

Materiality assessment notes – Sustainability Report 2020

Introduction

This document is a supplement to the Fonterra Sustainability Report 2020 published to provide additional disclosure on our approach to stakeholder engagement and materiality assessment. This includes more detailed disclosure as required by the GRI Standards.

Assurance

Independent assurance of our Sustainability Report including this appendix has been completed by Bureau Veritas. Please refer to the assurance statement in the main report.

Scope and Methodology

The report covers the activities of Fonterra Co-operative Group Limited and joint ventures under Fonterra's management control.

Reporting Period

The reporting period is for the 2020 Financial Year (FY20), 1 August 2019 – 31 July 2020.

Our Materiality Process – how we determine what's important

In FY19, starting from the results of previous assessments, we researched other potential topics of importance from sources such as industry guidance and reports, customer reports and emerging issues from risk assessments and external communications. This generated a long list of topics which we clustered into a set of topics at a common level of granularity for further analysis.

The relative importance of the topics to our stakeholder groups was determined by a combination of specific surveying, findings of specific engagement workshops and interviewing owners of existing relationships (see the 'Engaging with our stakeholders' section below for a breakdown of topic by 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 assessed the significance of our impact on society for each topic by considering both the positive and negative impact of our activities against four criteria: the extent of our impact (i.e. local, regional, global), the magnitude of our impact and the duration of our impact.

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

The following table lists the most important topics, in order, the scope of each topic and where we cover our response in the report.

Topic	Scope	Response
Ensuring the food safety and quality of the products we deliver.	All food products we sell, including ingredients, foodservice and consumer products.	See Food safety and quality on page 21
Using water responsibly, including water quality and availability	The water used by, and the potential impact on water quality arising from, our manufacturing sites and the farms which supply us with milk.	See Land and water on page 35
Climate change mitigation and adaption	Our contribution to climate change from the activities in our value chain, including sourcing, farming, manufacturing, distribution and consumption; and the potential impact on those activities arising from predicted climate change.	See Climate change on page 41
Contributing to local economies 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.	See Employment and income creation on page 63
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.	See Health, safety and wellbeing on page 23
Contributing to nutrition and health through the products and information we deliver, including obesity and under-nutrition	The nutritional profile, impact and accessibility of our products, and our role in promoting healthy, balanced diets.	See page Nutrition and health on 18
Ethical business practices , including anti-corruption and fair competition	All activities undertaken by, or on behalf of, Fonterra, in all markets.	See Ethical business practices in appendix Governance and ethical business ¹
Protecting the human rights of individuals impacted by our business actions	The human rights of all people directly or indirectly impacted by our activities across our entire value chain.	See Human rights on page 30
Protecting animal health and welfare within our supply chain, including responsible use of antibiotics	All cattle on farms directly or indirectly supplying fresh milk to Fonterra.	See Animal health and biosecurity on page 52
Protecting soil health which is essential for sustainable food production	Directly on Fonterra-managed farms, and influencing best-practice on farms directly supplying fresh milk to Fonterra.	See Land and water on page 35
Using responsible procurement to influence environmental, social and economic performance along our supply chain	All direct procurement of goods and services.	See Responsible procurement on page 68
Protecting biodiversity and the underlying ecosystem services	The direct impact of our operations and supplying farms, and the indirect impact	See Land and water on page 35 and

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

we rely upon, including the impact of deforestation	through procurement of goods, including procurement of animal feed by our farmers.	Responsible procurement on page 68
Protecting the employment rights and working conditions of our people, including diversity and inclusion, training and development	All Fonterra permanent and temporary employees, and those working at our sites	See Employment rights on page 26
Addressing biosecurity risks to animal, plant and human health	Impacts of farming practices on supplying and Fonterra-managed farms, and impact of operations and products	See Animal health and biosecurity on page 52
Minimising production waste , including solid waste to landfill	All operations under Fonterra management control, including manufacturing sites, nutrient management and training farms and offices	See Packaging and waste on page 48
Minimising post-consumption waste , including product packaging and food waste	All Fonterra consumer branded products and packaging of ingredients products	See Packaging and waste on page 48

Engaging with our stakeholders

The table below identifies the topics of most importance to each stakeholder group, as determined by the materiality process completed in 2019. Topics that rose in importance for stakeholder groups in this materiality process compared to the previous one are indicated as “new”.

Stakeholder	Topics of most importance	How we engage
Farmers (Our farmer shareholders, sharemilkers, other supplying farmers and their employees)	<ul style="list-style-type: none"> Organisational governance Food safety and quality Employment and sustainable income creation (including milk price) Addressing biosecurity risks 	<ul style="list-style-type: none"> We engage with our New Zealand farmers shareholders at meetings and roadshows, and through the formal governance processes of our Co-operative. We also engage with farmers and their employees on an ongoing basis directly led by our Area Managers and Sustainable Dairying Advisors or equivalent.
Customers and consumers	<ul style="list-style-type: none"> Food safety and quality Climate change Contributing to nutrition and health (New) Responsible procurement (New) 	<ul style="list-style-type: none"> We engage with our business-to-business customers on an ongoing basis through our account management teams and by sharing information through programmes such as SEDEX and the CDP. Our engagement with customers provides us with insight on their consumers and we engage with our own direct consumers through our service teams, email and social media, and consumer research.
Employees	<ul style="list-style-type: none"> Food safety and quality Health and safety of people at work Using water responsibly Ethical business practices (New) 	<ul style="list-style-type: none"> We engage with our employees on an ongoing basis through our everyday interactions, regular engagement surveys and engagement with unions.

Investors (Including unit holders, bond holders and banks)	<ul style="list-style-type: none"> • Climate change • Food safety and quality • Animal health and welfare (New) • Addressing biosecurity risks • Organisational governance (New) 	<ul style="list-style-type: none"> • We engage with our investors on a regular basis through updates, formal reporting and meetings coordinated by our Capital Markets team. • We also share information through this report and the CDP.
Central and regional government	<ul style="list-style-type: none"> • Employment and sustainable income creation (including milk price) (New) • Climate change • Using water responsibly • Stakeholder and community dialogue (New) 	<ul style="list-style-type: none"> • We engage with central and regional governments at many levels, coordinated through our Government and Stakeholders Affairs team. • We also work in partnership on important issues such as climate change (Pastoral Greenhouse Gas Research Consortium) Department of Conservation), and children's wellbeing (Ministry of Social Development).
NGOs	<ul style="list-style-type: none"> • Minimising production waste • Using water responsibly • Climate change • Responsible marketing (New) 	<ul style="list-style-type: none"> • We engage with non-governmental organisations (NGOs) through collaboration and consultation on specific topics, e.g. the New Zealand Nutrition Foundation on nutrition guidelines.
Vendors	<ul style="list-style-type: none"> • Ethical business practices • Food safety and quality • Health and safety of people at work • Customer complaints and service relationships 	<ul style="list-style-type: none"> • We engage with our non-milk vendors on an ongoing basis led by our Group Procurement team. • For larger vendors, the engagement includes regularly meetings managed by the Vendor Manager or Category Manager.