

MEDIA RELEASE



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Fonterra announces findings of its Operational Review

Fonterra has today announced the findings of its operational review, commissioned by Chief Executive Theo Spierings, immediately following the Co-operative's recent precautionary recall.

Mr Spierings said that the precautionary recall was not the result of any one single cause, but rather was the result of a number of separate and unrelated events occurring in an unforeseen sequence.

"I commissioned the operational review, led by our Group Director of Strategy, Maury Leyland, to find out what happened and why, and to understand what actions we can take to prevent this from happening again.

"The Operational Review has enabled us to strengthen our systems, while continuing to process this season's fast-growing milk flows.

"At Fonterra, we already have world-class manufacturing facilities, quality systems, and robust testing regimes in place. This event has stress-tested all of them. Overall our systems worked well, while some aspects showed room for further improvement."

In summary, the findings are:

- The decision to reprocess the original WPC80 and not downgrade the product, in combination with the use of an item of non-standard equipment, was the cause of the contamination.
- A one-off lapse in information sharing across two parts of the business led to delays in testing.
- This issue should have been escalated to CEO-level earlier.
- A major upgrade of the computer systems at some of our sites immediately prior to the recall resulted in product tracing taking longer than it should have.
- Although Fonterra has clearly established domestic and international product recall systems, the size and complexity of the WPC80 recall was a factor, particularly given the product had itself become an ingredient in the products of multiple customers.

To help prevent an incident like this from happening again, Fonterra is implementing a number of improvements which will:

- Ensure our world-class food production standards continue to be maintained at all times, across all sites, in areas such as quality control, testing, and product specifications.

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- Further increase the business' focus on quality and safety across the end-to-end supply chain.
- Increase transparency, internally and externally, to improve information flows and the speed of escalation.
- Ensure Fonterra strengthens its product recall and supply management systems which allow the tracing of all product that is in its control, and collaborates with customers on how to link different supply chains and quickly trace products.

"We are well underway in implementing these improvements.

"We have already created a new role of Group Director of Food Safety and Quality reporting directly to the CEO, strengthened the remit and scope of our Food Integrity Council, and launched an internal Food Safety and Quality Hotline for staff and contractors to escalate any concerns about potential food safety risks. We have also completed quality audits at our sensitive nutritional plants, including Hautapu.

"Shortly prior to the recall, we had upgraded the computer system in some of our sites, and had yet to complete comprehensive training, which affected the speed at which we were able to trace product. We have now completed this training and are confident that our people can use this system to efficiently trace products across our entire supply chain.

"Having completed these actions, we are now focusing on a review of any upcoming system changes and strengthening our crisis management capability.

"We also plan to carry out a wide-ranging review of our traceability systems in our global businesses. We are introducing additional authorisation requirements for non-standard processing and testing, and are conducting specialised audits of our global manufacturing plants and product quality standards.

"We have learnt a lot throughout this process, about things that worked well and things that can be improved. For me, the thing that stands out as a key strength is the collaboration and co-operation that exists between Fonterra and our nutritional customers. Our close working relationships enabled us to act quickly with the common goal of protecting public health.

"We are doing everything in our power to maintain absolute confidence in our processes and products, and to strengthen New Zealand's already strong food safety and quality system.

"Even though the whey protein concentrate test result proved to be a false-positive, we are not going to miss this important opportunity to step up across our entire business.

"In world-class companies, there is a constant focus on finding ways to improve in every aspect of your operations. As a world-leading supplier of dairy nutrition, this is what we are doing – and I am confident that the action plan we have announced today will make us even stronger," Mr Spierings said.

A summary of the findings will be made available early next week. Fonterra's action plan resulting from the operational review will be supplemented by recommendations made as a result of the Fonterra Board's independent inquiry and the two government inquiries currently underway.

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About Fonterra

Fonterra is a global leader in dairy nutrition – the preferred supplier of [dairy ingredients](#) to many of the world's leading food companies. Fonterra is also a market leader with our own [consumer dairy brands](#) in Australia/New Zealand, Asia/Africa, Middle East and Latin America.

The [farmer-owned](#) New Zealand co-operative is the largest processor of milk in the world, producing more than two million tonnes of dairy ingredients, value added dairy ingredients, specialty ingredients and consumer products every year. Drawing on [generations of dairy expertise](#), Fonterra is one of the largest investors in dairy based [research and innovation](#) in the world. Our more than [16,000 staff](#) work across the dairy spectrum from advising farmers on sustainable farming and milk production, to ensuring we live up to exacting quality standards and delivering every day on our customer promise in more than 100 markets around the world.



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