





About this report

This statement outlines the Farmgate Milk Price and how it was calculated for the season ended 31 May 2023 in accordance with the Farmgate Milk Price Manual.

COVER AND OPPOSITE PAGE
David, Southland

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David, Southland

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2023 Season Farmgate Milk Price

The primary purpose of this Statement is to help Fonterra farmer shareholders, unitholders in the Fonterra Shareholders' Fund and other interested parties better understand the Farmgate Milk Price.



2023 Season Farmgate Milk Price (continued)

The Farmgate Milk Price is the average price paid by Fonterra for each kilogram of milk solids (kgMS) supplied by Fonterra's farmer shareholders under Fonterra's standard terms of supply¹. It is calculated in accordance with the Farmgate Milk Price Manual (the Manual). The Manual is maintained by the Fonterra Board in accordance with the Dairy Industry Restructuring Act 2001 (DIRA) and the Fonterra Constitution.

The 2023 season Farmgate Milk Price of **\$8.22** per kgMS is:

- The Aggregate Farmgate Milk Price of \$12.182 billion; divided by
- New Zealand milk paid for by Fonterra in the 2023 season of 1.483 billion kgMS.²

The Aggregate Farmgate Milk Price is calculated as revenue less costs. Revenue assumes:

- The entire volume of milk collected is processed into commodity specifications of the five Reference Commodity Products (RCPs) which are Whole Milk Powder (WMP) and Skim Milk Powder (SMP), and their by-products Butter, Anhydrous Milk Fat (AMF) and Buttermilk Powder (BMP).³
- The RCPs are sold in USD on and off GDT.
- USD sales revenue is converted into NZD at exchange rates achieved by Fonterra.

Costs comprise:

- **Cash Costs:** costs of collecting raw milk, efficiently manufacturing the five RCPs, delivering finished product to New Zealand export ports, and selling and administration expenses.
- **Capital Costs:** depreciation of fixed assets, an appropriate return on investment including on working capital, and corporate tax.
- **Additional Commodity Milk Payments and Standard Supply Adjustments⁴:** adjustments for milk quality issues and additional payments or deductions for milk not supplied on standard terms, to the extent these would apply to the Notional Milk Price business.

Numbers in this Statement have been rounded and, as a result, some tables may not exactly total or sum to 100%.

2023 Season Farmgate Milk Price

\$8.22
per kgMS

¹ This price may differ from the "farm gate milk price" published in accordance with the Dairy Industry Restructuring (Raw Milk) Regulations 2012 due to the way "farm gate milk price" is defined in those Regulations and the impact of Fonterra's fixed milk price offers.

² Fonterra and its suppliers experienced significant disruptions to milk supply during and subsequent to significant weather events in the 2023 season. Total milk paid for was 1.483 billion kgMS made up of 1.480 billion of kgMS collected and available for manufacture into product and 2 million kgMS of supply that was either unable to be collected at the time or was subsequently unable to be produced and supplied for the remainder of the season due to the extent of damage to suppliers' farming operations.

³ Most of the increase in milk supplied over the past decade in New Zealand to Fonterra and its competitors used to manufacture commodity dairy products has been used to manufacture milk powders. As returns from the sale of milk powders and their by-products represent the marginal returns that would drive the price of milk in a competitive market in New Zealand, the Farmgate Milk Price is based on these products.

⁴ Additional Commodity Milk Payments are payments for milk supplied other than on standard terms of supply where it would be appropriate for the Notional Milk Price business to source that milk for conversion into RCPs. Examples of these payments include the portion of Winter Milk premiums that would be payable by the Notional Milk Price business and discounts for contract milk. Standard Supply Adjustments arise from adjustments to payments for milk supplied under Fonterra's standard terms of supply, such as where milk quality demerits have been applied.

2023 Season Farmgate Milk Price (CONTINUED)

Figure 1 shows that changes in revenue are the most significant driver of the movements in the Farmgate Milk Price between seasons.

Revenue for a given season is a function of the volume of milk collected, the products that milk is manufactured into, the prices at which that product is sold, and the exchange rate at which the USD receipts from sales are converted back to NZD. Costs also move season on season, but will generally not be anywhere near as significant a factor in moving the Farmgate Milk Price.

The following sections provide more detail on revenue, costs and drivers of change between seasons.

Figure 1:
Changes In The Farmgate Milk Price Between Seasons



2023 Season Farmgate Milk Price (CONTINUED)

Table I shows the summary Farmgate Milk Price calculation for the last three seasons.

Lactose is shown in Table I as a deduction from Farmgate Milk Price Revenue.

Table I:
Farmgate Milk Price Summary

SEASON	2023 \$ MILLION	2022 \$ MILLION	2021 \$ MILLION
Farmgate Milk Price Revenue	16,159	17,316	15,014
Lactose	(879)	(679)	(648)
Net Revenue	15,279	16,637	14,366
Farmgate Milk Price Cash Costs	(2,314)	(2,074)	(1,986)
Farmgate Milk Price Capital Costs	(775)	(806)	(754)
Additional Commodity Milk Payments and Standard Supply Adjustments	(8)	(10)	(15)
Aggregate Farmgate Milk Price	12,182	13,746	11,611
Million kgMS	1,483	1,478	1,539
Farmgate Milk Price calculated under the Manual (\$ per kgMS)	8.22	9.30	7.54

Farmgate Milk Price Revenue

Farmgate Milk Price Revenue uses a combination of actual Fonterra results and key assumptions:

- 1.480 billion kgMS of milk collected by Fonterra during the 2023 season⁵.
- All milk supplied is converted into the five RCPs based on Fonterra's actual mix of those products.
- Sales volumes are assumed to reflect Fonterra's actual shipments of RCPs.
- Selling prices reflect relevant prices achieved by Fonterra for RCPs on and off GDT.

Milk Supply, Production and Sales Volumes

Figure 2 shows the relationship between:

- Milk collected during a season (the light blue line). This shows very little milk is supplied in June and July and that supply peaks in October.
- Volume of products manufactured from that milk (the dark blue line).
- When that product is sold (the green line). There is typically a lag of between one to three months between when milk is collected and manufactured into RCPs and when those RCPs are sold.

Sales of product manufactured in the 2023 season started in August 2022 and will be complete by the end of October 2023.

Revenue is recognised when sales are invoiced, which is at the time of shipment. Sales prices are always struck before the month of shipment. Figure 3 shows the average lag between when prices are struck and when products are shipped. This lag matches Fonterra's actual average lag for relevant sales.

Figure 2: Timing Of Supply, Production & Sales Volumes



Figure 3: Average Lag Between When Prices Were Struck & Shipment



⁵ Fonterra and its suppliers experienced significant disruptions to milk supply during and subsequent to significant weather events in the 2023 season. Total milk paid for was 1.483 billion kgMS made up of 1.480 billion of kgMS collected and available for manufacture into product and 2 million kgMS of supply that was either unable to be collected at the time or was subsequently unable to be produced and supplied for the remainder of the season due to the extent of damage to suppliers' farming operations.

Farmgate Milk Price Revenue (CONTINUED)

Prices

The Farmgate Milk Price uses weighted average monthly prices achieved by Fonterra on sales of RCPs which satisfy the following criteria:

- Only arm's length sales at current market prices to customers in contestable global markets can be included. Sales to Fonterra subsidiaries are excluded.
- Only sales contracted by Fonterra between one and five months before shipment are included.
- Off-GDT sales are only included when they are of commodity products with similar specifications to products sold on GDT.

Between the 2012 and 2016 seasons, GDT was the sole source of prices for WMP, SMP and AMF whereas both on and off GDT prices were used for Butter and BMP. Since the 2017 season, certain off GDT sales of all RCPs inform the Farmgate Milk Price. In the 2023 season, off-GDT sales comprised 39% of the Farmgate Milk Price-informing sales. The inclusion of these off-GDT sales of WMP, SMP and AMF in the Farmgate Milk Price resulted in an increase of 8 cents per kgMS relative to not including these off-GDT sales.

Table 2 shows weighted average selling prices for each RCP for the last three seasons. It shows that weighted average USD selling prices per metric tonne (MT) were 14.2% lower for the 2023 season than last season.

Table 2: Weighted Average USD Contract Price⁶

WEIGHTED AVERAGE PRICE (USD) PER MT	2023	2022	2021	2023/2022	2022/2021
				% CHANGE	% CHANGE
WMP	3,392	4,019	3,323	(15.6%)	20.9%
SMP	3,242	3,750	3,012	(13.5%)	24.5%
Butter	5,072	5,601	4,117	(9.5%)	36.0%
AMF	5,381	6,425	4,792	(16.3%)	34.1%
BMP	3,137	3,946	3,194	(20.5%)	23.5%
				(14.2%)	24.1%

Lactose

Lactose is contained in the raw milk supplied and additional lactose is used as an ingredient in the production of WMP, SMP and BMP. The Notional Milk Price business manufactures greater quantities of these commodities than Fonterra, and therefore has greater lactose requirements to achieve a product composition in line with internationally recognised standards.

The Farmgate Milk Price assumes this further lactose is purchased on global markets.

Table 3 shows volume and average purchase prices of lactose over the past three seasons.

Table 3: Purchased Lactose and Price

SEASON	2023	2022	2021	2023/2022	2022/2021
				% CHANGE	% CHANGE
Purchased Lactose (000s MT)	364	354	369	2.8%	(4.0%)
Average Price (USD per MT)	1,590	1,322	1,154	20.3%	14.6%
Total Lactose Purchases (USD million)	579	468	425	23.7%	10.0%

⁶ Average shipment prices include an allowance for lower prices received for downgrade product. These are products that do not meet standard manufacturing specifications, some of which may only be suitable for stock feed.

Farmgate Milk Price Revenue (CONTINUED)

Impact of NZD/USD Foreign Exchange Rate Movements

The primary objectives of hedging are to increase the visibility and certainty of the forecast Farmgate Milk Price throughout the season by reducing and smoothing the impacts from volatility in the NZD/USD spot exchange rate. The increased visibility and certainty supports a higher level of advance rate payments throughout the season relative to being unhedged.

Fonterra enters into foreign exchange hedge contracts over an 18-month period to hedge forecast USD exposures that arise from RCPs being sold in USD. The first 20% of hedges are entered into eighteen months out from when USD sales proceeds are forecast to be received, and increase progressively to 100% two months out from the forecast USD cash receipt.

Figure 4 illustrates how the hedging strategy of layering the hedges over an 18-month period results in monthly conversion rates that are less volatile than the monthly NZD/USD exchange rate over the same period. This figure additionally illustrates that the monthly conversion rates achieved reflect the spot rates over preceding months, effectively resulting in a deferral of those historic rates but on a smoothed basis. Also shown in this figure are the conversion rate for future periods based on hedging in place as at 31 July 2023.

The average conversion rates and average NZD/USD spot rates for the 2013 to 2023 seasons are shown in Table 4. This illustrates that the average spot rate in one season will be reflected in the following season.

Figure 4: Average Monthly Conversion Rate from Hedging Compared to Average Monthly NZD/USD Spot Exchange Rate

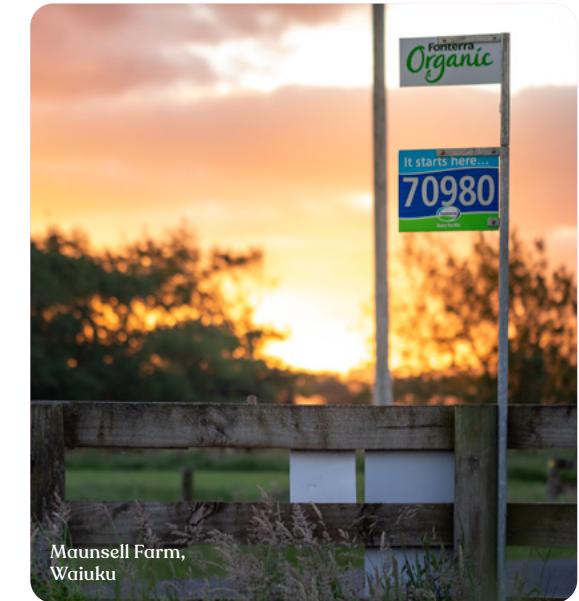


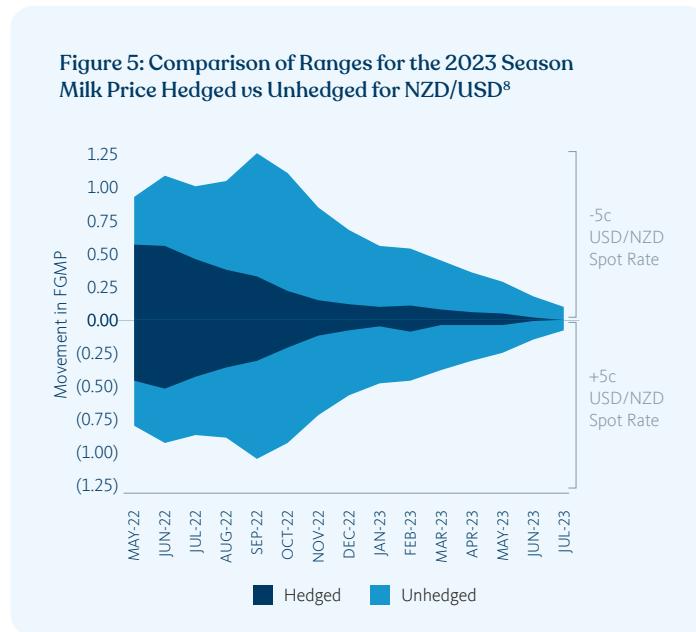
Table 4: Impact on the Farmgate Milk Price of Fonterra's hedging relative to not hedging.

SEASON	2023	2022 ⁷	2021	2020	2019	2018	2017	2016	2015	2014	2013
Average hedge rate (NZD/USD)	0.6357	0.6884	0.6677	0.6638	0.6905	0.7074	0.6924	0.7082	0.7882	0.8086	0.7986
Average spot rate (NZD/USD)	0.6211	0.6574	0.7067	0.6375	0.6697	0.7014	0.7137	0.6820	0.7329	0.8396	0.8214
Impact on Milk Price from hedging (NZD/kgMS)	(0.22)	(0.56)	0.53	(0.38)	(0.26)	(0.08)	0.28	(0.21)	(0.50)	0.42	0.22

⁷ The average spot rate and Milk Price impact for the 2022 season differ from those disclosed in the 2022 Farmgate Milk Price Statement, as forecast exchange rates have been replaced with actual exchange rates.

Farmgate Milk Price Revenue (CONTINUED)

Figure 5 illustrates how hedging increases the visibility and certainty of the forecast Farmgate Milk Price throughout the season relative to not hedging FX volatility. The figure presents the sensitivity of the forecast Farmgate Milk Price at each month end of the 2023 season with hedging executed as per Fonterra's policy to a scenario with no hedging in place, where both assume a +/- 5 cent movement in the exchange rate for the remainder of the season. The range under the hedged scenario starts the season significantly narrower than the unhedged range, and reduces more quickly throughout the season, which supports the payment of higher advance rates earlier than would be the case if the exposure was less hedged or unhedged altogether.

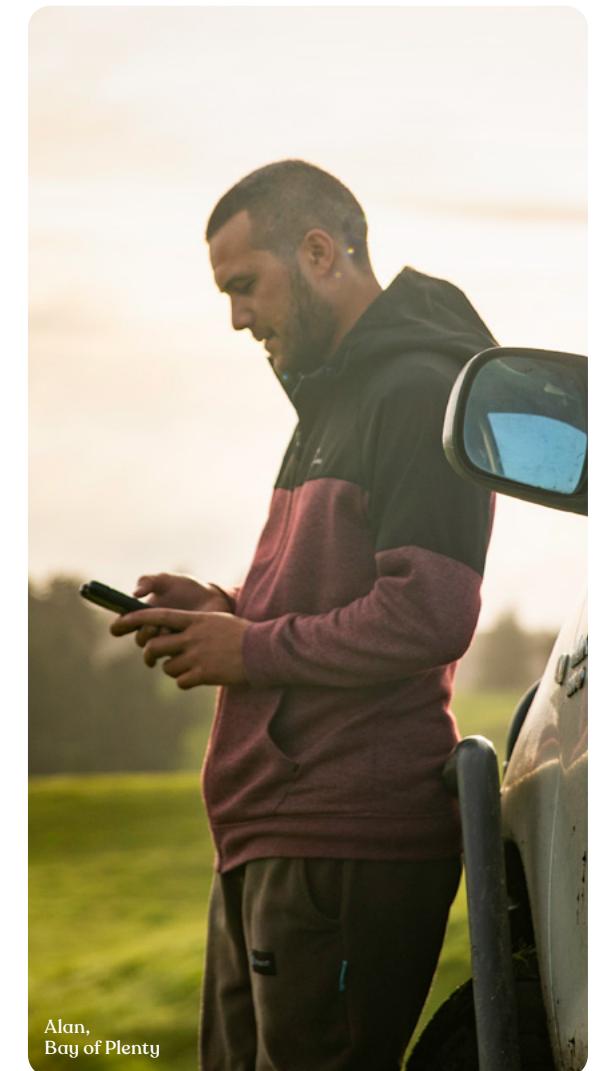


⁸ This analysis isolates the impact of +/- 5 cents movements in the NZD/USD exchange rate. All other variables – e.g. commodity prices, costs, etc – are the same for both the hedged and unhedged scenarios.

As at 31 July 2023, Fonterra had hedged approximately 67% of the forecast USD cash flows related to the 2024 season Farmgate Milk Price. If the remaining 33% of the forecast USD cash flows were to be hedged at the 31 July 2023 spot rate of 0.6155, the average NZD/USD conversion rate for the 2024 season would be 0.6186.

As an indication of the remaining sensitivity of the 2024 Farmgate Milk Price to future NZD/USD exchange rate movements, if the remaining forecast USD exposures were hedged at rates:

- 5 cents higher than the 31 July 2023 spot rate, the average conversion rate would be 0.6399.
- 5 cents lower than the 31 July 2023 spot rate, the average conversion rate would be 0.5939.



Farmgate Milk Price Cash Costs

Farmgate Milk Price Cash Costs reflect:

- Fonterra's actual collection costs, and supply chain costs determined by reference to Fonterra's actual costs.
- Costs of operating modern plants capable of processing the same volume of milk Fonterra collects, but only manufacturing the five RCPs. These assume plant operating parameters consistent with manufacturers' specifications and Fonterra's per unit costs, and include the full range of overhead costs associated with running these plants.
- Overhead and selling costs that would be incurred by a business selling the five RCPs from New Zealand. These are determined by reference to Fonterra's actual costs for undertaking those activities.

Figure 6 and Table 5 summarise the major categories of cash costs and movements between the 2022 and 2023 seasons.

Movements between the 2022 and 2023 seasons were due to:

- \$2 million of volume-related cost decreases primarily due to lower kilometres travelled for collecting milk.
- \$237 million of inflationary increases in the cost of most inputs, with significant increases in the cost of diesel, packaging, carbon dioxide, energy and staff costs.
- A reduction of \$4 million in one-off savings, with the only relevant item in the 2023 season relating to a provision for a covid-19 related reduction in costs relative to the benchmark allowance for overhead costs.

Figure 6: Sources of Movements in Average Cash Costs

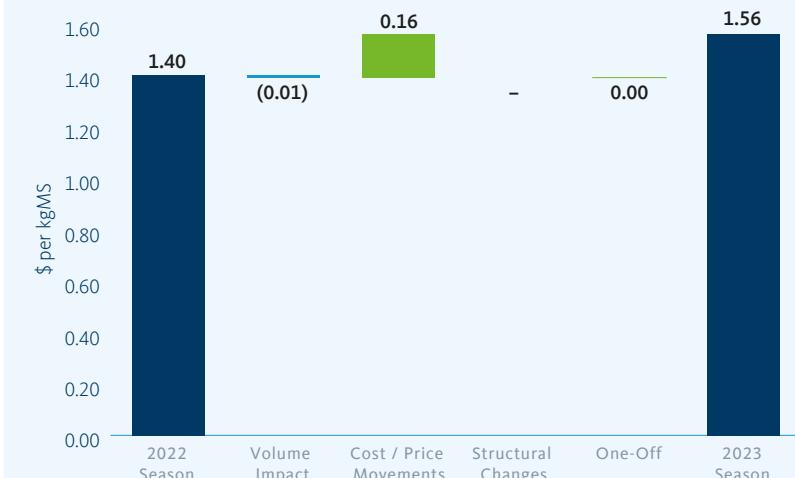


Table 5: Summary of Movements in Cash Costs

\$ MILLION	2022	VOLUME	COST/PRICE	STRUCTURAL	ONE-OFF	2023	% CHANGE COST/PRICE	TOTAL % CHANGE
Sales costs	131	0	13	-	-	144	10.1%	10.2%
Variable manufacturing and supply chain costs	779	1	131	-	-	912	16.9%	17.1%
Fixed manufacturing (including repairs and maintenance)/site overheads and supply chain costs	440	-	31	-	-	471	7.1%	7.1%
Collection costs	373	(3)	45	-	-	415	12.2%	11.3%
Other costs	352	0	16	-	4	372	4.6%	5.9%
Total Cash Costs	2,074	(2)	237	-	4	2,314	11.4%	11.6%
% movement		(0.1%)	11.4%	0.0%	0.2%			

Farmgate Milk Price Capital Costs

Farmgate Milk Price Capital Costs provide for:

- Depreciation of manufacturing and other assets.
- A return at a benchmark Weighted Average Cost of Capital (WACC) on the book value of those assets.
- A WACC return on net working capital balances from the sale and manufacture of the RCPs and on the phasing of milk payments to suppliers.
- Corporate income tax.

The Notional Milk Price business manufactures RCPs in modern plants with current industry-standard technology. These plants have manufacturing capacity that approximates the average of Fonterra's RCP plants. The average daily processing capacity of the standard WMP and SMP plants installed prior to the 2013 season is approximately 1.9 million litres. Incremental and replacement WMP and SMP plants incorporated in the asset base since 2013 have an average daily processing capacity of approximately 2.5 million litres, equivalent to plants installed by Fonterra at Darfield in 2013 and Pahiatua in 2015. The Notional Milk Price business ensures there is always sufficient capacity to process all milk collected by Fonterra and it does so by maintaining or adding incremental plants where necessary.

Table 6 shows capital costs and the opening book value of the Notional Milk Price business fixed asset base and average net working capital for the last three seasons.

The WACC incorporates a rolling five-year average of the five-year New Zealand Government bond rates, which have declined from an average of 5.5% over the five-year period to June 2012 to an average of 1.9% over the five-year period to June 2023.

Changes in the average age of the asset base do not result in material season on season movements in the capital charge. This is because the capital charge is calculated so that growth each season is approximately in line with long term capital goods inflation as long as the WACC does not change. This is achieved by using a 'tilted-annuity' methodology to calculate the capital charge. This approach means that depreciation can change between years due to a change in the WACC, or a change in long term capital goods inflation, or a change in the asset base. This season a higher capital goods inflation forecast resulted in a decrease in the depreciation allowance.⁹

Movements between the 2022 and 2023 seasons in Net Working Capital and the associated WACC charge were due to higher inventory balances compared to 2022 and lower supplier payables due to the drop in the Farmgate Milk Price from prior season.

Table 6: Capital Costs, Book Value of Fixed Asset Base & Average Net Working Capital

NZD \$ MILLION	2023	2022	2021
WACC % (post-tax)¹⁰	5.00%	5.00%	4.90%
Depreciation	255	283	278
WACC Charge – Fixed Assets	327	326	316
WACC Charge – Net Working Capital	74	67	43
Tax	119	130	117
Total Capital Costs	775	806	754
Total Fixed Assets (Book Value) ¹¹	6,677	6,638	6,594
Average Net Working Capital	1,705	1,181	622

⁹ For further explanation on the depreciation and capital charge using the 'tilted annuity' methodology and accompanying worked examples please refer to the following links: [Explanation of the tilted annuity calculation](#); [Worked example of the tilted annuity calculation](#).

¹⁰ The WACC rate will be 5.3% for the 2024 season.

¹¹ The opening fixed asset book values have been restated for the 2021 and 2022 seasons, to include leased milk collection assets. This restatement is made for completeness, and does not have any impact on the Farmgate Milk Price for those seasons.

Appendix I: Independent Reasonable Assurance Report

To the Directors of Fonterra Co-operative Group Limited

Opinion

Our reasonable assurance opinion has been formed on the basis of the matters outlined in this report.

In our opinion, the Farmgate Milk Price has been calculated, in all material respects, in accordance with the Farmgate Milk Price Manual for the season ended 31 May 2023.

In our opinion, the information presented in the Farmgate Milk Price Statement is materially consistent with the data in the calculation of the Farmgate Milk Price.

Information subject to assurance

We have performed an engagement to provide reasonable assurance in relation to the Fonterra Co-operative Group Limited (Fonterra) Farmgate Milk Price and Farmgate Milk Price Statement for the season ended 31 May 2023.

Criteria

The Farmgate Milk Price Calculation and the Farmgate Milk Price Statement are assessed against the requirements of the Farmgate Milk Price Manual for the season ended 31 May 2023, dated 1 August 2022.

Key Assurance Matters

Key assurance matters are those matters that, in our professional judgement, were of most significance in our reasonable assurance engagement in relation to the Farmgate Milk Price and the Farmgate Milk Price Statement for the season ended 31 May 2023. We summarise below those matters and our key procedures to address those matters in order that the Directors may better understand the process by which we arrived at our opinion. Our procedures were undertaken in the context of and solely for the purposes of our opinion on the Farmgate Milk Price and the Farmgate Milk Price Statement as a whole and we do not express discrete opinions on separate elements of the Farmgate Milk Price and the Farmgate Milk Price Statement.

Net Sales

We consider the calculation of Net Sales to be a key assurance matter due to the nature and detail of the policies and judgements included in the Principles and Rules of the Farmgate Milk Price Manual. In respect of Net Sales, there is complexity relating to (a) determining and calculating Benchmark Selling Prices from underlying Fonterra sales data, that are applied to notionally derived Reference Commodity Product volumes and (b) the judgement in determining the phasing of sales volumes relating to actual Fonterra collections.

The procedures we performed to evaluate Net Sales include:

- examining the processes, judgements and models used to extract sales data from underlying Fonterra systems, considering whether there is manipulation of the transactional price and quantity data that forms the basis of the statutory financial statements of Fonterra. We also examined the bespoke IT program that extracts the data – in F23 Fonterra replaced this bespoke IT program. We examined the new program and processes, the results of parallel-run testing and management oversight of the change process;
- evaluating these assumptions and judgements used in the models that calculate Net Sales. This involved challenging management and the Milk Price Group regarding the basis for each assumption. In F22 there was a refresh of Reference Commodity Products included in benchmark selling prices, which also included a revision to the governance of subsequent changes to inclusion and exclusions. We examined the governance of changes in the course of the assurance engagement; and
- assessing whether the requirements of the Fonterra Farmgate Milk Price Manual had been correctly applied in the models used to calculate Net Sales.

We did not identify any instances where the models and the judgements and assumptions therein, used to calculate Net Sales were inconsistent with the requirements of the Farmgate Milk Price Manual.

Appendix I: Independent Reasonable Assurance Report (CONTINUED)

Standards we followed

We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (Revised) Assurance Engagements other than audits or reviews of historical financial information and Standard on Assurance Engagements SAE 3100 (Revised) Assurance Engagements on Compliance. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. In accordance with those standards we have:

- used our professional judgement to assess the risk of material misstatement and plan and perform the engagement to obtain reasonable assurance that the Farmgate Milk Price and Farmgate Milk Price Statement are free from material misstatement, whether due to fraud or error;
- considered relevant internal controls when designing our assurance procedures, however we do not express an opinion on the effectiveness of these controls; and
- ensured that the engagement team possesses the appropriate knowledge, skills and professional competencies.

How to interpret reasonable assurance and material misstatement

Reasonable assurance is a high level of assurance but is not a guarantee that it will always detect a material misstatement when it exists.

Misstatements, including omissions, within the Farmgate Milk Price and Farmgate Milk Price Statement are considered material if, individually or in aggregate, they could reasonably be expected to influence the relevant decisions of the intended users taken on the basis of the Farmgate Milk Price and Farmgate Milk Price Statement.

Inherent Limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure it is possible that fraud, error or non-compliance with compliance requirements may occur and not be detected.

A reasonable assurance engagement for the season ended 31 May 2023 does not provide assurance on whether the Farmgate Milk Price Calculation and the Farmgate Milk Price Statement compliance with the requirements of the Farmgate Milk Price Manual will continue in the future.

Use of this Assurance Report

Our report is made solely for the Directors of Fonterra. Our assurance work has been undertaken so that we might state to the Directors of Fonterra those matters we are required to state to them in the assurance report and for no other purpose.

Our report should not be regarded as suitable to be used or relied on by any parties other than the Directors of Fonterra for any purpose or in any context. Any party other than the Directors who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk.

To the fullest extent permitted by law, none of KPMG, any entities directly or indirectly controlled by KPMG, or any of their respective members or employees accept or assume no responsibility and deny any liability to any party other than the Milk Price Panel and Directors of Fonterra for our work, for this independent reasonable assurance report, or for the opinions we have reached.

Our report is released to Fonterra Co-operative Group Limited on the basis that it shall not be copied, referred to or disclosed, in whole (save for Fonterra's own internal purposes or in the Farmgate Milk Price Statement) or in part, without our prior written consent.

Milk Price Group's responsibility for the Farmgate Milk Price and Farmgate Milk Price Statement

The Milk Price Group of Fonterra are responsible for the preparation and fair presentation of the Farmgate Milk Price and Farmgate Milk Price Statement in accordance with the Farmgate Milk Price Manual. This responsibility includes such internal control as the Milk Price Group determine is necessary to enable the preparation of the Farmgate Milk Price and Farmgate Milk Price Statement that are free from material misstatement whether due to fraud or error.

Our responsibility

Our responsibility is to express an opinion to the Directors on: whether the Farmgate Milk Price has been calculated, in all material respects, in accordance with the Farmgate Milk Price Manual, and whether the information presented in the Farmgate Milk Price Statement is materially consistent with the data in the calculation of the Farmgate Milk Price.

Our independence and quality control

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Professional and Ethical Standard 3 (Amended) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our firm has also provided other services to the Fonterra Co-operative Group Limited in relation to the statutory audit of the financial statements and other assurance services. The firm has no other relationship with, or interest in, the Fonterra Co-operative Group Limited.

KPMG
Auckland
20 September 2023

Appendix 2: Updates to the Farmgate Milk Price Manual & Calculation

Minor refinements to address practical issues in a timely and efficient way have regularly been made to the Manual since it was introduced in the 2009 season.

These refinements play an important part in ensuring the Farmgate Milk Price methodology continues to be robust. Refinements to the Manual must be consistent with the Milk Price Principles.

Adjustments can be made to a number of parameters and inputs without any change being required to the Manual. An example is the rule that allows for new RCPs to be added if certain criteria are met. The Manual also provides for reviews of important aspects to be carried out at least every four years, and the Board or Milk Price Panel may initiate additional reviews if circumstances warrant.

Farmgate Milk Price Manual Updates

The Fonterra Board approved one substantive amendment to the Manual for the 2024 season to clarify the definition of a Standard Product Offering. An explanation of this change is provided in the ‘reasons paper’ provided by Fonterra to the Commerce Commission in support of the 2023/24 Manual, located at:

https://comcom.govt.nz/_data/assets/pdf_file/0019/325531/Fonterra-Reasons-paper-in-support-of-Fonterra27s-2023-24-milk-price-manual-1-August-2023.pdf

The Manual for the 2024 season is available at:

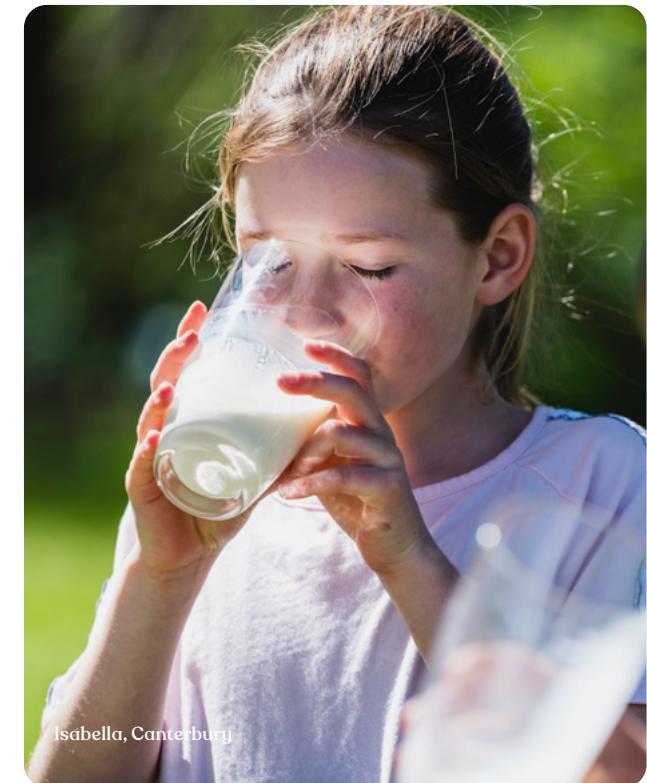
<https://www.fonterra.com/content/dam/fonterra-public-website/fonterra-new-zealand/documents/pdf/milk-prices/milk-price-manual-fy23.pdf>

As part of its oversight role, the Commerce Commission reviews and reports annually on whether the Manual is consistent with ensuring Fonterra is operating efficiently, and whether it allows for competition in the market for farmers’ milk. The Commerce Commission’s final report on the 2022/23 Manual was released on 15 December 2022. That report can be found at:

https://comcom.govt.nz/_data/assets/pdf_file/0022/301819/Final-report-Review-of-Fonterra27s-2022_23-Milk-Price-Manual-15-December-2022.pdf

Changes in Approach to the Calculation of the Farmgate Milk Price

No material changes have been made to the approach to calculate the Farmgate milk price for the 2023 season.



Appendix 3: Farmgate Milk Price Overview

Rationale for Farmgate Milk Price

Fonterra currently collects around 80% of New Zealand's milk production. Because Fonterra purchases such a large proportion of New Zealand's total milk, there is no market price for milk that is independent of the price paid by Fonterra. As a result, since its formation in 2001, Fonterra has calculated a Farmgate Milk Price that enables total returns to be allocated between payments for milk and returns on the capital invested by Fonterra farmer shareholders and by unit holders in the Fonterra Shareholders' Fund.

The Aggregate Farmgate Milk Price is different from the cost of New Zealand sourced milk disclosed in Fonterra's financial statements due to:

- The financial statements report the cost of milk for the 12 months ending 31 July whereas the Aggregate Farmgate Milk Price relates to milk supplied in the 12 months of the season ending 31 May;
- Differences between what Fonterra is willing to pay in premiums for value added products such as organic milk which a commodity-only processor would not pay;
- The higher premium that Fonterra pays for Winter Milk compared to the premium that would be paid by a commodity-only processor;
- The amount of Additional Commodity Milk Payments and Standard Supply Adjustments.

Rationale for Reference Commodity Products

Manufacture of the RCPs comprised approximately 65% of Fonterra's total New Zealand ingredients production in the 2023 season.

Most of the increase in milk supplied over the past decade in New Zealand to Fonterra and its competitors has been used to make milk powders.

As returns from the sale of milk powders and their by-products represent the marginal returns that would drive the price of milk in a competitive market in New Zealand, the Farmgate Milk Price is based on these products. Returns from non-powder commodities, such as cheese and casein, have largely been irrelevant in driving investment in the dairy industry over the past 10 years and are therefore not taken into account in determining the Farmgate Milk Price.

The Farmgate Milk Price approach does not include any returns earned by Fonterra from non-commodity or specialised ingredients and consumer branded products. These types of products earn premiums over the returns to standard commodity ingredients. It is therefore appropriate that these premiums are recognised in Fonterra's earnings rather than in the Farmgate Milk Price.

Farmgate Milk Price Governance

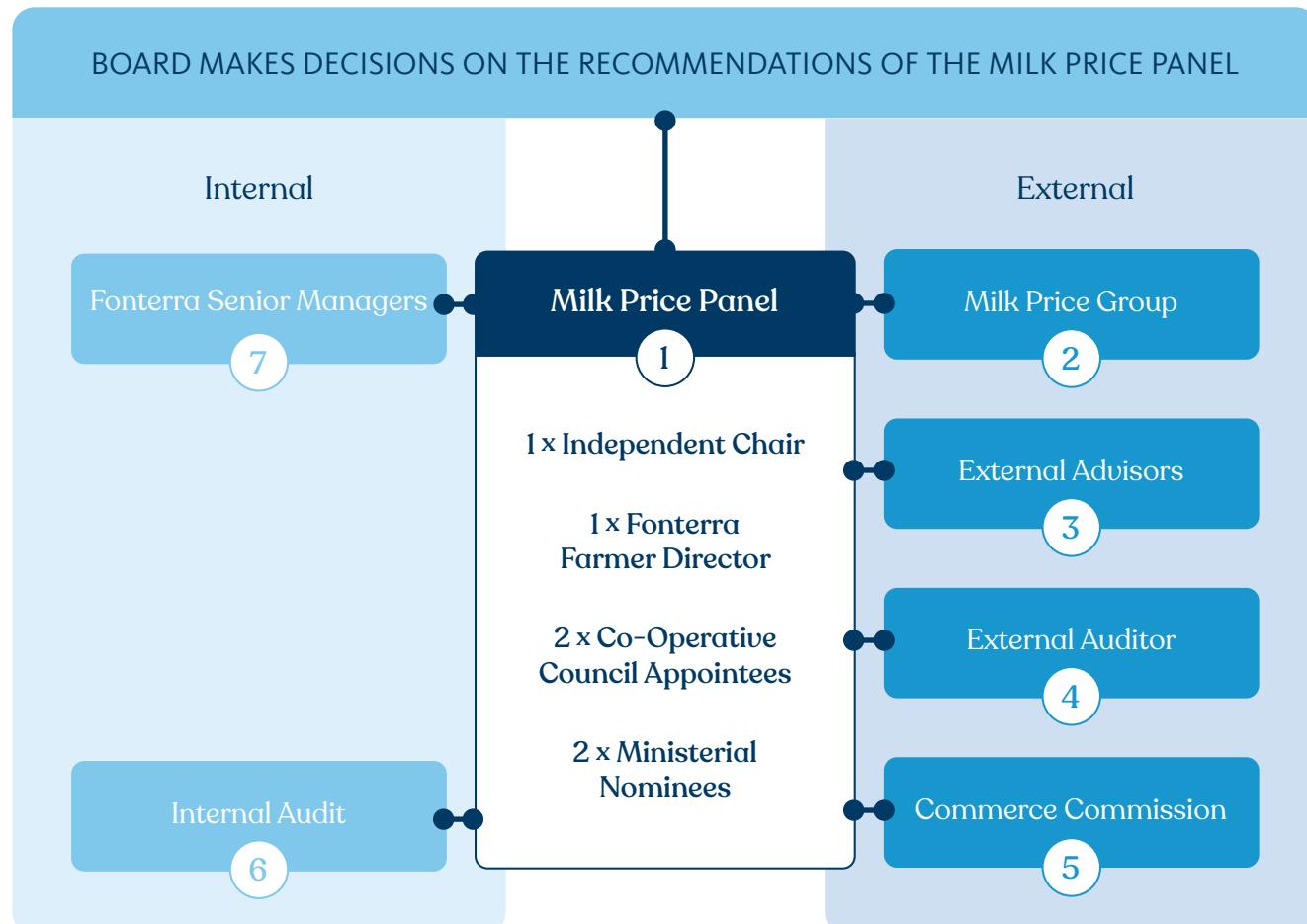
The Fonterra Board sets the total amount to be paid by Fonterra for all milk supplied to it in New Zealand in each season.

Both Fonterra's Constitution and DIRA require Fonterra to maintain the Manual, which sets out Fonterra's policies and methodology for determining the Farmgate Milk Price. The Manual must reflect the Milk Price Principles set out in Fonterra's Constitution. The Farmgate Milk Price has been calculated in accordance with the Manual since the start of the 2009 season.

The Fonterra Board has established a robust governance structure to oversee the setting of the Farmgate Milk Price, which comprises the elements illustrated in the diagram on page 18.



Appendix 3: Farmgate Milk Price Overview (CONTINUED)



1 Milk Price Panel

The Milk Price Panel plays a key role in overseeing the integrity of the Farmgate Milk Price. With effect from June 2023, the Government enacted changes to DIRA to enhance the independence of the Milk Price Panel. Therefore, Fonterra is now required to appoint an independent chair and the Minister of Agriculture now nominates two panel members. The Panel now consists of an independent chair (David Pilkington), two nominees of the Minister of Agriculture (Professor Hamish Gow and Ming Lim-Pollard), two members who are appointees of the Co-operative Council (Bill Donaldson and Fred Ohlsson) and a farmer elected Fonterra director (Leonie Guiney).

The Panel oversees the governance of the Farmgate Milk Price and the Manual, including changes to the Manual and verification by independent external experts of key parameters (such as resource usage rates, product yields and fixed manufacturing costs).

The Panel is responsible for:

- Overseeing the calculation of the Farmgate Milk Price and making a recommendation on it to the Fonterra Board.
- Providing recommendations to the Fonterra Board on changes to the Manual.
- Providing assurance to the Fonterra Board that the Farmgate Milk Price has been calculated in accordance with the Manual.

The Fonterra Board is responsible for the forecast of the annual Farmgate Milk Price.

Appendix 3: Farmgate Milk Price Overview (CONTINUED)

2 Milk Price Group

The Milk Price Group is a working group established by, but independent of, Fonterra.

The role of the Milk Price Group is:

- Ensuring that the Farmgate Milk Price is calculated in accordance with the Manual and making recommendations in respect of the Farmgate Milk Price to the Panel.
- Considering any proposed amendments to the Manual, including those the Milk Price Group itself considers are appropriate, and ensuring they are in accordance with the Milk Price Principles in Fonterra's Constitution.
- Providing assurance to the Fonterra Board over the calculation of the forecast of the Farmgate Milk Price.
- Managing engagement with external advisors.
- Engaging with the Commerce Commission, including to ensure full disclosure of all material aspects of the Farmgate Milk Price derivation each year.

The functions of the Milk Price Group are contracted out to EY and other technical experts who are not employees of Fonterra.

With effect from June 2023, the Government enacted changes to DIRA to enhance the independence of the Milk Price Group, and to require the periodic replacement of the firm undertaking the functions of the Milk Price Group. Accordingly, EY's engagement will end following completion of the functions of the Milk Price Group in respect of the 2025 season.

3 External Advisors

External advisors provide expert advice on various inputs, as well as assurance over the accuracy of financial models. In addition, they participate in reviews of key parameters of the Farmgate Milk Price at regular intervals (which can be up to four years).

4 External Auditor

The external auditor examines the Farmgate Milk Price each year and provides assurance that the Farmgate Milk Price has been determined in accordance with the Milk Price Principles, Methodologies and Detailed Rules of the Farmgate Milk Price Manual. Fonterra's external auditor is KPMG.

5 Commerce Commission

Subpart 5A of DIRA, which was passed into law in July 2012, gives the Commerce Commission an oversight role with respect to Fonterra's Farmgate Milk Price.

The purpose of Subpart 5A is to promote the setting of a Farmgate Milk Price that provides an incentive to Fonterra to operate efficiently, while providing for contestability in the market for the purchase of milk from farmers (section 150A). Each year the Commission is required to review and report on the extent to which the Manual and Fonterra's actual Farmgate Milk Price are consistent with this purpose.

The DIRA changes that were enacted in 2023 also included measures to strengthen the Commerce Commission's oversight of Fonterra's Farmgate Milk Price setting regime. The Commerce Commission now has the power to issue binding directions to Fonterra on its use of inputs, assumptions, and processes, and matters arising from the Commerce Commission's reviews of the Manual and the Farmgate Milk Price, together with new enforcement powers. The changes also included a requirement for Fonterra to make publicly accessible all non-sensitive information relevant to the Commerce Commission's reviews.

6 Internal Audit

Fonterra's internal audit team provides assurance over the processes and controls relating to Fonterra data used in the calculation of the Farmgate Milk Price.

7 Fonterra Senior Managers

Fonterra senior managers provide internal oversight of the calculation of the actual and forecast Farmgate Milk Price in accordance with the Manual and detailed models and procedures. Fonterra management is also responsible for engagement with the Commerce Commission.

Appendix 4: Milk Supplied & Production Volumes

MILK SUPPLIED (MILLION KGMS)				PRODUCTION (000'S MT)																	
				WMP			SMP			BUTTER			AMF			BMP			TOTAL		
	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021
Jun to Aug	126	131	135	130	177	179	68	43	46	19	11	13	19	17	16	6	5	5	242	251	259
Sep to Nov	555	570	585	692	754	772	219	194	201	94	81	87	46	50	47	20	19	20	1,071	1,098	1,127
Dec to Feb	465	458	488	516	562	626	218	176	174	92	79	84	47	42	36	21	18	18	894	878	938
Mar to May	334	318	332	392	427	504	138	93	58	53	43	39	39	30	21	17	13	11	639	607	633
Total	1,480	1,478	1,539	1,730	1,919	2,080	643	506	479	258	214	223	151	139	121	64	55	53	2,846	2,834	2,957

Appendix 5: Sales Volumes

SHIPMENTS OF FINISHED PRODUCT (000'S MT)																		
WMP				SMP			BUTTER			AMF			BMP			TOTAL		
	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021
Aug to Oct	163	226	269	65	74	61	23	13	19	14	14	16	2	3	6	267	330	370
Nov to Jan	542	646	667	227	149	168	87	79	84	43	29	36	22	14	12	920	917	967
Feb to April	448	481	569	176	141	114	73	61	58	36	31	33	17	14	15	752	728	788
May to July	485	386	530	154	110	122	56	44	43	52	47	31	15	15	15	761	603	741
Aug to Oct	93	180	45	21	32	15	19	18	20	6	18	5	8	8	4	146	256	90
Total	1,730	1,919	2,080	643	506	479	258	214	223	151	139	121	64	55	53	2,846	2,834	2,957

Appendix 6: Average Number of Months Prior to Shipment that Prices were Struck

AVERAGE NUMBER OF MONTHS PRIOR TO SHIPMENT															
WMP				SMP			BUTTER			AMF			BMP		
	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021
Aug to Oct	2.5	2.2	3.1	2.8	3.0	3.1	2.7	2.3	2.4	2.7	2.6	2.7	1.2	2.0	2.5
Nov to Jan	2.8	2.6	3.2	3.0	2.9	3.3	3.0	2.7	3.2	3.3	2.7	3.0	2.8	2.1	2.6
Feb to April	2.4	2.6	3.2	2.8	3.0	3.1	2.9	3.2	3.6	2.8	2.9	2.9	2.4	2.5	2.7
May to July	2.5	2.7	2.8	3.0	3.1	2.9	2.9	2.8	2.9	2.3	2.8	2.8	2.4	2.6	2.7
Aug to Oct	3.2	2.6	2.8	3.5	3.2	3.2	3.0	2.7	2.8	3.4	2.7	3.3	2.7	3.1	2.4
Total	2.6	2.6	3.1	3.0	3.0	3.1	2.9	2.8	3.1	2.8	2.8	2.9	2.5	2.5	2.6

Appendix 7: Average % of Sales Contracted in Each Month Prior to Shipment

AVERAGE % OF SALES CONTRACTED IN EACH MONTH PRIOR TO SHIPMENT															
WMP				SMP			BUTTER			AMF			BMP		
NUMBER OF MONTHS	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021
1	15%	11%	8%	12%	9%	6%	10%	13%	8%	17%	14%	7%	21%	21%	13%
2	35%	43%	30%	29%	31%	32%	30%	32%	25%	29%	33%	33%	37%	41%	39%
3	29%	29%	27%	25%	28%	24%	29%	26%	29%	27%	25%	31%	20%	19%	26%
4	14%	11%	19%	19%	19%	22%	19%	17%	22%	16%	18%	19%	11%	11%	15%
5	7%	5%	17%	15%	14%	17%	12%	13%	16%	11%	10%	10%	11%	8%	7%

Appendix 8: Average USD Prices

	USD / MT OF FINISHED PRODUCT															
	WMP			SMP			BUTTER			AMF			BMP			
	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021	
Aug to Oct	3,661		3,813	2,974	3,884		3,255	2,699	5,602		4,711	3,568	5,611		5,789	4,010
Nov to Jan	3,542		3,827	3,020	3,514		3,377	2,797	5,290		5,025	3,552	5,633		6,122	4,095
Feb to April	3,334		4,064	3,247	3,053		3,803	3,045	4,801		5,753	4,102	5,593		6,643	4,729
May to July	3,223		4,355	3,899	2,853		4,339	3,383	4,831		6,472	5,183	4,999		6,752	5,891
Aug to Oct	3,198		4,123	4,077	2,751		4,359	3,412	5,167		6,140	4,757	5,053		6,151	5,873
Total Weighted Average Price	3,392	4,019	3,323	3,242	3,750	3,012	5,072	5,601	4,117	5,381	6,425	4,792	3,137	3,946	3,194	
Full Season GDT-Only Price	3,361	3,978	3,288	3,213	3,706	2,966	5,019	5,557	4,039	5,345	6,367	4,726	3,003	3,947	3,141	

Appendix 9: Average NZD/USD Conversion & Spot Rates

	2023		2022		2021	
	FONTERRA'S AVERAGE CONVERSION RATE	SPOT EXCHANGE RATE	FONTERRA'S AVERAGE CONVERSION RATE	SPOT EXCHANGE RATE ¹²	FONTERRA'S AVERAGE CONVERSION RATE	SPOT EXCHANGE RATE
Aug to Oct	0.6560	0.5942		0.6829	0.7039	
Nov to Jan	0.6418	0.6334		0.6964	0.6779	
Feb to April	0.6398	0.6213		0.6892	0.6707	
May to July	0.6195	0.6172		0.6878	0.6290	
Aug to Oct	0.6174	0.6155¹³		0.6695	0.5915	
Revenue-Weighted Annual Average Rate	0.6357	0.6211	0.6884	0.6574	0.6677	0.7067

¹² Certain average spot exchange rate figures for the 2022 season differ from those disclosed in the 2022 Farmgate Milk Price Statement, as forecast exchange rates have been replaced with actual exchange rates.

¹³ This Milk Price Statement presents the spot exchange rate for August 23 to October 23 as the spot rate at 9am on 31 July 2023, which is the last business day of Fonterra's financial year.

Glossary

In this Statement the following terms have the meanings as set out below:

Terms	Definition	
Additional Commodity Milk Payments	as defined in the Manual for the 2023 season.	
Aggregate Farmgate Milk Price	as defined in the Manual for the 2023 season.	
AMF	means anhydrous milk fat.	
BMP	means buttermilk powder.	
Detailed Rules	means the detailed rules for calculating the Farmgate Milk Price as set out in the Manual.	
DIRA	means the Dairy Industry Restructuring Act 2001, which authorised Fonterra's formation and regulates its activities.	
Farmgate Milk Price	means Fonterra's Farmgate Milk Price as determined under the Manual for the 2023 season.	
Farmgate Milk Price Capital Costs	as defined in the Manual for the 2023 season.	
Farmgate Milk Price Cash Costs	as defined in the Manual for the 2023 season.	
Farmgate Milk Price Manual or Manual	means Fonterra's Farmgate Milk Price Manual which is available on: https://www.fonterra.com/content/dam/fonterra-public-website/fonterra-new-zealand/documents/pdf/milk-prices/2022/F23_Milk_Price_Manual_Final_1_August_2022.pdf	
Farmgate Milk Price Revenue	as defined in the Manual for the 2023 season.	
Financial year	means Fonterra's financial year, which runs from 1 August to the following 31 July.	
Fixed Asset Capital Charges	as defined in the Manual for the 2023 season.	
Fonterra	means Fonterra Co-operative Group Limited.	
Terms	Definition	
Global Dairy Trade or GDT	means the electronic auction platform that is used to sell commodity dairy products.	
kgMS	means kilograms of milk solids.	
Methodology	means the methodology for calculating the Farmgate Milk Price as set out in the Manual.	
Milk Price Principles or Principles	means the Milk Price Principles set out in Fonterra's Constitution.	
MT	means metric tonnes.	
Net Working Capital Charges	as defined in the Manual for the 2023 season.	
Notional Milk Price Business	means a business that collects the Milk Supply and converts it into the Farmgate Milk Price Production Plan for sale at the New Zealand wharf as described in Section 1.1 of Part C of the Manual.	
NZD	means New Zealand dollars.	
Reference Commodity Products or RCP	means the commodity products used to calculate the Farmgate Milk Price, comprising WMP, SMP, BMP, AMF and butter.	
Season	means the 12-month period from 1 June to the following 31 May.	
SMP	means skim milk powder.	
Standard Supply Adjustments	as defined in the Manual for the 2023 season.	
USD	means United States dollars.	
Winter Milk	means milk supplied by farmers in the months of May, June and July.	
WMP	means whole milk powder.	

Farmgate Milk Price Statement

For the season ended 31 May 2023

Pūrongo Utu Hoko Miraka Te Mātāpuna

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