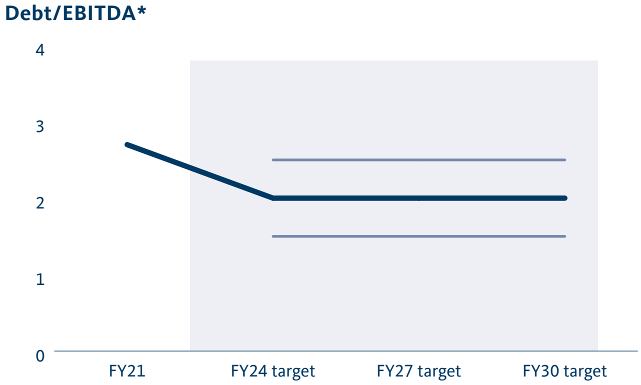
In addition to dividends increasing in line with improving earnings, we intend to return around $1 billion of capital to our shareholders by FY24 dependent on the proposed divestment of Soprole and ownership changes to our Australian business. Assuming we continue to achieve our financial targets and we maintain a positive outlook for our Co-op, we would have the capacity to make further capital returns to our shareholders and this is assumed to occur from FY25.

We assume a payout ratio at the mid-point of our dividend policy of 40-60% of Reported Net Profit After Tax, excluding abnormal gains, through to FY24. The payout ratio is assumed to increase to the top end of the range in FY25 through to FY27. In FY28, based on achieving our targets, we intend to increase the dividend payout ratio to about 70%.



We will continue to be financially disciplined, aiming to maintain a conservative balance sheet.

Our focus on financial discipline over the last couple of years has helped us strengthen our balance sheet and this focus will continue. We intend to maintain a strong balance sheet and operate within our long-term leverage targets – these are debt/EBITDA of between 2.5 and 3.0x and a gearing ratio of 30-40%. This will give us the ability to deal with the volatilities inherent with our business and take advantage of opportunities as they arise. The expected increasing level of debt after FY24 is enabled by the growing earnings profile.



	FY21	FY24 target	FY27 target	FY30 target
Gearing	39%	31%	31%	33%
Debt (NZD billion)	4.3	3.4	3.7	4.3

* Updated measure of debt to align with credit rating agency methodology

The nutritional value we create for people

Dairy is packed with nutrients which are easily absorbed and help people lead a healthy life.

People around the world choose milk as a staple in their diet, with dairy a recommended part of healthy, balanced diets for optimal health.

A glass of milk is a natural source of many of the valuable nutrients people need. It is one of the richest sources of readily available dietary calcium and contributes many other essential nutrients, including protein, phosphorus, potassium, vitamin A, riboflavin (vitamin B2), niacin (vitamin B3) and vitamin B12.

This unique combination of nutrients in dairy plays an important role in growing and maintaining healthy bones, immunity, the functioning of your nervous system (including your brain), helping to prevent tiredness, maintaining healthy eyes, and so much more through all life stages.

Given quality food is one of the best sources of nutrition, we know there's more potential for dairy to play an even greater role in nourishing the world's population.

The bioavailability of the nutrients in milk makes dairy's nutritional value even more powerful. Milk proteins are rich in specific amino acids our bodies need but can't produce. We should not be surprised that the composition of amino acids that mammals require are the very same types found in milk, a food designed by nature for this specific purpose. This nutrient density means milk is significantly superior for nutrition per kilograms of emissions used when compared with other proteins.

People need balanced diets which include a mix of vegetables, fruit and proteins available in convenient formats and plant-based products play a role in meeting these needs. Despite an ever-increasing array of alternatives, global demand for dairy continues to increase by about 2% per annum out to 2030 – that's the same as about 80% of New Zealand's entire dairy production every year.

As a natural product, dairy is an important part of the sustainable food systems of the future. Increasingly, consumers are aware of the sustainability credentials of the products they're consuming.

With our sustainable, nutritious milk and our dairy innovation and science expertise, we believe we can play a unique role in meeting these demands for customers and consumers who value our New Zealand provenance.

A glass of milk is a natural source of many of the valuable nutrients people need.

Global demand for dairy is expected to continue to increase by about 2% per annum out to 2030 – that's about 80% of New Zealand's entire dairy production every year

As a natural product, dairy is an important part of the sustainable food systems of the future

Given quality food is one of the best sources of nutrition, we know there's more potential for dairy

The world we operate in

The world's population is growing – there will be more people needing nutrition.[1]

NEXT 5 YEARS

400m

NEXT 10 YEARS

800m

NEXT 15 YEARS

1100m

1 Source: Oxford Economics (www.oxfordeconomics.com) – Global Economics Databank, August 2021.

The earth's climate is changing – more and more, customers and trade partners expect their food to be produced in ways that care for the environment and helps them achieve their sustainability targets.

Last year one of our customers stopped doing business with 47 of their suppliers because they did not meet their sustainability standards and couldn't help them achieve their future sustainability targets.

GOLD 2021 ecovadis Sustainability Rating

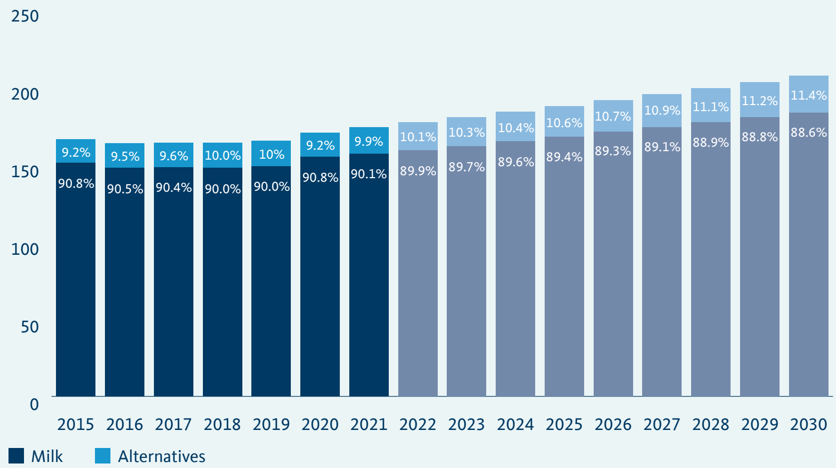
Demand for alternative proteins is growing – we need to be open to them being part of our portfolio.[2]

When it comes to liquid 'milk' products, dairy is expected to maintain significant market share and we believe it will be dairy businesses that can lead in sustainability and innovation and science that take this market share.

With continued population growth, there will be a role for both dairy and alternatives in feeding the world's population – they can be complementary.

Global market share of retail drinking milk products and alternatives

by retail value RSP (US$b)



2. Source: Euromonitor International (www.euromonitor.com) – Euromonitor Passport, August 2021.

Our plans in more detail

As we put our choices into action, it's important our people have clarity on the path to 2030. By aligning our people behind our Co-op's plans, we are best placed to perform and meet our targets.

Our plans

Prioritise the Farmgate Milk Price.

Invest more in sustainability to do what's right for customers, the planet and our Co-op.

Grow our Foodservice channel.

Continue momentum in our Consumer channel.

Move our Ingredients channel towards higher value products and solutions.

Refine our portfolio of assets with a focus on New Zealand.

Our choices shaping our path to 2030

- Focus on New Zealand milk.
- Be a leader in sustainability.
- Be a leader in innovation and science.

Our people and our culture

Our business strategy directs where we will focus. Our story, through our brands, distinguishes us. But it is our culture – our people – who will deliver, to have us meet our purpose: our Co-operative, empowering people to create goodness for generations – you, me, us together – tātou, tātou.

Top of mind for us as we look out to where we want to be in 2030 is how we elevate and align our culture for high performance. This means that in addition to excelling in operational excellence, we need to really understand our customers and what keeps them awake at night so we can help them solve their problems through our innovative solutions and products. This will require a shift in our mindset and culture.

Making this happen will transform our Co-op for everyone. It will help us attract and retain people who are motivated by our purpose and increase our people's ability to bring their best to enable our Co-op to deliver sustainable high performance and help achieve our targets.

Prioritise the Farmgate Milk Price

Maintaining the highest sustainable Farmgate Milk Price is critical to ensuring our farmer owners and our Co-operative remain financially viable.

On average, milk price payments represent the vast majority of a dairy farmer's revenue and a strong milk price increases our Co-op's contribution to the New Zealand economy. We believe that having a strong Co-operative is the best way to maintain a sustainable milk price for the benefit of all, and that our strategy will support a sustainable milk price.

Our Co-operative's manufacturing capabilities enable us to convert our farmer owners' milk into products that meet the needs of global consumers and customers. At the same time, our skilled marketing and sales teams generate demand for our dairy products, while our resilient supply chain enables us to take our milk to the world.

Through our strategy, our Co-operative aims to further build the reputation of our sustainable New Zealand dairy and generate ongoing demand that, in turn, delivers a higher milk price.

We are also able to harness the benefits of scale in our Co-operative to help minimise manufacturing costs and, in turn, increase milk price. We have demonstrated improvements in our manufacturing performance in recent years, reducing our rework costs by $35 million and quality related costs by $42 million in 2021 versus 2017. Meanwhile, we have maintained utilisation of milk solids while increasing the complexity of our product mix, helping to drive an improvement of $18 million for 2021 compared to 2017.

These savings have been achieved through focused effort by our people and the application of innovative new technologies, such as using artificial intelligence to automatically identify product quality issues at our Darfield plant. In many cases, the changes we are making to improve the sustainability of our manufacturing sites also deliver cost savings. For example, achieving our target to reduce operational emissions by 30% by 2030 could reduce our carbon costs in 2030 by $71.4 million.[1] We will continue to prioritise continuous improvement across our Co-operative to support a sustainable milk price.

1. Assumes Fonterra's emissions are 30% lower in 2030 than in 2018 (i.e., a reduction of 510,000 tonnes) and carbon costs $140/tonne in 2030 (as forecast by the Climate Change Commission in "Ināia tonu nei: a low emissions future for Aotearoa").

Milk price payments represent the vast majority of an average dairy farmer's revenue

A strong Co-operative is the best way to maintain the highest sustainable Farmgate Milk Price for the benefit of all

Our scale helps minimise operational costs and in turn increase milk price

We will continue to prioritise continuous improvement across our Co-operative to support the highest sustainable Farmgate Milk Price

Invest more in sustainability to do what's right for customers, the planet and our Co-op

We're all striving for a better future, especially when looking to the environment. Customers and consumers are demanding more information about the sustainability credentials of their food and the impact it has on the planet.

By increasing our activity across our supply chain, we can be on a pathway to Net Zero carbon by 2050. We intend to invest about $1 billion in sustainability initiatives over the next decade.

Operations

We're targeting a reduction in emissions of 30% by 2030 at our manufacturing sites. We expect to do this through a combination of energy efficiency initiatives and switching fuels at our nine manufacturing sites that still use coal and ultimately stop using coal by 2037.

We are also going further and developing plans to transition our manufacturing sites which use natural gas to other more sustainable energy sources such as biomass, biogas and electricity from renewable sources.

Reducing our water use and improving our water treatment will help improve water quality around our sites.

We are assessing low emission energy options for our milk collection fleet – including electric and hydrogen powered tankers.

Our R&D projects to find a solution to reduce methane and GHG emissions

1. With Royal DSM, a global science-based company, we're testing whether DSM's feed additive product Bovaer®, which reduces methane emissions from cows by over 30% in non-pasture-based farming systems, can do the same in New Zealand's pasture-based farming systems.
2. With MPI and DairyNZ, we've expanded a promising trial with Nestlé to include plantain in a cow's diet to reduce the amount of nitrogen produced, reducing carbon emissions and improving freshwater quality.
3. With Australian organisation Sea Forest, we're trying to understand if we can reduce emissions by incorporating seaweed in cows' feed.
4. With AgResearch and the Pastoral Greenhouse Gas Research Consortium, we're working to tap into our large collection of dairy cultures to create new fermentations we're calling Kowbucha™, which could inhibit the methanogens that create methane in cows.

On-farm and R&D solutions to reduce methane emissions

The Co-operative Difference will continue to bring our customers' insights and what we know about the world together to help farmers understand what needs to be done on farm. That means asking farmers to focus on the environment, their animals, people and community, and milk quality.

The biggest environmental gains will come from finding ways to reduce our methane emissions. We need to a find solutions to this challenge. We don't believe there will be one silver bullet and that is why we have a number of innovation projects underway to find solutions.

Support customers with sustainability propositions

Our investment in sustainability enables us to become an integral part of our customers' future supply chains and intrinsically linked to the success of their public sustainability targets.

It sets us up to push further with our development of sustainability brand claims and positioning, so we can offer a greater selection of sustainability attributes to our customers.

Our goals

Targeting a 30% reduction in emissions by 2030 at our manufacturing sites

Committing to stop using coal by 2037

Aiming to reduce water use and improve water treatment at our manufacturing sites

The Co-operative Difference brings together our customer insights and what we know about the world. Farmers can use this to guide what needs to be done on farm to help ensure continued demand for our products

Grow our Foodservice channel

Foodservice globally is a US$2.3 trillion industry and is everything we eat made out-of-home – from restaurants, bakeries, quick-service food chains, home-delivery, coffee shops, and even hospitals.

Many of our Foodservice customers are running multiple food outlets or chains across countries or the world. Each of these is serving our products to millions of people every day, without the cost to us of expensive marketing and promotional campaigns.

Foodservice is a high value channel for our product. As part of our plan to direct our Co-op's milk to the highest value product, we are aiming to increase milk solids in our Foodservice channel by approximately 50% by 2030.

We aim to achieve this by growing our global Foodservice presence across Greater China, South East Asia and the USA.

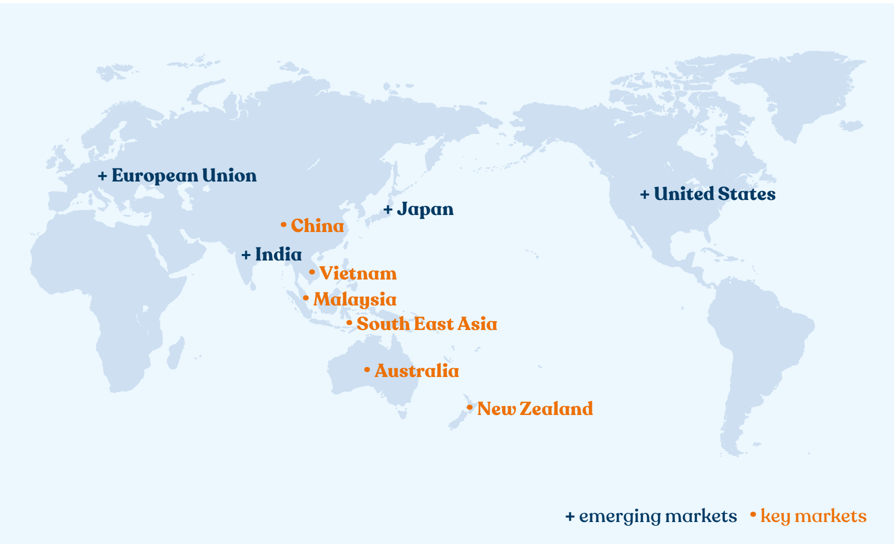
This growth will be led by staying ahead of global trends, and in particular, the increase in the world's middle class and cities which lends itself to more people eating out. This group enjoys experimenting with different premium foods and our product innovation will play a big role over the next decade.

In Greater China, we are continuing to build on our successful Foodservice channel by expanding into new cities.

In South East Asia, we are applying what we've learned from our Greater China business. This includes building the capability of chefs through our chef development programme. Across the region dairy is seen as a premium food and it also has a strong link to the growth in the consumption of western foods. We are making the most of this growing demand in the region and in particular we are doubling down on **Indonesia and Malaysia** where the evolution of bakeries will see us expanding our reach into more cities. We are also developing new products that work well in recipes chefs can use in the growing number of on-line bakery stores.

We believe innovation and new products will be key to this growth, helping us build relationships with up to 40,000 new customers over the next five years, and up to 70,000 new customers in the next 10 years.

In other markets like the USA, tariff barriers make it more difficult to maximise value from our Foodservice channel. To open more doors, we intend to partner with our IP, like we have with one of America's dairy co-operatives, Land O'Lakes.

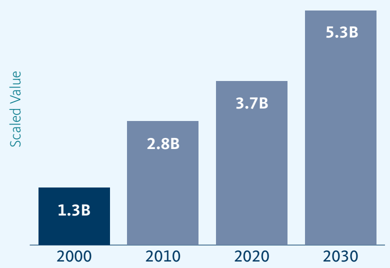


The world's middle class is growing, in particular in Asia – there will be more people able to afford dairy and want to consume it.

As the world's middle class grows, cities grow too and with urbanisation comes a mentality of anything, anytime, anywhere. People want food that can be consumed quickly and without hassle, driving demand for eating out-of-home and for convenient snacks that can be consumed on the go.

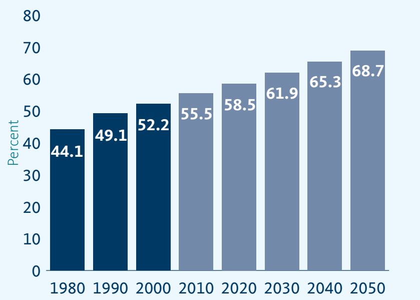
Global Middle Class (billion people)*

Estimate based on earning 2X median household income



* Source: Oxford Economics (www.oxfordeconomics.com) – Global Economics Databank, August 2021

Share of World Population in Urban Areas (%)*



* Source: Oxford Economics (www.oxfordeconomics.com) – Global Economics Databank, August 2021

We want to collaborate more with like-minded partners, leveraging our intellectual property and skills, rather than only making significant capital investments of our own.

With 65% of our customers preferring digital over traditional channels, we will also increasingly use technology to enhance customer experience. It will help strengthen the way we connect with our customers.

Ambient creams opening up new territories across Greater China

As we grow our Foodservice channel, we've launched a new ambient cream which can be stored at up to 40˚C outside of a chiller. Our R&D experts designed this cream so shops without fridges could use our product. In doing so, we've opened up new territories in Greater China and are looking at new opportunities in South East Asia.

Target to increase milk solids in our Foodservice channel by ~50% by 2030

Global trends are supporting the growth of Foodservice

Innovation and new products will be key to growth

Make the most of the growing demand for out-of-home consumption across South East Asia – particularly, in Indonesia & Malaysia

Foodservice globally is a $US2.3 trillion industry

Continue momentum in Consumer

Our Consumer channel represents $4 billion of revenue for our Co-op and achieves some of our highest gross margins.

To gain more value from this channel, we are evolving our brands to make sustainability an increasingly prominent proposition. By 2030 sustainability will be a key element of value for most of our brands.

Anchor will lead the way in taking our New Zealand sustainability and provenance credentials to the world, with the strong nutritional profile and great taste of our quality dairy being a distinct advantage.

Across the globe our New Zealand provenance is featured strongly in communication and on pack, particularly in markets such as South East Asia (SEA) where New Zealand is often perceived as a marker for superior nutrition and purity.

We're continuing to evolve this story, bringing to life specific elements such as Grass Fed Cows, and in our home market of New Zealand we have recently launched a plant-based bottle, and transitioned some of our specialty milks to be certified carbonzero in the North Island.

We're also leveraging our nutrition and science expertise across our consumer brands, a position typically utilised in our Ingredients channel.

As economies develop, the average life expectancy of adults is steadily rising across Asia. The amount of money invested by consumers in looking after their health and wellness is also increasing with more focus on living longer, healthier lives.

The world's population is getting older* – there will be more people needing to maintain their mobility, strength and energy.

2020
0.5b aged 70+

2030
0.7b aged 70+

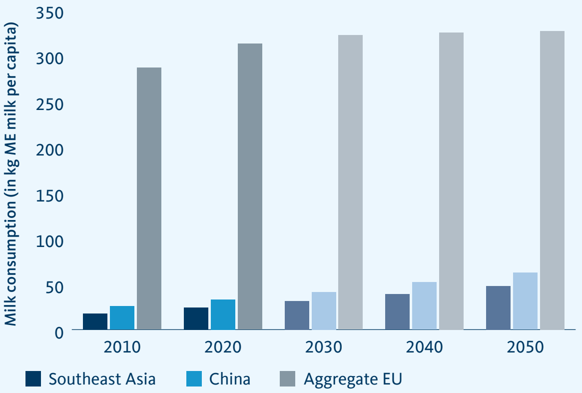
2040
0.9b aged 70+

* Source: Oxford Economics (www.oxfordeconomics.com) – Global Economics Databank, August 2021

Demand for convenience is driving a trend towards Western diets across Asia. While dairy consumption remains low across Asia, there is potential for significant growth when comparing per capita consumption with countries like the EU.

Westernisation of Diets*

Dairy Consumption per Capita (kg pa)



* Source: IFCN Dairy Research Network (www.ifcndairy.org) – IFCN Annual Dairy Sector Data with Long Term Outlook, September 2021

Carbonzero milk giving people a practical way of supporting the environment

Simply Milk offers customers the opportunity to purchase their everyday milk knowing their choice is making a difference to something that's really important to them. It has been certified carbonzero through the purchase of carbon credits from Toitū Envirocare. The carbon credits go towards the regeneration of native forest near Kaikōura in New Zealand, as well as renewable energy programmes in overseas markets where we sell our products.

We believe Anlene is positioned perfectly to compete in this space. In 2020, we debuted Anlene 5X, the most advanced clinically proven Anlene formulation that provides five key mobility related benefits targeting muscles, joints, and bones. A recent study showed 2 glasses of Anlene Gold 5X, with regular exercises, provided 2X the improvement in flexibility, 3X the improvement in balance and 40% more improvement in muscle mass.

We kicked off the Anlene 5X product in Malaysia, as it is the largest market for Fonterra in SEA. Over the last year sales have increased by 20% over the previous year and as a result we are now moving to roll out Anlene 5X across the rest of SEA – including markets such as Indonesia, Vietnam, Philippines, Thailand and Singapore.

The Westernisation of diets across Asia means consumers right across the region are increasingly using dairy in their cooking and their baking. We see this as a big opportunity for our Dairy Foods portfolio, which includes Anchor, Mainland, Perfect Italiano and Chesdale and our Consumer Powders such as Anchor and Fernleaf have a role to play in making dairy nutrition more accessible.

With trends in Asia changing often, we are also developing a programme of pilot brands that will extend our portfolio beyond our core brands. This is all about testing the market and developing new solutions to open up opportunities with the potential to generate new revenue streams.

Our connection to consumers is enhanced through our increased presence in e-commerce to meet growing demand from digitally astute consumers. With our sales in e-commerce across South East Asia doubling in the last 12 months, we expect that by 2030 this channel will represent approximately 30% of our total sales revenue for the region.

We are also deepening our customer partnerships with key international retailers to export our premium consumer products, including brands such as Mainland.

By 2030 sustainability will be a key element of value for our Consumer brands

We believe Anlene is positioned perfectly to target the healthy aging market

The Westernisation of diets across Asia means people right across the region are increasingly using dairy in their cooking and baking

By 2030, we expect ~30% of our total sales revenue across Asia Pacific will come from e-commerce

Move our Ingredients channel towards higher value products and solutions

Through our NZMP brand we have one of the broadest ranges of ingredients and solutions in the industry – from high quality base ingredients to highly advanced and specialised ingredients.

As we move more milk into Foodservice and Consumer, we will direct less milk through our Ingredients channel. While we will continue to manufacture Reference Commodity Products which inform the Farmgate Milk Price, we will focus our growth efforts on higher-value ingredients and solutions targeting the areas of physical, patient, digestive and mental wellness plus immunity.

This may mean that we divert some product away from GDT, but we will always seek to ensure there is enough activity on GDT to set a robust Farmgate Milk Price.

As is the case for our Foodservice and Consumer channels, we see opportunities to further differentiate our Ingredients channel on provenance and sustainability. We will also derive value from specific claims and from our overall sustainability position.

Driving value with Daesang

Our collaboration with South Korean food manufacturer Daesang is an early example of the potential of customer collaboration. Daesang was seeking to launch a range of protein products for the medical nutrition category, and saw the potential to differentiate their products on the basis of a connection to grass-fed, natural dairy. We offered Daesang a license agreement covering formulation and processing IP, grass-fed and pasture-raised claims, and imagery and video assets telling our unique New Zealand dairy story.

Dairy lipids helping improve people's mood

Our Milk Phospholipids have been clinically proven to help manage the effects of stress while also improving mood and focus.

The versatile ingredient can be used in snack bars and ready-to-mix beverages.

These complex lipids are typically used in the infant nutrition space as they play an important role in brain development. We're now exploring their use in the e-gamer category to improve cognitive function and eye health.

Deepening our relationships with our customers and offering new solutions and service models will be key to achieving our long-term ambitions.

As our product mix changes, so too will our customer mix. We will continue to work with our current customer base, but also expect to work with new customers as we increase our participation in the health and wellness market.

We will focus on partnering with customers to co-design value-added products and solutions.

Our Co-operative brings deep expertise in dairy science and sustainability, including significant intellectual property. Through partnership, we can help our customers bring new products to market that in turn increase the value we create from our farmer owners' milk.

We are also developing a range of digital tools and services that will offer our customers new ways to engage with our Co-operative. For example, myNZMP gives our Ingredients customers a simple, always-on, self-service option, and we expect it will become a significant part of our Ingredients channel over the next decade.

Protein expertise helping people maintain muscle mass for better quality life

Our protein enriched healthy ageing products are designed to combat malnutrition and muscle loss as we grow older. These include fortified protein beverages, powders and foods providing easily digestible and high protein solutions for the medical nutrition and healthy ageing category.

Direct less milk into the Ingredients channel

But grow sales of higher-value ingredients and solutions

Targeting physical, patient, digestive and mental wellness plus immunity

Co-design with customers value-added products and solutions

myNZMP a simple, always-on, self-service option for customers to buy products, is expected to become a significant part of our Ingredients channel over the next decade

Refine our portfolio of assets with a focus on New Zealand

We have an opportunity to differentiate our New Zealand milk further on the world stage, with the aim of getting more value from our Co-op's milk. This requires us to focus our capital and our people on enhancing our New Zealand milk.

For these reasons we are reviewing our ownership of our two other milk pools – in Australia and Chile.

Soprole is a leading Chilean dairy brand, and Prolesur is a subsidiary of Soprole focused on milk sourcing and primary and secondary manufacturing in Southern Chile. The operations do not require any New Zealand-sourced milk or expertise and, in this context, we are starting the process to divest our integrated investment in Chile.

Fonterra Australia is on strategy for the Co-op and remains an important export market for our New Zealand milk, especially for Foodservice products and advanced ingredients. We are considering the most appropriate ownership structure for this business, one option is an IPO, with the intention that we retain a significant stake.

By having access to ongoing external capital, the Australian business can be unlocked to deliver on its strategy and capture its full potential. At the same time, ownership changes such as an IPO could give our Co-op the opportunity to take some capital out, while retaining ownership in this important market.

We see both these moves as critical to enabling greater focus on our New Zealand milk and, importantly, allowing us to free up capital, much of which is intended to be returned to shareholders.

We need to focus our people and capital on our New Zealand milk

We are reviewing the ownership of our other milk pools - in Australia and Chile

For Australia, we are exploring ownership changes – one option is an IPO, with the intention that we retain a significant stake

We are starting the process to divest our Chile investment

Reimagining milk for future growth: Nutrition Science Solutions

The way people manage their health and wellness looks set to be revolutionised. As scientists harness the power of big data, biotechnology and genomics, they are building a stronger understanding of human health and wellbeing, connecting the dots between cause and effect. This hints at a future in which some diseases might be prevented or managed through better nutrition and lifestyles.

Already, scientists understand how people's diets impact their body and behaviour and this has given rise to a range of consumer solutions targeting specific health and wellness needs. These solutions are backed by nutrition science and they underpin a $500 billion slice of the global health and wellness category.

Some of our ingredients already play to these kinds of solutions – including our own complex lipids which help with cognition, proteins which help with mobility and probiotics which support immunity and digestion.

These solutions are backed by nutrition science and they underpin a $500 billion slice of the global health and wellness category.

But we have an ambition to play more boldly in this category, unlocking the growth potential of our advanced specialty ingredients and going further.

Imagine if there was technology that could assess the health of your muscles every day in just a few minutes and then tailor your exercise and nutrition, in particular, how much protein you should consume, to achieve the optimum muscle health.

Similarly, imagine if there was a way of quickly understanding your gut health and being able to select the probiotic strains that your gut needs.

Or even having snacks, which use specialty dairy ingredients, delivered to your workplace and tailored to your lifestyle, genetics and age, helping you keep your energy levels high and manage stress.

While these examples are not necessarily what we will do, they paint an aspirational picture of the potential for nutrition science solutions.

We know, based on global trends shaping the world we operate in, that the opportunity lies in adult nutrition. If we want to play more boldly, it will also take focused resource, including increasing our R&D, and some new expertise to complement what we already have. There is no doubt that partnerships will be key.

One of the big game changes for leaders in the health and wellness category, is having the ability or the ecosystem to build close relationships with consumers. In many cases, they've been built through technology and data which empowers the consumer to take control of a specific element of their health and wellness and make choices about their nutrition and lifestyle.

We have set up a dedicated team to explore what the future of Nutrition Science Solutions looks likes for our Co-op. Over the next year, we'll narrow down and prioritise the areas where we can build a competitive advantage, and understand what it would take to win.

Follow our progress towards 2030

The scale of Fonterra in New Zealand – nearly 9,000 farming families, our network of manufacturing sites, global supply chain and our presence in over 130 countries around the world – makes it hard to remember that we're just tiny on the world stage.

At just 2% of the total global milk supply – it's a real case of kiwi farming families taking on the world.

Over the next decade we will share regular progress and stories on how we are going.

You will be able to track our performance via our quarterly, interim and annual results announcements.

And we also invite you to keep up to date with stories from around the Co-op.

You can do this via:

- www.fonterra.com/ourstories
- My Co-op app, if you are a farmer
- MilkyWay, if you are an employee

OUR PURPOSE

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

TĀTOU, TĀTOU

GOOD TOGETHER

Appendix

Key assumptions and risks for our aspirational financial profile and targets

This Appendix is intended to support analysis and understanding of the aspirational financial profile and targets in this booklet, and the key risks associated with them.

The cautions and disclaimer set out on the contents page of this booklet apply equally to this Appendix.

Basis of Preparation of our aspirational Financial Profile

We have prepared an aspirational financial profile which sets targets for our future performance on the basis of our strategy and business plan being successfully implemented ("Financial Profile").

Our Financial Profile is provided to 2030 and is prepared using the assumptions set out below and on the following basis:

- FY22-24: Uses our detailed three-year budget and business plan.
- FY25-30:
  - Earnings performance is modelled (i.e. extrapolated) based on potential market volume growth rates from FY25.
  - The capital investment plan is supported by our detailed long-term asset roadmap
  - EBIT Margins, including Gross Margins and Operating Expenditure levels as a percentage of Revenue are extrapolated from FY24 levels.
- Ranges have been provided to reflect the inherent uncertainty when setting future targets. The ranges are not intended to incorporate all the potential volatility within the business, in particular (but without limitation) ingredients price relativities. No attempt has been made to incorporate in these ranges any impacts from potential sensitivities, including declining or increasing milk collection volumes, ingredients price relativities, geo-political risks, currency movements etc.
- The Financial Profile has been prepared by Fonterra. It has not been subject to audit or independent review. It sets out aspirational targets only and should not be construed as setting forecasts or giving a guarantee of returns to shareholders.

Key Assumptions for our Financial Profile

Assumptions relating to New Zealand Milk

- Our New Zealand milk collections have been assumed at 1,525 million kgMS and held constant through to FY30.
- There is a constant base Milk Price of $7.00 per kgMS, which reflects the average Milk Price over FY19-21, except FY22 which assumes $8.00 per kgMS.

Assumptions relating to Business Portfolio

The business portfolio comprises our operations at the end of FY21 and assumes:

- Those operations continue on the same footing as at the end of FY21, without material market, regulatory or other changes; and
- The sale of our remaining China Farms business and DPA Brazil in FY22, the divestment of 100% of our Chilean business and a reduction of 49% in ownership of our Australian business in FY24. For modelling purposes, we have assumed these transactions occur at the beginning of FY24, and that Australia remains consolidated.

General Assumptions

- Global dairy consumption grows at 5-year CAGR of 2.7% with a long term growth rate of 1.7%.
- No inflation.
- Base interest rate (BKBM) increases from 0.4% in FY22 to 3% by FY30.
- Exchange rates stay at current levels.
- Tax reflects current tax rates.
- The tax expense reduces from 16% to 11% as the dividend percentage increases, due to the deductibility of dividend payments on supply backed shares. The proportion of supply backed shares stays the same as it currently is to FY30.

Assumptions relating to Volatility

Price relativities and the impact of lag pricing are modelled at long run historical average levels for the period FY22-30. Individual years are likely to differ materially upwards or downwards from this assumption. The Group Operations EBIT that includes this volatility has been modelled assuming $80 million EBIT, which is attributed to the regional segments. The equivalent EBIT result in FY20 was $170 million and in FY21 was ($118 million).

Assumptions relating to Capital Investment

- Essential capital expenditure: Approximately $550 million per year, with no additional peak milk processing capacity given the constant milk supply assumption.
- Sustainability investment: Capital expenditure is incurred to meet published greenhouse gas emissions and water targets, with spend levels averaging $130 million per year until FY30.
- Channel growth and new business investment:
  - To support channel growth and our complementary dairy portfolio, capacity in some key categories is expanded with an approximate investment of $150 million per year.
  - A further $1 billion is invested in a portfolio of new business opportunities in equal amounts (around $150 million per year), with a return on capital of 5% in the year following the investment and then 11% per year in subsequent years.

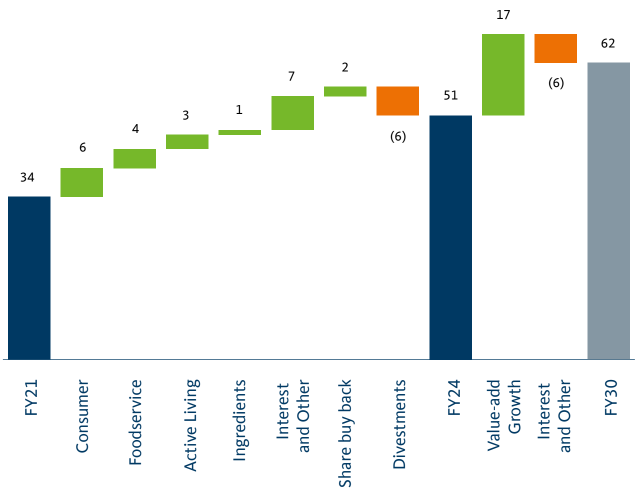
Assumptions relating to Capital Management

- To support liquidity in the Fonterra Shareholders' Market (FSM) as farmers transition to the proposed new capital structure, up to $300 million is allowed for on market share buy-backs or other tools. It is assumed to be used in equal amounts in FY22 and FY23 and to reduce shares on issue by approximately 85 million in total.
- There is a capital return to shareholders of $1 billion in FY24 dependent on the successful divestment of our Chilean business and reduction in ownership of our Australian business, with additional proceeds being used to reduce debt. There are inherent uncertainties and risks in the execution of such processes.
- Subject to not exceeding our long-term target leverage metrics:
  - Dividends have a pay-out dividend to earnings ratio of 50% until FY24, increasing to 60% in FY25 and 70% by FY30.
  - Under an ongoing capital management programme, further capital is returned to shareholders either as a pro rata distribution or by way of share buy-backs. This has been modelled as $150 million per year, distributed as a pro rata capital return from FY25 onwards.

Appendix

Assumptions relating to Earnings Drivers

- Below is a summary of the key earnings drivers.



- These assume:
  - An increase in milk solids in the Foodservice channel by 50% to FY30. The key driver is China Foodservice with FY21-24 volume growth rates of 10% (compared to 12.5% over FY19-21), with EBIT margins at three-year average rates of 16%. The remaining Foodservice growth is focused across South East Asia.
  - From FY21 to FY24, margins in Consumer improve using our New Zealand provenance and sustainability credentials and our ability to realise e-commerce opportunities. APAC consumer EBIT margins lifts by 2% (to 10%) by FY24. These EBIT margin levels are maintained through to 2030.
  - Active Living margins grow $52 million from FY21 to FY24, with volume growth of 7% per year (including New Business) through to FY30 as we continue to invest and support this area.

	Actuals		Financial Profile Assumption	
EBIT Margin[1]	**FY19**	**FY21**	**FY24**	**FY30**
Consumer	4%	7%	8%	8%
Foodservice	8%	11%	10%	10%
Active Living	15%	12%	13%	13%
Core Ingredients	2%	1%	1%	2%
Total	4%	5%	5%	6%

  - Innovation spend increases by 50% from $100 million in FY20 to $160 million by FY30.
  - Flat milk volumes with growth in the Consumer, Foodservice and Active Living channels, and the amount of milk solids utilised by Core Ingredients reducing from 74% in 2021 to 64% in FY30.

	Actuals			Financial Profile Assumption	
Utilisation of New Zealand Solids	**FY19**	**FY20**	**FY21**	**FY24**	**FY30**
Consumer	7%	7%	7%	8%	9%
Foodservice	8%	8%	9%	12%	14%
Active Living	10%	10%	10%	11%	12%
Core Ingredients	76%	75%	74%	70%	64%
Total	100%	100%	100%	100%	100%

  - Interest expense reduces (as debt levels and Fonterra interest rates fall) by $100 million (pre-tax) from FY21 to FY24.
  - Interest expense increases (as assumed interest rates rise and debt levels increase from $3.4 billion to $4.3 billion within our long-term target metrics) by $100 million (pre-tax) from FY24 to FY30.

1 These channel EBIT margins include the allocation of unallocated costs and the breakdown of Ingredients into Core Ingredients and Active Living. As a result, the EBIT splits will vary from those summarised in the Annual Review and Business Performance Report.

Risks and uncertainties

Our aspirational financial profile and targets extend to 2024, 2026 and 2030. There is always going to be considerable uncertainty over such long time horizons. These targets and the assumptions underlying these targets are subject to risk and uncertainties. The more material risks and uncertainties which may impact Fonterra's performance relative to the targets include:

- The risk that the sub-optimal **execution of strategic initiatives, innovation practices, ineffective business partnering, or deficient decision-making** results in failure to realise opportunity, leverage competitive advantage, respond to shifts in consumption trends and achieve strategic targets, leading to value destruction.
- A **material loss in milk supply** as a result of factors affecting Fonterra, its supplying farmers, or the markets in which we operate, such as a **biosecurity** (including animal health) event, climatic or weather impacts, **regulatory change**, change in land use, failure of the **capital structure changes** to achieve the desired effects, changes in dairy farming input costs, or competitor activity could result in sub-optimal asset utilisation and excess capacity, and could generally have a significant impact on Fonterra's ability to deliver on strategy and financial performance.
- Dairy commodity prices are highly volatile with substantial increases and decreases occurring over a relatively short period. The risk that **dairy price volatility** and changes within global markets, including economic volatility, geo-political instability, foreign exchange and interest rates, are not appropriately responded to or managed could adversely impact business operations, profitability, dividends, and milk price.
- Fonterra's Farmgate Milk Price in New Zealand is calculated by assuming that all the milk Fonterra collects is converted into "Reference Commodity Products" (whole milk powder, skim milk powder, anhydrous milk fat, butter, and buttermilk powder). **Fluctuations in the relative prices of Reference Commodity Products and the other dairy products manufactured and sold** by Fonterra (such as cheese) could therefore have a significant impact on Fonterra's earnings.
- Fonterra's earnings may also be impacted by **changes made to the Farmgate Milk Price Manual** (including changes to the Reference Commodity Products used to calculate the Farmgate Milk Price), which Fonterra's Board considers appropriate based on the milk price principles set out in Fonterra's constitution and obligations under the Dairy Industry Restructuring Act 2001.
- The risk of food safety incidents (including products being contaminated or tampered with, in New Zealand or overseas), resulting in Fonterra supplying **unsafe food** (or food that is **perceived to be unsafe**) to customers and consumers which may result in harm to consumers and/or significant reputational and commercial impacts and the risk that Fonterra manufactures product that is of **sub-standard quality** resulting in financial loss and reputational damage.
- **Geo-political** and trade and **market access** factors such as war, economic instability or downturn, deflation or inflation, price controls, political interference, and foreign government action (including trade embargoes and sanctions, tariffs, subsidies, quotas, price controls, and other non-tariff barriers) could impact the sale of Fonterra products internationally, resulting in adverse changes in international dairy market dynamics and affect prices for dairy products.
- The risk that **leadership, organisational culture, behaviour**, and **people** management practices, including recruitment for and development of capability and accountability, are inadequate or insufficiently agile to adapt to future working environments and to execute strategy.
- The risk that **failure to enact measures to mitigate the impact** (or perceived impact) of Fonterra's **activities on the environment and/or mitigate the effects of climate change** on Fonterra may result in impacts on milk production, operations and sales, increased costs associated with **emissions unit prices**, a declining perception of Fonterra and the premium character of Fonterra's products, the dairy industry and/or adverse policy settings, including water access, usage and quality, agricultural and operational emissions, discharges to land water and air and animal welfare.
- **Changes in or the introduction of new policies, legislation, taxation or regulation** or the way in which existing policies, legislation, taxation or regulation is enforced could adversely affect Fonterra.
- Changing conditions in **global debt markets**, movements in financial instruments including hedging, changes in the positions adopted by credit **ratings agencies** (including the treatment of effective subordination of the Milk Price to Fonterra's debt and other obligations), or the terms on which debt is provided to Fonterra.
- Litigation and **disputes with third parties** in relation to Fonterra's operations.
- The risk that Fonterra's ability to maintain and/or operate the assets within Fonterra's end-to-end **supply chain** is disrupted, delayed, or reduced resulting in increased production costs and other adverse financial impacts.
- The risk that failure to maintain an **appropriate information technology framework** and to proactively safeguard and manage Fonterra's key IT systems and the confidentiality, integrity, and availability of Fonterra's data against threats **including cyber-attacks**, technology failures and other threats, results in lost opportunities, major business interruption, financial loss and/or reputational damage.
- **The COVID-19 pandemic** could affect Fonterra's ability to operate its manufacturing facilities or distribution centres and could also disrupt Fonterra's supply chain and could impact the demand for Fonterra's product.
- **The success and timing of an IPO or sale** process for investments could be impacted by market, economic or other factors.

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Dairy for life