

Fonterra Co-operative Group Limited

Results for Announcement to the Market

Reporting Period	12 months to 31 July 2019
Previous Reporting Period	12 months to 31 July 2018

	Amount (m's)	Percentage Change
Revenue from ordinary activities	NZ\$20,114	(2)%
Profit (loss) from ordinary activities after tax attributable to security holder ¹	NZ\$(605)	(209)%
Net profit (loss) attributable to security holders	NZ\$(557)	(152)%

¹ Net profit attributable to shareholders of the company is equivalent to profit from ordinary activities after tax attributable to shareholders of the company (as required to be disclosed pursuant to Clause 1.2 of Appendix 1 of the Fonterra Shareholders' Market Listing Rules, and Clause 1.2 of Appendix 1 of the NZX Debt Market Listing Rules).

Interim/Final Dividend	Amount per Security	Imputed Amount per Security
No final dividend to be paid	NZ\$0.00	\$0.00

Record Date	-
Dividend Payment Date	-

Comments	-

To be followed by the balance of the information required in the report pursuant to Appendix 1 – Including the Net Tangible Asset amount per security for the current and previous reporting period.



Market Announcement

26 SEPTEMBER 2019

FONTERRA ANNOUNCES FY19 ANNUAL RESULTS AND NEW STRATEGY

- Total Cash Payout for 2018/19 season: \$6.35
 - Farmgate Milk Price \$6.35 per kgMS
 - Dividend of 0 cents per share
- New Zealand milk collections: 1,523 million kgMS, up 1%
- Normalised sales revenue: \$20.1 billion, down 2%
- Net loss after tax: \$605 million, compared to a loss of \$196 million
- Normalised EBIT: \$819 million, down 9%
- Normalised gross margin: 15%, down from 15.4%
- Normalised operating expenses: \$2,311 million, down 7%
- Capital expenditure: \$600 million, down 30%
- Normalised Return on capital: 5.8%, down from 6.3%
- Free cash flow: \$1,095 million, up 83%
- Normalised earnings per share: 17 cents
- Gearing ratio: 48.2%, down 0.2%
- FY20 forecast Farmgate Milk Price: \$6.25-7.25 per kgMS
- FY20 forecast earnings per share range: 15-25 cents
- New strategy, operating model and changes to management team announced

Today Fonterra announced its FY19 annual results, the final milk price for the 2018/19 season, its refreshed strategy and changes to its operating model and management team.

The Co-operative reports a Net Loss After Tax of \$605 million. Normalised earnings before interest and tax (EBIT) was \$819 million, down 9%, the Co-operative's free cashflow was \$1,095 million, up 83%, and the return on capital was 5.8%, down from 6.3%.

Fonterra CEO Miles Hurrell says that 2019 was incredibly tough for the Co-op but it was also the year Fonterra made decisions to set it up for future success.

"These included us reflecting changing realities in asset values and future earnings, lifting our financial discipline, getting clear on why we exist and completing a strategy review.

"Many of these calls were painful, but they were needed to reset our business and achieve success in the future.

"We made the decision to reduce the carrying value of several of our assets and take account of one-off accounting adjustments. These totalled \$826 million, which contributed to a Net Loss After Tax of \$605 million for FY19.

“As we do every year, we took a hard look at our asset valuations and future earnings potential. When it came to DPA Brazil, Fonterra Brands New Zealand and China Farms, we saw there were either some changes in their local economies, increased competition or business challenges impacting their forecast earnings. This meant we needed to reduce their carrying value.

“Clearly, any write-down of an asset is not done lightly. But what I hope people can also see is that we’re leading the Co-op with a clear line of sight on potential opportunities as well as the risks.”

Commenting on the underlying performance of Fonterra, Mr Hurrell said Fonterra’s normalised earnings per share for the year was 17 cents, which was above the last forecast for the year of 10-15 cents.

“The gross margin from our largest business, New Zealand Ingredients, was \$1,332 million, up 3% on last year due to increased sales and price performance.

“Our Foodservice performance also improved on last year, with gross margin up 10%. This was despite lower total sales volumes, following a slow start to butter sales in Greater China and Asia.

“But we can’t ignore that we had a number of challenges across the year – these included Australia Ingredients, our businesses in Latin America and the consumer businesses in Sri Lanka, Hong Kong and New Zealand.

In September 2018 Mr Hurrell set out a three-point plan – take stock of the business, get basics right and ensure more accurate forecasts. Reflecting on that plan, he said that it definitely helped focus the Co-op. “I’m pleased with the progress we’ve made with our financial discipline. You can see it in our improved cashflow, reduced debt and significant cost savings.

“As part of taking stock of our business we reviewed our asset portfolio and made significant calls on three assets we identified as no longer core to our strategy. We sold Tip Top for \$380 million and our share of DFE Pharma for \$633 million. We also wound back our relationship with Beingmate and are now looking at options to reduce our financial stake in this company.

“Taking stock of our business didn’t stop there. We also exited our Venezuela businesses, announced the closure of our Dennington manufacturing site in Australia and kicked off a strategic review of DPA Brazil and two of our farm-hubs in China.

“We have contributed to China’s dairy industry by developing high quality model farms. We made these investments as they were seen as necessary to protect our significant exports to China. Growing demand for fresh milk in China’s consumer market suggests prices are likely to rise in the future – however, the timing is uncertain. As a result of this, and the fact that the development of these farms is now complete, we are looking at how we can best unlock the value in the farms.

“This sort of discipline around reviewing our asset portfolio isn’t a one-off. We need to be continuously reviewing our assets and making sure they are meeting the changing needs of our Co-op.

“As part of the three-point plan, we also set a goal in FY19 to reduce our debt by \$800 million. Tip Top made a significant contribution and, along with the sale of DFE Pharma, we expect to exceed this target in FY20.

“We also set ourselves a target to reduce capital expenditure by \$200 million in FY19 and we achieved \$261 million. We reduced our operating expenses by \$185 million, year on year.

Final Farmgate Milk Price for the 2018/19 season

Fonterra announced a final Farmgate Milk Price for the 2018/19 season of \$6.35 per kgMS.

Fonterra Chairman John Monaghan said this was the third year of sustainable prices and represented \$9.7 billion for milk payments to the Co-op’s farmer owners in the 2018/19 season.

Global prices for whole milk powder, butter and anhydrous milk fat were weaker compared to last year. This was driven by excess supply relative to demand, particularly for whole milk powder, for much of the season. Skim milk powder prices, however, were stronger.

The refreshed strategy and FY20 earnings guidance

Mr Hurrell said the final big call for the year has been sharing the Co-op's new strategy.

"It's a strategy which recognises we are a New Zealand co-op, doing amazing things with New Zealand milk to enhance people's lives and create value for customers and farmers. It's a strategy that's rich in innovation, sustainability and efficiency. It unlocks value and sees us focusing on three goals – healthy people, healthy environment and healthy business.

"This is the right strategy for us, but it requires us to make some hard choices. We've looked at the big opportunities and risks for a New Zealand dairy co-op today. We've also got clear on what our strengths are and the hard realities we have to face up to. I'm pleased that we now have a strategy that is built from the belief that our farmers' milk here in New Zealand is the best and most precious in the world.

"Recognising this, while we will complement our farmer owners' milk with milk components sourced offshore when required, we will start rationalising our off-shore milk pools over time.

"Our strategy will see us focus on world-class dairy ingredients for our customers around the world, and innovative ingredients that meet nutrition needs right across people's life stages. We will focus on ingredient categories: Paediatrics, Medical and Ageing, Sports and Active, and Core Dairy.

"We will also create new opportunities in new ways for foodservice. This will include building on our foodservice success in China and developing new markets, particularly in Asia Pacific.

"This focus on dairy ingredients and foodservice will see us playing to our strengths and driving more value from the parts of our business that consistently perform.

"We will still be in Consumer and will focus on markets throughout Asia Pacific. The majority of the products we sell in these markets are made from New Zealand milk and are similar to those we sell in our Ingredients business. This creates efficiencies and helps us play to our strengths. It also means we will reduce our consumer product portfolio to those that create superior value."

Mr Monaghan said the new strategy sounds simple but the best strategies often are.

"Simplicity shouldn't be confused with a lack of ambition. Our forecast earnings range for FY20 starts at 15-25 cents per share, but the five-year plan is to deliver a target of 50 cents per share.

"Our starting earnings range reflects our change in culture. We will earn the right to make ambitious decisions by first doing the basics right and returning our balance sheet to a position of strength. That will give us options to go for the opportunities that we create in the future."

As announced at half year, the Board reviewed the Dividend Policy guidelines within the context of the new strategy. Mr Monaghan says the new guidelines better reflect the annual performance and financial strength of the Co-operative.

"Under the new guidelines, we would expect the dividend payment to be 40-60% of reported Net Profit After Tax, excluding any abnormal gains, from what was previously 65-75% of adjusted Net Profit After Tax over a period of time. An interim dividend will not be more than 40% of the forecast total dividend and no more than net earnings at half year.

"In addition to the new percentage of earnings, two additional key principles will guide our Board when considering the payment of a dividend. A dividend should not require our Co-op to take on more debt, and a dividend should not reduce our Co-op's ability to service existing debt.

"The distribution of any abnormal gains, such as an asset sale, will be considered separately," he says.

New operating model and changes to the management team

One of the immediate priorities for the Co-operative is organising itself to best deliver the new strategy. Mr Hurrell said he is introducing a new customer-led operating model.

“We need an organisational structure that allows us to live within our means, create better connections with our customers, create value by focusing on what we are good at, and where we can differentiate ourselves. The structure encourages us to work together as one team.

“Our new operating model will see us move from our two large, central businesses (Ingredients, and Consumer and Foodservice) to three in-market customer facing sales and marketing business units – Asia Pacific (APAC), Greater China (GC), and Africa, Middle East, Europe, North Asia, Americas (AMENA).

“We are creating a new team (office of the Chief Operating Officer) which will be the enabler for our in-market business units to create value through sustainability, innovation and operational scale and efficiency.

“We are also looking at ways to prioritise activities and increase efficiency for our central support functions, ensuring they add direct value to our Co-op.

“These changes also mean there are changes in my lead team and I’m delighted to make the following appointments from my current team, which are effective immediately:

- APAC CEO – Judith Swales
- AMENA CEO – Kelvin Wickham

“Marc Rivers will remain our CFO, Deborah Capill our MD People and Culture and Mike Cronin our MD Co-operative Affairs

“It is with regret that I announce Robert Spurway has decided it’s time for a change of direction in his career and will leave Fonterra after eight outstanding years with our Co-operative. Prior to joining Fonterra, Robert held several CEO positions and he now wants to fulfil his passion for directly running a business again.

“He has been a huge contributor to the ongoing strength and performance of our NZMP Ingredients business and has set the platform for continued success - through innovative technologies, a team of highly capable people and significant progress on sustainability across our manufacturing operations - all central to our strategy.

“Over the next few months Robert will help transition Global Operations to the new operating model as well as working with the Greater China leadership team to implement the new Greater China regional go-to-market model.

“I have recruitment processes underway for the China CEO and Chief Operating Officer.

“I look forward to working with this team and the wider Fonterra team to move forward and reset the Co-op. Our priorities in our first year of our new strategy will be to build a winning team, support regional New Zealand, reduce our environmental footprint and hit our financial targets.”

Non-GAAP financial information

Fonterra uses several non-GAAP measures when discussing financial performance. These measures include normalised segment earnings, normalised EBIT, EBIT, normalised earnings per share, normalisation adjustments and payout. These are non-GAAP financial measures and are not defined by NZ IFRS. Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They are used internally to evaluate the underlying performance of business units and to analyse trends. These measures are not uniformly

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

Definitions of the non-GAAP measures used by Fonterra, and reconciliations of the NZ IFRS measures to the non-GAAP measures can be found on pages 113 to 115 of Fonterra's Annual Report that is available on Fonterra's website.

-ENDS-

For further information contact:

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Phone: +64 21 507 072

You,
me,
us
together
Tātou,
tātou





We know
when we
work together
we can create
goodness.

Fonterra uses several non-GAAP measures when discussing financial performance. These measures include normalised segment earnings, normalised EBIT, EBIT, normalisation adjustments and payout. These are non-GAAP financial measures and are not defined by NZ IFRS. Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They are used internally to evaluate the underlying performance of business units and to analyse trends. These measures are not uniformly defined or utilised by all companies. Accordingly, these

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A year of fundamental change

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FY19 was a year of significant challenges and change for our Co-op as we continued to fundamentally change the culture and strategy of our organisation.

John Monaghan
CHAIRMAN

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FY19 was a year of significant challenges and change for our Co-op as we continued to fundamentally change the culture and strategy of our organisation.

We started by looking at our Co-op's purpose. We did a lot of listening to people within the Co-op, to our customers, partners and other stakeholders. They told us that we need to show up differently, but also that this Co-op's intergenerational success was what motivated them.

Our new purpose is already guiding our decision making, culture and behaviour as an organisation. It's more than words. You can see the progress reflected in the numbers. We set ourselves a target to reduce our debt by \$800 million. With the addition of the proceeds from the sale of DFE Pharma, which was completed outside the reporting period, we intend to reduce debt by approximately \$1 billion. Our average capital expenditure for the previous six years has been more than \$1 billion. This year it was \$600 million. We have reduced headcount by more than 1,400 people, frozen salaries for our people earning over \$100,000 and decided that we won't be paying incentive bonuses for FY19.

We've made a good start, but we have more to do.

Underlying business performance

Our headline loss of \$605 million doesn't reflect the commitment we made to you last year and frankly, isn't good enough.

Our write-down decisions and other one-offs took us from what would have been a modest profit by our standards of \$269 million, to a loss-making position for the year. We know we need to do more to live up to our shared expectations of our Co-op.

Underneath that, the majority of our business is delivering. Our normalised earnings for FY19 was 17 cents per share and critically, the business units that are the foundation of our new strategy – New Zealand Ingredients and Foodservice – have delivered.

New Zealand Ingredients, our largest business, continued to perform well. Gross margin was \$1,332 million, up 3% on last year due to favourable pricing.

Our Foodservice performance also improved on last year, with gross margin up 10%.

At \$6.35 per kgMS the Farmgate Milk Price was the third year of sustainable prices. The Co-op generated \$9.7 billion for milk payments to our farmer owners in FY19.

Farmgate Milk Price for 2018/19 season

\$6.35 per kgMS

New Zealand milk collections for 2018/19 season

1,523 million kgMS

Share price, down 26.4% year/year¹

\$3.77²

Dividend

0 No dividend

¹ For the period 31 July 2019

² Fonterra Shareholders Fund (FSF) unit price as at 31 July 2019

Note: the Fonterra unit price as at 25th September 2019 was \$3.22 NZD

Shareholder Value

Our decision to not pay a dividend and significantly write-down a small number of assets came as a surprise to many. I understand and share the frustration that farmers and unit holders rightfully feel, and the impact that these decisions have had on our share price and the balance sheets of our owners in an already challenging environment.

We don't make impairments lightly. Once made, most cannot be fully reversed. While painful, they were the right decisions.

Our Co-op reviews the value of our assets every year. We make an overall assessment of their value and future earnings potential. The process requires us to make a series of judgement calls. Small changes to our assumptions can cause meaningful changes in the valuation.

Our assessment is then reviewed by external auditors, along with the rest of our financials, every year.

Our Co-op's dividend policy has been to pay 65%-75% of adjusted Net Profit After Tax over time. The Board's decision not to pay a dividend for FY19 was part of our stated intention to reduce the Co-op's debt, which is in everybody's long-term interests.

Our unit price finished the financial year down 26.4% at \$3.77. Its recovery will be a priority for us in FY20. We will improve our performance in FY20 and we expect the market to respond accordingly.

Leadership changes

In January, our Co-op mourned the passing of former Chairman John Wilson. John retired from our Board in November 2018 to focus on battling a serious illness. John will be remembered for his contribution as a farmer owner, inaugural Chairman of the Fonterra Shareholders' Council on merger, as a Farmer Elected Director from 2003, and as Chairman from 2012.

Nicola Shadbolt (9 years) and Ashley Waugh (3 years) also retired by rotation at the 2018 Annual Meeting. We welcomed back Leonie Guiney to the Board and were joined by two new Farmer Directors, Peter McBride and John Nicolls.

New Strategy

Developing our new strategy was a key priority for the Board and senior Management in FY19.

We started development of the strategy by thinking about what we have learned from past decisions and agreeing what we want our Co-op to stand for today.

You need to embrace the best from the past and adapt it for the future.

Eighteen months ago, we may have said we're a global dairy giant here to make a difference in the lives of two billion people through a volume ambition of 30 billion litres of milk by 2020.

Today, we stand for value. We're a New Zealand dairy farmers' co-op, doing smart, innovative things with New Zealand milk to create value for our owners, customers, and communities in which we work and live.

This simple change in how we see ourselves leads us to make fundamentally different decisions.

We have the best milk in the world here at home.

By championing it, we believe people will continue to seek out and pay a premium for products backed by our unique provenance story – our Co-op heritage, grass-fed New Zealand milk, backed by ethical and sustainable farming practices.

We will prioritise New Zealand milk, complemented by milk components sourced offshore only when required. As a result, we plan to start exiting our off-shore milk pools.

Scale ingredients have always been the engine room of our Co-op. Our new strategy will build off that by increasing our targeted research and development, energy and investment into our speciality ingredients business – products in medical nutrition and sports and active nutrition – which is performing well and has strong growth potential.

We will focus on four ingredient categories that reflect the way consumers enjoy dairy as part of their lifestyles: Paediatrics, Medical and Ageing, Sports and Active, and Core Dairy.

Alongside that, we want a leaner consumer business that is focused on the products and places where we think we can create sustainable and superior value. The consequence of that is that we plan to be in less categories, and will likely reduce our product portfolio dramatically. For example, we currently have over 600 product variations of Anlene. In the future, it will be closer to 50.

Our Foodservice business is already the leader in China, we want to push out further to lead in Asia Pacific and form new partnerships to help us expand into other markets without the need for large amounts of capital.

The success of the strategy will be measured by the health of our business, our environment, and our people. It comes with performance targets, including Return on Capital, greenhouse gas emissions, and the engagement levels of our farmers and staff.

It sounds simple, the best strategies often are. But simplicity shouldn't be confused with a lack of ambition.

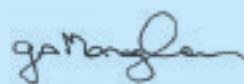
Our earnings range for FY20 starts at 15-25 cents per share, but the five-year plan is to deliver a target of 50 cents per share.

Our starting earnings range reflects our change in culture. We will earn the right to make ambitious decisions by first doing the basics right and returning our balance sheet to a position of strength. That will give us options to go for the opportunities that we create in the future.

To use a cricketing analogy, we want to build an innings by hitting singles, before trying to hit the ball out of the park.

We won't have it all our own way, but we're confident that, implemented well, the strategy will bring a new period of success for our Co-op.

On behalf of the Board I'd like to thank you for your support and loyalty this year.



John Monaghan



“We have the best milk in the world here at home. By championing it, we believe people will continue to seek out and pay a premium for products backed by our unique provenance story – our Co-op heritage, grass-fed New Zealand milk, backed by ethical and sustainable farming practices.”

Resetting the business

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In FY19 we made decisions to set us up for future success. Many of these were painful, but they were needed to reset our business and achieve success in the future.

Miles Hurrell
CEO

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I would like to start this letter by acknowledging that this year has been incredibly tough. I also want to thank our farmer owners, unit holders and employees for their loyalty. I know our performance impacts you and your families and that's why your support means so much.

In FY19 we made decisions to set us up for future success. Many were painful, but they were needed to reset our business and achieve success in the future.

Reflecting changing realities in our asset valuations and future earnings

We made the decision to reduce the carrying value of several of our assets and take account of one-off accounting adjustments. These totalled \$826 million, which contributed to a Net Loss After Tax of \$605 million for FY19.

As we do every year, we took a hard look at our asset valuations and future earnings potential. When it came to DPA Brazil, Fonterra Brands New Zealand and China Farms, we saw there were either some changes in their local economies, increased competition or business challenges impacting their forecast earnings. This meant we needed to reduce their carrying value.

Clearly, any write-down of an asset is not done lightly. But what I hope people can also see is that we're leading the Co-op with a clear line of sight on potential opportunities as well as the risks.

Lifting the level of discipline

I'm pleased with the progress we've made with our financial discipline. You can see it in our improved cashflow, reduced debt and significant cost savings. We have done this through a commitment to our three-point plan – to take stock, get the basics right and ensure more realistic forecasts.

As part of taking stock of our business we reviewed our asset portfolio and made significant calls on three assets we identified as no longer core to our strategy. We sold Tip Top for \$380 million and have sold our share of DFE Pharma for \$633 million. We also wound back our relationship with Beingmate and are now looking at options to reduce our financial stake in this company.

\$826_m

Reduction in Net Profit After Tax attributable to equity holders, as a result of the strategy review

\$605_m

Net Loss After Tax

\$261_m

Reduction in capital expenditure

\$185_m

Reduction in normalised operating expenses

\$1,095_m

Free cashflow, an improvement of 83%

\$469_m

Reduction in debt

\$1 billion

Proceeds from all announced asset sales available for debt reduction¹

¹ Final amount dependent on exchange rates and final settlement adjustments



Our new strategy will:

- Prioritise New Zealand milk.
 - Grow our sales of Sports and Active, Medical and Aging and Paediatric ingredients.
 - Develop new Foodservice markets.
 - Only make consumer products where we have a right to win.
 - Lift our research and development spend.
 - Use milk components and non-dairy ingredients sourced from around the world.
 - Collaborate more based on intellectual property and skills.
 - Divest non-core businesses.
 - Reduce debt.
-

Taking stock of our business didn't stop there. We also kicked off a strategic review of DPA Brazil and two of our farm-hubs in China, exited Venezuela and announced the closure of our Dennington manufacturing site in Australia.

This sort of discipline around reviewing our asset portfolio isn't a one-off. We are continuously reviewing our assets and making sure they are meeting the changing needs of the Co-op.

As part of the three-point plan, we also set a goal in FY19 to reduce our debt by \$800 million. Tip Top made a significant contribution and, along with the sale of DFE Pharma, we expect to exceed this target in FY20.

We also set ourselves a target to reduce capital expenditure by \$200 million in FY19 and we achieved \$261 million. We reduced our operating expenses by \$185 million, year on year, which means we exceeded our target of bringing them back to FY17 levels within two years.

This takes discipline right across the organisation – so, I'm proud of the teamwork involved in achieving this.

Getting clear on why we exist – our purpose

In FY19 we got clear on our purpose and why we exist: Our Co-operative, empowering people to create goodness for generations. *You, me, us together. Tātou, tātou.*

It is important that we don't just focus on our immediate priorities but also lift our sights to the horizon and see the opportunity we have to create goodness for generations to come – and that's what our purpose helps us do.

We want a purpose that inspires our Co-op, unites us with others, drives action and guides our choices so we can move forward together.

Completing our new strategy

The last call for the year has been finalising and sharing our new strategy.

It's a strategy which recognises we are a New Zealand co-op, doing amazing things with New Zealand milk to enhance people's lives and create value for customers and farmers. It's a strategy that's rich in innovation, sustainability and efficiency. It unlocks value and sees us focusing on three goals – healthy people, healthy environment and healthy business.

This is the right strategy for us, but it requires us to make some hard choices. We've looked at the big opportunities and risks for a New Zealand dairy co-op today. We've also got clear on what our strengths are and the hard realities we have to face up to. I'm pleased that we now have a strategy that is built from the belief that our farmers' milk here in New Zealand is the best and most precious in the world.

This strategy will see us focus on world-class dairy ingredients for our customers around the world, and innovative ingredients that meet nutrition needs right across people's life stages. It will also see us create new opportunities in new ways for food service and take a more targeted approach to opportunities in consumer brands, focusing only where we can create sustainable value.

As I have said before this is a fundamental change for us – we have dropped our volume ambition and now it's all about value. It's about us being much more targeted and focused around our unique strengths.

Priorities for FY20

FY20 will be the first year delivering our new strategy. We have four key priorities that will help us take steps towards our goals of healthy people, healthy environment and healthy business. They are:

- 1 Build a winning team**
 - We will introduce and successfully shift to our new customer-led operating model.
- 2 Support regional New Zealand**
 - We will inject \$10 billion into rural communities through competitive milk price payments.
- 3 Reduce our environmental footprint**
 - Through The Co-operative Difference, we will work with our farmer owners so that a further 1,000 farms have a Farm Environment Plan and we will prepare emission profile reports for all our farmer owners.
 - We will continue to improve energy efficiency and water use at our manufacturing sites.
- 4 Hit our financial targets. We will:**
 - Improve our debt position so that our debt is no more than 3.75 times our earnings, down from 4.3.
 - Reduce our capital expenditure to no more than \$500 million (down \$100 million on FY19).
 - Achieve a gross margin in excess of \$3 billion.
 - Meet our earnings guidance of 15-25 cents per share.

I am excited about our Co-op's future. I'm energised about laying the foundations for a sustainable and successful co-op. We need to deliver for our farmers, deliver for our country, and take the best of New Zealand to the world. Let's make it happen.



Miles Hurrell
Chief Executive Officer

OUR NEW DIRECTION

Our Goals

Healthy
people

Healthy
environment

Healthy
business

Our Values

Co-operative
spirit

Do what's
right

Challenge
boundaries

Make it
happen

Our Purpose

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

Our Co-operative is made up of amazing people, our farmer owners, employees, and the people we connect with in our communities.

Our Co-operative is stronger when we work together, in the good times and in the tough times. That's the essence of our purpose and the title of this report – **You, me, us together** **Tātou, tātou** (all of us together).

Over the past 18 months we've taken a hard look in the mirror. We have listened to each other to understand what connects us, what inspires us and how we work together to create goodness now and for generations to come.

This has provided us with the foundation for a powerful purpose statement. This is our starting point, the 'why' we exist, that connects and resonates with our farmer owners and employees.

It also reinforced the importance of our Co-operative's values, and the need to change the way we behave, connecting our strategy, our decisions and actions to our purpose and values.

At our heart we are a New Zealand dairy co-operative, doing amazing things with our farmers' milk to enhance people's lives and create value for farmers and customers. We are clear what our goals are:

Healthy people
Healthy environment
Healthy business

**This comes to life
through our new strategy**

Our Co-operative



Demand for dairy will remain strong. Changing global trends support this.

Sustainability

Naturalness

Out of Home

Healthy Living

Authenticity & Provenance

We will match our unique strengths to consumer needs

Creating sustainable value from our farmers' New Zealand milk

To enhance lives, and create value for our farmers and customers

WE WILL CONCENTRATE ON THESE CONSUMPTION CATEGORIES

CORE DAIRY

FOODSERVICE

PAEDIATRICS

SPORTS & ACTIVE

MEDICAL & AGEING



Our Strategy

Our strategic review has reached into all areas of our business, considering everything we do in our portfolio and across the local and global context we work in.

Our new strategy represents a fundamental change, moving us away from our previous ambition to be a global dairy company making a difference in lives around the world, to a new strategic direction connected to our Co-operative heritage and strengths, our farmers and their families.

The world needs dairy, and demand for our New Zealand milk will continue to grow. Global trends are towards more natural foods, and towards consumers wanting to know more about where their food comes from, how it is made, and what impact it has on the environment and communities.

Our Co-op has unique strengths to meet these needs. Our milk provides nutrition around the world, and our pasture-based farming systems produce it in a natural way. We have world-leading innovation capability, dairy know-how, and deep customer relationships spanning many years in every corner of the globe. We have serious scale and ability to execute globally, and this gives us options to choose products and markets.

Our new strategy is driven by our clear identity as a New Zealand dairy co-operative that does amazing things with our farmers' milk, enhancing lives and creating value for farmers and customers.

Our New Strategy

Our strategy is to match our unique strengths to consumer needs. Doing this will create sustainable value from our farmers' New Zealand milk by connecting what our farmers do on farm to what our customers value.

We will be more focused on playing in the areas we can win. We want to continue being globally competitive in Core Dairy (base and advanced ingredients), while growing in the categories of Paediatrics, Sports and Active, Foodservice and Medical and Ageing. Consumer brands will be a smaller part of our portfolio targeted on where we can create superior value.

We will do this by linking our strategy to our purpose and values, changing our behaviours and actions, and differentiating ourselves through:

Innovation

To create superior value for our customers and our Co-operative.

Sustainability

To do what is right for the long term good and to meet consumer and community needs.

Efficiency

To unlock and create greater value from our scale and efficiency.

What Needs To Change

We have some realities we need to face. We've got work to do to rebuild trust and rebuild the culture of a winning team. In our home market, we're facing growing competition from food multi-nationals who don't share our Co-operative ethos. And as a farmer-owned co-operative with a long-term focus, we need to adopt a lower risk profile than some organisations because we are committed to leaving a legacy for future generations.

This means reducing debt and exiting non-core investments to get our Co-operative to a more sustainable risk and investment profile, to simplify our business and focus Management's efforts more clearly on our primary task of adding value to our farmers' New Zealand milk by meeting customer and consumer needs.

How We Measure Progress And Success

Our objective is to create a successful and sustainable co-operative. This means measuring our success against the triple bottom line – social, environmental and economic.

Healthy people

Value nutrition, strong relationships, supporting communities

Healthy environment

Lower footprint, zero waste, restoring nature

Healthy business

Sustainable pay-out, return on capital, reliable dividends

Our Co-operative Difference

We are working together for a strong and sustainable Co-operative.



5

Clear guidance on future direction based on emerging customer and community trends.

4

All on-farm activities aligned across five focus areas.

3

Recognition for farmers who are moving beyond the Terms of Supply.

2

Well defined Terms of Supply to protect the Co-operative here and now.

1

Supporting our farmers underpins everything we do. In person, in digital, in partnership.

This year we launched The Co-operative Difference. It is a straight-forward way of bringing together what our farmers need to know today, and what they need to prepare for in the future. It also celebrates farmers who go the extra mile to make our Co-operative more sustainable.

Dairying is a big part of New Zealand and has been for almost 150 years. Farming families have made the most of being able to grow grass all year-round, producing delicious, fresh milk. We need to protect, enhance and regenerate our environment so families can continue to farm for generations to come.

At the same time, our customers and communities increasingly want sustainably produced products. We all want to make choices that are good for the future, where people and the planet are cared for.

We've stepped up and improved the way we look after the environment. Farmers have fenced waterways, upgraded effluent systems, improved nitrogen management, and strengthened animal welfare practices. But rising expectations mean we all need to keep lifting our game.

Our Co-op wants to make it easier for farmers to know what needs to be done and why it matters. Farming is complicated enough these days and we believe there are ways we can work better together. That's why we introduced The Co-operative Difference, and through it we can support farmers and help them change and adapt for the future.

The Co-operative Difference:

- Brings together existing on-farm requirements and makes them easier to understand.
- Recognises farmers who go above these requirements.
- Gives farmers clear guidance on likely future requirements and trends.
- Saves farmers time by removing duplication and streamlining reporting requirements, helping our Co-op protect its market position, strengthen our sustainability claims, and drive demand for our products.
- Supports farmers with on-farm practices by working together and providing industry-leading assistance, using our industry partnerships where possible.
- Clarifies what will happen when requirements aren't met, supports those who are struggling, and takes a firm line with those who refuse to change.

Working with our farmers

On-Farm Support

Farmers can make the most of our Co-op's regional knowledge, expertise and services in managing their farms. Our sustainable dairying, milk quality and animal welfare specialists are in every region and our 0800 Service Centre team is only ever a phone call away.



\$40.8_m

in Farm Source™ Reward Dollars, discounts on everyday farming supplies, and partnership deals.

10 cents per kgMS

in savings and rewards for the average-sized Co-op farm if they purchase all their farm supplies from Farm Source™.

Our stores have farming needs covered, with local knowledge, product advice and expertise. We provide seasonal deals for everything from fencing to calf feed and offer eligible farmers benefits such as 90 day interest free purchases and the ability to earn Farm Source™ Reward Dollars on every dollar spent in our stores. Beginning in June, eligible farmers can also spread payments or defer them for six months on all Farm Source store purchases over \$500.

A new electricity deal

We maximise our collective scale to deliver the most competitive prices. We are always on the hunt for lower prices, better deals, and bigger discounts. In a New Zealand first, Genesis Energy has launched a new electricity plan, For Dairy. It's offered exclusively by Farm Source™ and was designed with dairy farmers by Genesis Energy. This new plan can save farmers between 5 and 25% off their milking shed electricity bill.

Co-operative



Farmer engagement in our Co-operative is key, which is why it is a step towards achieving recognition in The Co-operative Difference.

This year, farmers engaged with our Co-operative in a number of ways. They attended

local events, site visits, global tours, watched webinars, participated in various learning opportunities, and used our digital platforms and smartphone apps.

585

co-operative events.

435

farmers attended the MyConnect Conference.



90% of farms use our apps.

71%

of our milk was produced by farming families running a single farm.



Fixed Milk Price

We're always looking for new ways to help farmers share up, make their farms more sustainable, and manage their cash flow.

This year we introduced Fixed Milk Price. It's our eighth financial tool for farmers and offers ten opportunities a season to fix a price for up to 50% of their estimated milk supply.

This helps farmers reduce some of the risk from global milk price volatility and gives them more confidence in making business decisions as they know that some of their fixed costs are covered. We can also provide customers with longer contracts at a guaranteed price. Customers value this certainty and it can bring additional value back to our Co-op.

440

farms

In the first two months of the tool being available (June and July), 440 farms participated and locked in over 23 million kgMS at a fixed price. About 60% of the farms that participated supply less than 200,000 kgMS in a season.

Environment



Sustainable Dairying Advisors (SDAs) work alongside farmers to identify opportunities to improve environmental practices on farm. This year, we have grown our team of SDAs.

23%

of our farms now have
a Farm Environment Plan.

27

Sustainable Dairy Advisors.

\$4,700

average savings by each farm when they get a Farm Environment Plan from our Co-op instead of elsewhere.

Last year, 12% of farms had a Farm Environment Plan (FEP). This year that number has nearly doubled and we are working with our farmers to ensure they all have an FEP before 2025. These plans, delivered by our SDAs at no additional cost, assess the environmental effects and risks associated with farming activities and provide tailored actions to help individual farms meet their regional requirements and sustainability goals. By having an FEP, farms are a step closer achieving recognition under The Co-operative Difference.

This year, we have developed unique nitrogen reports that our farmers can use to meet local regulatory requirements in the Auckland, Marlborough, Horizons and Canterbury regions.

Working with our farmers

Animals



We know that cows are at the heart of every dairy farm. Ensuring they are valued and treated with respect is of paramount importance to the success of our Co-op. Farms that have an Animal Health Plan, developed alongside their vet, implemented on-farm and reviewed annually, are a step closer to achieving recognition through The Co-operative Difference.

Beginning this year, our farmers are providing more information about animal welfare practices in support of our new 'Cared for Cows' claim. The claim will help our customers know with confidence that our dairy products are produced using the highest of animal welfare standards, and will help drive more value and market share.

Our provenance programme for ingredients customers and Trusted Goodness™ promise for consumers helps tell the story of how our farmers keep cows happy and healthy so they can produce high-quality milk. It's backed up by data farmers provide annually about how they farm, and helps our products stand out from the rest.



\$97_m

of this year's sales revenue from products with a provenance claim.

We can attribute \$97 million of this year's sales revenue to customers purchasing our ingredients and making provenance claims using our Non-GMO, Grass-fed, Made with NZ Dairy and Made with NZMP Dairy claims.

People and Community



Farming's not easy but it can be an incredibly rewarding career. That's why we want to provide safe, healthy working environments and opportunities for people to grow and learn.

Working together with local organisations, we are supporting farmers in creating Health and Safety plans that will help everyone on-farm get home safe at the end of every day. This is a key step to achieving recognition under The Co-operative Difference.



Our Emergency Response Team (ERT) is quick to the scene to help our farmers and communities when natural disasters strike. Our ERT went to the West Coast this year to help other Kiwi farmers fix storm damage and get back up and running after heavy rain and flooding.

The ERT is a group of 98 committed employees. Most of the time they are working in our manufacturing sites but they are also trained firefighters, mountain search, rescue and recovery experts, and volunteer first responders, and will do whatever it takes to help our communities recover from natural disasters.

Milk



Thank you to all our farmers who have worked so hard to provide safe, high-quality milk throughout the 2018/19 season. Our farmers go above and beyond to achieve milk quality excellence and this enables our Co-op to create more value and deliver to our customers' specifications.



This year, our farmers have done New Zealand proud. Almost 1,800 farms achieved Grade Free status. Of those, 437 achieved Grade Free for four years or more, and 35 achieved Grade Free for 10 years or more.

These farmers are on the right track to achieve recognition this season through The Co-operative Difference as they already get the tick for Grade Free. Farmers are also working hard to keep their Somatic Cell Count below 150,000 and their Fat Evaluation Index grade at A, two additional elements required to achieve recognition under The Co-operative Difference.

Another 1,409 farms received just one grade the entire season and were recognised as Merit recipients and 4,086 received an Achievement certificate which recognises their ability to keep their farm's Somatic Cell Count low. In addition to the honour roll on the following page, we recognise the efforts of all farmers.



1,780

farms achieved Grade Free status, including 437 that have achieved Grade Free for four years or more.

Honour Roll for Milk Quality Excellence



Legend



Gold

Farming entities that achieved Grade Free for at least the last 10 seasons.

B L & Estate R J Mohring
B M & B C & J H Geddes
B S & P J Strang
C & H Mabey
C J & K L Ladd
C M & K M O'Donoghue
Caskey Farms
Est of M F Blake & M Blake
F A & R C M Smits Ltd
F B Bonenkamp & J B Cunningham
G B & J S Coulter
Golden Mile Farms Ltd
Inishbulfin Farm Ltd
J A & Estate of K J Jolly
J L & M A Cooke
K & S MacKenzie Farms Limited
K J & H Chalmers Ltd
Kemra Farm Ltd
Kim Steffert Family Trust
L J & L M Still
M J & L M Van Tiel
Miroc Limited
Owhango Farms Limited
R & P Woods Farms Ltd
R S & R D Gordon
Riverside Farms (Taranaki) Limited
Romill Partners
Rye Downs Ltd
Schorn Trust
Serendipity Trust
Sim Brothers Ltd
Sim Family Farms Ltd
Steffert Farms Ltd
Stephen Zink
Takitimu Trust

Farming entities that achieved Grade Free for at least the last four seasons.

S M Trust
A Holten & N Brown
A J & K L Murdoch
Abacus Dairy Limited
Abbey Farm Partnership
Acacia Farms Ltd
Ahipaipa Farms Ltd
Amberhay Limited
Aramaunga Farms Ltd
Arataki Dairies Limited
Ashgrove Dairy Farms Limited
B & D Dodunski
B N & P A Jones
B P & P N Kennedy
B S & S K Dhaliwal
Barmac Dairies Ltd
Beechbank Dairies Ltd
Bibberne Farms Ltd
Browne Pastoral Enterprises Limited
Bullot Family Trust
C B Farms Ltd
C J & C J McKenzie Ltd
C J & V K Taylor
C W & J Redshaw
C W & M Y Matthews Family Trust
C.D. Farms Ltd
Clutha Lea Ltd
Collins Family Trust
Conlan Trust
Cranief Clifton Ltd
D & D Alexander Trust
D & E J Pringle
D & K Miles Limited
D C & V F Frew
D J & R E G Goodwin
D J & S A McMillin
D J Noble & K M Jones
D R & E M Henman
D S & L R Wilson Ltd
Daisy Dairying Ltd
DDB Dairy Enterprises Limited
Drysdale Holdings Ltd
Dugald McKenzie Family Trust
E F & J A Allcock
F A & R C M Smits Ltd
Fairview Trust
Far South Farms Ltd
Fardale Dairies Ltd
Farmer Fred Ltd
Farview Farms Ltd
G A & K T Lynch
G B & D G Hodges Trust
G K & D J Landon Family Trust
G R J & R J Saddleton
Golden Mile Farms Ltd
Hard Road Dairies
Hillcrest at Fairfax Ltd
Hudson Trust

I J Oliver
J A & Estate of K J Jolly
J B & L M Suisted Limited
J E & C T Brien
J H & H R Smyth
J L & K S Gwerder Family Trust
J L & M A Cooke
J R & A T M Hale
J Van Der Kooy
J W & A M Steeghs
J W Pricor
James Lyttle
J J & AB Roskam Ltd
K & S Richards Limited
K B Olesen & R J Stephens
K J & H Chalmers Ltd
Kainui Peatlands Ltd
L J Bleakley
Lockerbie Farms 2001 Ltd
M & A Schrader Family Trust
M & C O'Grady Ltd
M & J Barker Trust
M E Hunt & Son Ltd
M R & K J Luke Ltd
Malandra Downs Limited
Mary Allen Farm Ltd
McFetridge Farms Ltd
Michael O'Connor
Miroc Limited
Molehill Farm Ltd
N J & M Bleakley
Oceanview Farms Ltd
O'Reilly Family Trust
P V & P G Mullin Trust
Parkhill Farms Ltd
Paul Turner Farm Trust
Pikowai Transport Ltd
P J Nelson Farming Ltd
Puketi Farming Enterprises Ltd
R & P Woods Farms Ltd
R J Mandeno No.2 Family Trust
R N Cornes
R P & M G Frank
R W & W J Cudby Family Trust
Rainbowcreek Farms Limited
Ritson Holdings Limited
River Heights Limited
Rodney G & S J Joblin
Roseneath Farm Limited
S & S Iorns
S G & B L Thirkell
S M Duynhoven & Estate of JB Duynhoven
S M Shead
Sea Breeze Farms
Sean McErlean Trust
Steffert Farms Ltd
Stephen Zink
Stopford Road Limited
Te Ngutu Land Holding Co Ltd
Te Repo Farms Ltd
V E & D M Grant
Valley Road Farm Ltd
W B Scott Family Trust

W.A & H.R Simpson Farming Ltd
Waituna Investments Ltd
Watershed Ventures Ltd
Webber Farm Ltd
Whenuakura Farm Limited
Willowfields Ltd
A H & A C Webster
Abbott Brothers
AGC Farms Limited
Airlie Lodge (Walton) Ltd
Allison Family Farms Ltd
Alton Pastures Limited
Auroam Tahi Limited
B & E V Blake
B J & D A Verryt Family Trust
B M & B C & J H Geddes
B M & R M Sarten
B S & P J Strang
Barneyco Trust Partnership
Bent River Farms
B J & D M Ahlers
Bonezco Farms Ltd
Burton Trust
C & M Tippet
C & M Young Ltd
C C J & F A Jones
Carnarvon Farms Ltd
Casey Coxhead Ltd
Cavan Downs Trust
Chetwynd
Colhaven Limited
Cotlands Ltd
Creeside Pastures Ltd
D P & T G Schumacher
Daybreak Farms Limited
Eichler Farms Limited
F B Bonenkamp & J B Cunningham
Farmbuild Milk Company Ltd
Forest Hill Downs Limited
Fowler Family Prosperity Trust
Frisia Farm Trust
G A & J M Fox
G A & V M Weir
G C & J M Knowles
G C Hall
G J Farms Ltd
G M & A J Gower
Gee 'N' Tee Ltd
Glen Eden Otago Ltd
Grat Farms Ltd
Gregory Farms Ltd
Hines Family Trust
I H & D J Bryant
I Hampton & A Golvin
I J Sutherland Partnership
Inishbulfin Farm Ltd
J & J Anderson Family Trust Partnership
J E & D M Cooper
J H & R Cotman
J L Hooper & A L Robertson
J P & J S Adams
JDQ Ltd
J E & K L Gilbert



Achievement

Top 10 farming entities with the lowest Somatic Cell Count.

- 1 G L & G F Bell
- 2 J M Mellow
- 3 D A & M A Mullan
- 4 M C & J P Fisher
- 5 J C & F M Henchman
- 6 M & L Arnold
- 7 Ternstone Ltd
- 8 Est of M F Blake & M Blake
- 9 K J & H Chalmers Ltd
- 10 Le Emari Trust T/A Willowbridge Dairies

Thank you to all our farmers who have worked so hard to provide safe, high-quality milk throughout the 2018/19 season. In addition to the honour roll, we acknowledge the effort of all of our farmers who work hard every day to produce the best possible milk.



Gold continued

K J & J B Argyle	Bothwell Farms Ltd	P G & D M Dombroski	Given Family Trust
K J & M T Dwyer Trusts P/S	Burnell Farms Ltd	P L & R E Berryman	Interlaken Farms Ltd
K R Cresswell	C & B Jensen Family Trust	P R & V P Dawson	J & L M Van Burgsteden
K W & D M Blackstock	C & D Padrutt Trust	Placement Services Limited	Jascas Trust
K W & D R Lowe Family Trust	C E & D L Rogers	Poc Ar Buille Limited	Jaska Farm Trust
Kevin Fleming Ltd	C M & K M O'Donoghue	R J Troughton	Kerenui Ltd
Knockinnon Farm Trust	Caskey Farms	R K J Allen	Kohi Partnership
L J & L M Still	Claremont Trusts Partnership	Rasing Farms Ltd	Kopane Dairies
L S & K A Phipps	CM Farming Ltd	Rich Feet Limited	L J & B C Torr
Lynton Dairy Limited	Cowley Dairies Ltd	Rosebrae Farm Ltd	L J & M Pictor
M C & M Davey	D & S Farms	Southern Meadows 2011 Ltd	Lawson Road Farm Ltd
M I & P M Stevenson	D A & M A Mullan	Springpark Farms 2008 Ltd	M G & A M Hurley
Family Trusts P/ship	D B H Farms Limited	T D & J A Rhind	M G & M Uram
M J & L M Van Tiel	D J & E A Turner	T N Langlands	M J & T M Davies
M J & W P Van Veen	D J & G M Hooper	Tainui Group Holdings Limited	Maken Milk Ltd
Mangatoki Partnership	D P & T M Stephens	Takitimu Trust	Manuka Ridge Limited
MJA Farms Ltd	D W & M E Kidd	The D & A Roberts Family Trust	Mark A Mullan Trust
MW & KA Olsen	DR & PJ Hannah Ltd	The Hyjinks Trust	Marua Partnership
N A & K M McColl	Drylands Trust	TW Langford Family Trust	Massey University Farms
NB & LJ Crosbie Ltd	Estate E A Bonner	Two Name Farming Limited	Matai Farms Ltd
Otu Creek Farm Limited	Fabish Bros Farms Ltd	Up At 5 Ltd	Mattajude Family Trust
Owhango Farms Limited	Falcon Farms Trust	Van Rossum Ltd	Maude Peak Farm Trust
P H S & P C Byford	Farming Tee Jay Ltd	Waicola Holdings Ltd	Maxlands Farms Limited
R & A Tait T/A Black Cow Dairies	Florida Farms Ltd	Waiotu Farms Ltd	Mead Family Farm Ltd
R S & R D Gordon	Fonterra - O'Brien Farm	Waiwira Holdings Ltd	Milestone Trust
R T & E A Brown Ltd	Four Roads Farms Limited	Whakahora Farm Ltd	Milkwell Ltd
R.L. Mathis Ltd	G B & J S Coulter	A M Bond & Estate of R G Bond	MJ & KL Family Trust
RK & A Hines Limited	G E Sutherland Trust	A R Mills	N & M Paton
Rogers Farming Ltd	G L & R L Burr	Aaron and Marcia Flay Partnership	N J & W A Vollebregt
Romill Partners	Glengarry (Dvke) Farming Co Ltd	ABH Trust	N R Dilks
RV & LH Kokich Farms Ltd	GRC Farms Limited	Aghern Holdings Ltd	Ngahape Valley Farm Ltd
Ryan Bennett	Harrihi Farms	Altura Dairy	Okapua Farming Company Ltd
Rylands Farm Company Ltd	Hayley Buckman Family Trust	Ararata Holdings Ltd	P D & J M Bish
S G McKenzie	Hutton Farm Holdings Ltd	B & L Jones Ltd	P D & S S Sharpe
Serendipity Trust	Inferno Farms Limited	B L & Estate R J Mohring	P H & W F Iorns
Sim Brothers Ltd	J A & B E Turnwald	Barriball Farms Ltd	P J & M L Cotter
Sim Family Farms Ltd	J D Farms	Berwick Holdings Ltd	Pharlee Trust
Somerset Trust	J L & H M Coatsworth	Birchland Partnership	Port Molyneux Dairies Limited
T D Hall Trust	J M De Renzy	Bogaard Farms NZ Ltd	R & S Singh
T M McDowall	Jayland Partnership	Boswell Dairy Ltd	R A & J L Hamilton
Tawa Land Company Limited	Johnson Farm Co. Ltd	Burnside Farms Ltd	R W & R R O'Brien
Tawa Ridge Farms Ltd	K & S MacKenzie Farms Limited	C & H Mabey	Riverside Farms (Taranaki) Limited
Tayco Farm Limited	K E & V J Bond	C F & M T Muller	Ruakiwi Dairies Limited
The Red Cow Company Limited	Kaimai Dairy Ltd	C J & K L Ladd	RVS Farming Ltd
Trimor Ltd	Kemra Farm Ltd	C T & K M A McLean	Rye Downs Ltd
Troy & Natalie Farming Partnership	Kieran McErlean Trust	Chislehurst Farms Limited	S B & Y M Thompson
True Blue Trusts	Kim Steffert Family Trust	Cressey Dairies Ltd	Sabin & Co Ltd
Vale Green Services Limited	Knightlands Ltd	D & E Cole	Schorn Trust
Wainui Dairies	Kywaybre Farms Ltd	D & I Edward Ltd	Seven of Nine Ltd
Waiparu Farm Ltd	L J Hodges	D B & K M Johnson Farms LTD	Shawlink Ltd
Waiparu Holdings Limited	L.G. & J.M. Morris Limited	D Crofskey	Shenandoah Trust
Wattle Downs Ltd	Lesdale Friesians Ltd	D E & M E Hines	Sisley Farms Ltd
Webber & Maxwell Partnership	Lizlyn Dairies Ltd	D L & S J Deeming	T & C Brown Limited
Westmeath Trust	Longacre Properties Limited	Derrys Farm Ltd	T G & R J Wells
Willcox Farms Ltd	Lutz Farming Company Ltd	Estate of M F Blake & M Blake	T R D Reesby
A & N Harvey Family Trust	M & C Mogg Ltd	Estate Charles Bailey	The Adare Company Limited
A A & L J Edward Trust	McGee Partnership	Estate of Elizabeth Paretuarangi	The Herewahine Trust
Abbott Trusts Partnership	McGowan-Weake Ltd	Ormsby	VBI Ltd
Avon Downs Ltd	Meyer Family Trust	F W G & J P Stanbridge	W & C Candy Trust
B C & K A Keller	Mitchells Milky Way Limited	G & C Came Ltd	W R & Z W Kite
B D Mead	MR & TJ Frost Ltd	G A Knight	W W Olsen
B L & D J Haylock	Mudspring Farms Limited	G E & V E Cooper	Whitten Holdings Ltd
B M & J A Ahlers	N R & L A Fox	G H & M J Savill	WP & A Moore
Bell Farm 2008 Limited	NR Ensor Limited	G L & G F Bell	

Farmer spotlight

This year, so many farmers have shown great leadership in farming and have done the industry proud, taking home several national and regional titles.



Fonterra Dairy Woman of the Year

Trish Rankin

Taranaki farmer, teacher and environmentalist Trish Rankin was named 2019 Fonterra Dairy Woman of the Year. The other finalists were also Co-op farmers – Shareholders' Councillors Julie Pirie and Emma Hammond and former Shareholders' Councillor Kylie Leonard.



Dairy Business of the Year

Okaihau Pastoral Holdings Ltd

Northland's Okaihau Pastoral Holdings won the 2019 Dairy Business of the Year title, an award judged on financial performance, environmental performance and people management. Runner up was River Terrace Dairy Ltd from Ashburton.



Responsible Dairying Award

Damian and Jane Roper

Taranaki farmers Damian and Jane Roper won the 2019 Responsible Dairying Award receiving the newly created John Wilson Memorial Trophy. The award recognises dairy farmers who demonstrate leadership in their approach to sustainability and who are respected by their fellow farmers and their community for their attitude and role in sustainable dairying.



Our farmers have outdone themselves, winning two of three national titles at the NZ Dairy Industry Awards.



New Zealand Share Farmer of the Year

Colin and Isabella Beazley

Northland's Colin and Isabella Beazley won the 2019 New Zealand Share Farmer of the Year title. Tokoroa contract milkers Marc and Nia Jones were the runners-up with Manawatu sharemilkers Thomas and Jemima Bebbington third.



Dairy Trainee of the Year

Nicola Blowey

Canterbury/North Otago's Nicola Blowey, who is originally from the UK, was named 2019 New Zealand Dairy Trainee of the Year. Waikato's Matt Dawson was second with Central Plateau's Harry Phipps third.



Young Farmer of the Year Award

James (Jimmy) Robertson

22-year-old Fonterra business graduate James (Jimmy) Robertson won the 2019 Young Farmer of the Year Award, becoming the youngest ever winner of the iconic award in its 51-year history. James, who grew up on a dairy farm in Waikato, also took out the People's Choice Award.



Ballance Farm Environment Award

Adrian and Pauline Ball

Waikato farmers Adrian and Pauline Ball won the 2019 Ballance Farm Environment Awards, becoming the new National Ambassadors for Sustainable Farming and Growing and the recipients of the Gordon Stephenson Trophy. Fellow Co-op farmers Nick and Nicky Dawson from Hawke's Bay and Fraser and Katherine McGougan from the Bay of Plenty were national finalists after winning their respective regions.

Employee spotlight



Image supplied by Tim Collins and RNZ First Up.

Our Te Rapa tanker drivers

Act of kindness that means a lot to a Co-op family

Our tanker drivers at Te Rapa depot have known Andrew Oliver for 15 years and showed how special that relationship is earlier this year. Andrew is the adult son of farmers Ken and Deidre, and is one of only a handful of people in the world with Frys-Aftimos syndrome, a rare chromosome condition.

For Andrew, many of his activities become habits. Seeing the tankers collect the milk before bed-time is one of them. If pick-ups were on the late-shift, that could mean he was up until 2am, and that meant the same for Ken. The family managed this for over a decade but when Diedre suffered a minor stroke, Ken was struggling to keep the farm going and surviving on three to four hours of sleep.

Desperate, Ken phoned Farm Source's 0800 Service Centre. When the depot heard of the challenges Ken was having, the entire pick-up schedule for the depot was changed.

“A big outfit like Fonterra doesn’t have to do that. They simply could’ve ignored the request but no, they came through and we’re very grateful.”

Ken Oliver, farmer owner.

Ken is now guaranteed a pick-up anywhere between 6.30pm and 8pm. Andrew draws a picture each night and gives it to the tanker driver and they are put up on a wall at the depot. Ken said the change in pick-up time has meant a lot to the family.

“A big outfit like Fonterra doesn’t have to do that. They simply could’ve ignored the request but no, they came through and we’re very grateful.”



Our Energy team

A small team guiding big changes

The co-firing of our Brightwater plant with biomass this year is a milestone for Fonterra's Energy Team, charged with guiding Global Operations to meet its target to reduce carbon emissions by 30% by 2030 and to be net zero by 2050.

The six-person team has deep experience in utilities, operating, managing and controlling boilers, water treatment plants, chemical engineering and lots of experience with electricity. Led by Linda Thompson, they are responsible for researching new and existing technologies and assessing which are best suited operationally and cost effectively to help achieve the targets.

Brightwater was a prototype. The boiler there was designed to burn coal and there was a lot of discussion about whether they could achieve what was wanted without causing problems with operational performance. In the end, Brightwater has shown key assumptions were correct and that the technology works. The conversion slashes the amount of coal used and cuts carbon emissions at the site by around 2,400 tonnes a year – roughly the same as taking 530 cars off the road. The job now is to see how it can be replicated at other sites.

Ian Goldschmidt, General Manager Sustainability and Resources, said the team is fully aware of how important their work is. "It's a huge responsibility. There are some really good people in the team and we also have the steering committee, with a number of senior leaders on it, to support and guide us. There's some horsepower behind the decisions we make."

A trial at the Te Awamutu site to run its existing coal boiler exclusively on wood pellets was also completed this year. While it highlighted some practical issues such as the volume of pellets required and how to keep them dry, early indications are it could reduce carbon emissions by around 84,000 tonnes per year, the equivalent of taking 18,500 cars off the road.



Our NZMP Team

Protein packed pantries and a perfect partnership

In a collaboration that started in late 2018, the global Sports and Active Lifestyle (SAL) teams and Fonterra Research and Development Centre (FRDC) in Palmerston North, New Zealand, have worked on a project that will see household pantries across the United States and Europe filling up with protein fortified food mixes made from NZMP ingredients.

Protein is a key driver in the \$200 billion global SAL category, with annual growth of around 8%. Keeping consumers' nutrition needs top of mind, our SAL team members in the United States and Europe led the drive for these trends to shape FRDC's innovation roadmap.

Consumer-led, market insights from the people who talk to customers every day are key to FRDC as they review the growing number of different food formats in which protein is being consumed. The result in this case is more than 15 different applications with nearly half a dozen other ingredients reformatted or adapted, providing a strong base to push further into the SAL category.

A team of eight worked on the project at FRDC and with input from the SAL and in-market sales teams were able to understand the needs of the market and adapt as changes came through.

The United States, followed closely by Europe, are the market leaders in the SAL category. In those regions it's not unusual to see protein fortified foods on supermarket shelves amongst other products, not just in the health food section or health food shops.

Protein bars are most popular with consumers at the moment. It's a market worth USD1.2 billion globally and is growing at 14% CAGR. But there is increasing demand for different ways to consume protein and the project will see ingredients developed for use in pancake, brownie and muffin home baking mixes through to ice cream.

Key considerations in development include taste, texture, cohesiveness and flavour. Extensive tasting sessions and working with sensory scientists is all part of the process. Work continues to develop further options to meet evolving consumer demands.

Board of Directors



1. John Monaghan
2. Clinton Dines
3. Brent Goldsack
4. Leonie Guiney
5. Bruce Hassall
6. Simon Israel
7. Andrew Macfarlane
8. Peter McBride
9. John Nicholls
10. Donna Smit
11. Scott St John

1. John Monaghan

Board Responsibilities *Farmer-elected Director, Chairman, Chair of the Appointments and Remuneration Committee*

Term of Office *Elected 2008, last re-elected 2017*

John Monaghan was elected to the Fonterra Board in 2008 and became Chairman in 2018. Prior to joining the Fonterra Board, John was Chairman of the Fonterra Shareholders' Council and the Inaugural Chair of the Governance Development Programme. He is also a Director of Centreport Limited and Centreport Properties Limited, and is a member of the Executive Board of the New Zealand China Council. John is a Chartered Member of the Institute of Directors. He holds a number of farming directorships and is a trustee of the Wairarapa Irrigation Trust. John has dairy farming interests in the Wairarapa and Otago regions. John has taken a lead role in representing Fonterra's interests on global trade issues and has strong networks domestically and internationally with key stakeholders.

2. Clinton Dines

Board Responsibilities *Appointed Director, Member of the Appointments and Remuneration Committee and the Safety and Risk Committee*

Term of Office *Appointed 2015*

Clinton Dines was appointed to the Fonterra Board in 2015. Clinton lived and worked in China for 36 years, 21 of which as President of BHP Billiton's China business. He has extensive experience as an executive in China and Asia businesses and has had an active career as a Non-Executive Director, currently serving on the Boards of Port of Newcastle, Sky Renewables Pty Limited and Zanaga Iron Ore. He was Executive Chairman of Caledonia Asia from 2010 to 2013, an investment group in Asia, and is a Partner in Moreton Bay Partners, a strategic advisory firm based in Brisbane. He is an Adjunct Professor at Griffith University's Asia Institute and is a Member of the Griffith University Council. Clinton has extensive experience as a senior executive in China and Asia businesses, including global manufacturing and commodity businesses.

BA (Modern Asian Studies, Griffith), CIM, INSEAD

3. Brent Goldsack

Board Responsibilities *Farmer-elected Director, Chair of the Co-operative Relations Committee, Member of the Safety and Risk Committee and the Milk Price Panel*

Term of Office *Elected 2017*

Brent Goldsack was elected to the Fonterra Board in 2017. Brent had a 25-year career in both New Zealand and abroad in various corporate advisory roles, including being a Partner at PwC for more than 12 years. Brent is a Chartered Accountant. Brent currently chairs the Board of Waitomo Group Limited and its subsidiaries. Brent serves on the Board of Canterbury Grasslands Limited. Brent is actively involved as a shareholder of three dairy operations in the Waikato and has shareholding interests in other dairy farms with operations in both New Zealand and the United States. In addition to his strong financial skills and knowledge, Brent has particular expertise in Fonterra's Farmgate Milk Price and the drivers of the Co-operative's earnings.

BCA, CA

4. Leonie Guiney

Board Responsibilities *Farmer-elected Director, Chair of the Safety and Risk Committee, Member of the Audit and Finance Committee*

Term of Office *Elected 2018*

Leonie Guiney was elected to the Fonterra Board in 2018. Leonie previously served on the Board from 2014 to 2017. Leonie has worked in the agriculture sector for more than 25 years in a number of positions including lecturer of Dairy Production at Lincoln University, consultant on the BNZ Growth Programme for farmers and has held roles with Golden Vale Dairy Co-operative in Ireland, LIC and FarmRight South Island. Leonie lives and farms at Fairlie in South Canterbury and is a director and shareholder of four Canterbury farms and Bobby Square Limited.

BAgrSci

5. Bruce Hassall

Board Responsibilities *Appointed Director, Chair of the Audit and Finance Committee, Member of the Safety and Risk Committee and the Milk Price Panel and is an observer on the Appointments and Remuneration Committee*

Term of Office *Appointed 2017*

Bruce Hassall was appointed to the Fonterra Board in 2017. Bruce is a Chartered Accountant and has had a 35-year career at PwC, including holding the position of Chief Executive Officer of the New Zealand practice from 2009 to 2016. Bruce is Chairman of The Farmers Trading Company Limited, Prolife Foods Limited and Fletcher Building Limited and serves as a director on the Board of Bank of New Zealand. He was previously a member of the University of Auckland Business School Advisory Board and was a founding Board Member of the New Zealand China Council. Bruce has extensive experience in financial reporting information system processes, risk management, business acquisitions, capital raising and IPOs across both listed and private companies.

BCom, FCA (CAANZ)

6. Simon Israel

Board Responsibilities *Appointed Director, Member of the Appointments and Remuneration Committee*

Term of Office *Appointed 2013*

Simon Israel was appointed to the Fonterra Board in 2013. Simon currently chairs the Boards of Singapore Telecommunications Limited and Singapore Post Limited and is a member of the Westpac Asia Advisory Board. He was an Executive Director of Temasek Holdings for six years and President from 2010 to 2011. Simon was a director of Fraser & Neave, Neptune Orient Lines, Asia Pacific Breweries, Griffin Foods, CapitalLand and Frucor Beverage Group. He had 10 years' experience in the dairy industry with Danone as a Senior Vice President and member of the Group Executive Committee. He was conferred Knight in the Legion of Honour by the French Government in 2007.

DipBusStud

7. Andrew Macfarlane

Board Responsibilities *Farmer-elected Director, Member of the Co-operative Relations Committee and the Appointments and Remuneration Committee*

Term of Office *Elected 2017*

Andy Macfarlane was elected to the Fonterra Board in 2017. Andy was a farm management consultant for 38 years. He is a Councillor of Lincoln University and a Director of ANZCO. Andy is an active member of the International Farm Management Association (IFMA), Global Dairy Farmers and New Zealand Institute of Primary Industry Management (NZIPIM). Andy was previously a Director of Ngai Tahu Farming Limited. He is the Past President of the NZIPIM and chaired Deer Industry New Zealand for seven years. Andy began farming in 1989 and lives near Ashburton. He has shareholding interests in the South Island. Andy has a strong understanding of the governance of research and development and innovation, and has a particular interest in the strategic use of technology in the dairy industry.

B.Agr.ScC

8. Peter McBride

Board Responsibilities *Farmer-elected Director, Member of the Audit and Finance Committee, Co-operative Relations Committee and the Governance Development Programme Committee*

Term of Office *Elected 2018*

Peter McBride was elected to the Fonterra Board in 2018. He is a member of the Zespri China Advisory Board. Peter was previously the Chairman and a Director of Zespri Group Limited and other related companies. Peter is a Managing Director of South-East Hort Limited and subsidiaries and Ellett Beach Farms Joint Venture. He was previously a Director of the New Zealand International Business Forum and a member of the Executive Board of the New Zealand China Council. Peter has shareholding interests in the Waikato.

B. Horticulture, PG Dip Com Agribusiness

9. John Nicholls

Board Responsibilities *Farmer-elected Director, Member of the Co-operative Relations Committee*

Term of Office *Elected 2018*

John Nicholls was elected to the Fonterra Board in 2018. John previously served on the Fonterra Shareholders' Council from 2009 to 2011 and is an experienced company Director. John is Chairman of MHV Water (formally Mayfield Hinds Irrigation Limited), New Zealand's largest intergenerational irrigation co-operative, and he also serves on other local Boards. John has a Degree in Agriculture and a Postgraduate Diploma in Agricultural Science. He has shareholding interests in the South Island, owning six dairy farms in mid Canterbury.

B.Agr, PG AgrSci

10. Donna Smit

Board Responsibilities *Farmer-elected Director, Member of the Audit and Finance Committee and the Co-operative Relations Committee*

Term of Office *Elected 2016*

Donna Smit was elected to the Fonterra Board in December 2016. Donna serves on the Board of the Manager of the Fonterra Shareholders' Fund. Donna lives and farms at Edgumbe, and has built and owns five dairy farms in Eastern Bay of Plenty and Oamaru. Donna is a Director of EastPack Limited and Kiwifruit Equities Limited and a Trustee of the Dairy Women's Network. Donna is a Chartered Accountant and was a company administrator at kiwifruit co-operative EastPack for 24 years. Donna's strong focus on financial and risk management has been built through her extensive business experience and financial background, and complements her deep dairy farming experience.

FCA

11. Scott St John

Board Responsibilities *Appointed Director, Chair of the Milk Price Panel and Member of the Audit and Finance Committee and the Safety and Risk Committee*

Term of Office *Appointed 2016*

Scott St John was appointed to the Fonterra Board in 2016. He was the CEO of First NZ Capital (FNZC) for 15 years, stepping down from that role in early 2017. Scott has served on the Council of the University of Auckland since 2009 and was appointed Chancellor in 2017. He is a Director of Fisher and Paykel Healthcare and chairs their Audit and Risk Committee. Scott also serves on the Board of Mercury NZ Limited and NEXT Foundation. Previous roles have included Chairman of the Securities Industries Association, serving on the Board of First NZ Capital and membership of both the Capital Markets Development Taskforce and the Financial Markets Authority Establishment Board.

B.Com, Diploma of Business

Management Team



1. Miles Hurrell
2. Marc Rivers
3. Deborah Capill
4. Mike Cronin
5. Robert Spurway
6. Judith Swales
7. Kelvin Wickham

1. Miles Hurrell

Chief Executive Officer

Miles Hurrell is the Chief Executive Officer of Fonterra. His appointment as CEO in August 2018 follows a 19-year career with our Co-operative which has spanned four continents. Miles is focused on resetting the business and implementing our Co-op's new strategy to deliver sustainable value. Prior to his appointment as CEO, Miles held the role of Chief Operating Officer, Farm Source, with responsibility for farmer services and engagement, milk sourcing and the operation of New Zealand's 70 Farm Source™ retail stores. Before this, Miles held a number of leadership roles across our Co-op, including Group Co-operative Affairs Director and General Manager Middle East, Africa, Russia and Eastern Europe where he led a period of sustained growth across the region. Earlier in his career, Miles worked as the General Manager of Global Sourcing and oversaw the streamlining of our Co-operative's European operations. Miles has completed management programmes at INSEAD (International Executive Development), London Business School (Finance), Kellogg's North-Western University (Global Sales) and the International Institute for Management Development (Marketing).

2. Marc Rivers

Chief Financial Officer

Marc Rivers joined Fonterra in February 2018 as the Chief Financial Officer, responsible for our Co-operative's finances, procurement and information systems. Marc is an experienced global finance executive with strong strategic leadership capability. Prior to joining Fonterra, Marc was the CFO at Roche Pharmaceuticals Division in Switzerland, with oversight of NZ\$54 billion in sales including 14 manufacturing sites around the world. His division was responsible for product distribution for 140 countries, focusing on the innovation pipeline and customer and market development. Marc has worked in both emerging and established markets, including China, Japan, Thailand, Europe and the US. Marc has a strong track record and is known for his commitment to leading and developing his people while building diverse and inclusive teams. He has a Bachelor of Arts in International Studies and an International Masters of Business Administration, Finance and German from the University of South Carolina, Columbia, USA.

3. Deborah Capill

Managing Director, People and Culture

Deborah Capill joined Fonterra as Managing Director People and Culture in February 2019. She leads a team responsible for delivering Fonterra's people strategy, which includes innovative solutions to attract, develop and retain the best global talent and drive strong engagement across our Co-operative's 22,000 employees. With over 25 years' global experience in both strategic and operational Human Resources roles, Deborah has previously worked for several market-leading companies including Deutsche Post DHL, Williams Lea Tag, NZI and Kodak NZ. Her specialties include building organisation capability and culture, extensive change management experience, outsourcing, managing shared service centres, organisation design, talent management, executive management development and compensation. Deborah has lived and worked in Singapore, Belgium, Czech Republic, the United Kingdom, Germany and New Zealand. She is a New Zealander with a Bachelor of Science Degree and Diplomas in Business Management and Personnel Management.

4. Mike Cronin

Managing Director, Co-operative Affairs

Mike Cronin is the Managing Director Co-operative Affairs, where he oversees Food Safety, Health and Regulatory, Governance, Risk and Audit, Farm Source, Sustainability, Global Stakeholder Affairs, Maori Strategy, Communications, Legal, and Purpose teams. Mike is also responsible for co-ordinating the CEO's office, the Fonterra Management Team, and the Fonterra Board. After joining Fonterra in 2002, Mike has worked on many of Fonterra's most significant projects, including the buyback of the Anchor brand in New Zealand, Trading Among Farmers, the Governance and Representation Review, and the refresh of the Fonterra Purpose. Prior to 2014 when he joined the Fonterra Management Team, Mike was the General Manager of Strategy Deployment and then Group Director Governance and Legal. Mike has a Bachelor of Laws and Bachelor of Arts from the University of Auckland.

5. Robert Spurway

Chief Operating Officer, Global Operations

Robert Spurway joined Fonterra in 2011. As Chief Operating Officer, Global Operations, Robert leads Fonterra's global operations business and is responsible for our Co-operative's manufacturing and supply chain operations in New Zealand and around the world. In his previous role he was responsible for overseeing milk collection, manufacturing and logistics for our Co-operative's New Zealand milk supply. Prior to that, he was Fonterra's South Island Regional Operations Manager. In this role, he oversaw the greenfield development of our Co-operative's Darfield site. Robert has more than 25 years' experience in the food and dairy industries. After managing the Northland Dairy Company's Dargaville site, he moved to Australia in 1999, where he held various roles in Goodman Fielder Australia. From 2008 to 2011, Robert led two Australian food companies before returning to New Zealand. Robert holds a Bachelor of Engineering (Chemical and Materials).

6. Judith Swales

Chief Operating Officer, Global Consumer and Food Service

Judith Swales leads Fonterra's Global Consumer and Foodservice business, responsible for delivering innovative nutritional products and solutions to consumers in over 80 countries. Prior to this she led Fonterra's innovation business unit, shaping the future of Fonterra by harnessing innovation, emerging technologies and game changing business models, while embedding a performance driven culture. Judith joined our Co-operative in 2013 as Managing Director Australia and Fonterra Oceania, where she led the successful turnaround of the Australian business and oversaw Fonterra Brands New Zealand. The daughter of a milkman, Judith grew up helping her father on his daily milk run. She has extensive experience in senior management and business turnarounds, and prior to joining Fonterra was the Managing Director of Heinz Australia, and CEO and Managing Director of Goodyear Dunlop, Australia and New Zealand. Judith worked for a number of UK retailers which culminated in her move to Australia in 2001 as the Managing Director of Angus and Robertson. She has served as a Non-Executive Director on the DuluxGroup Board since April 2011 and is a Director on the Global Dairy Platform Board. Judith has a degree in Microbiology and Virology.

7. Kelvin Wickham

Chief Operating Officer, NZMP™

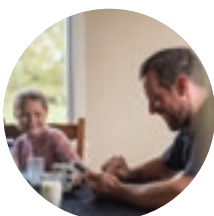
Kelvin Wickham leads the sales and marketing of all Fonterra ingredients globally, delivering solutions to our global customers, ensuring optimisation of supply and demand, commodity price risk management, and championing the NZMP™ brand. Kelvin has more than 30 years' experience in the dairy industry and has played a key role in building markets, customer relationships and partnerships. His previous role of President Greater China and India focused on directing the development of Fonterra's business in these expanding markets, during which he oversaw a period of rapid growth. Prior to that, Kelvin led Fonterra's Supplier and External Relations team, and was Managing Director of Fonterra's Global Trade overseeing the launch of GlobalDairyTrade. From 2005 to 2007 he was the Director of Sales and Operations Planning. Kelvin holds a Chemical and Materials Engineering Degree, a Master of Management and a Diploma of Dairy Science and Technology.

Our year in review

Looking back at some of the big moments
across our business over the last year.

May 2018

- 2018/19 season opens with a forecast Farmgate Milk Price of \$7.00 per kgMS



August 2018

- Miles Hurrell steps into the role of interim CEO
- 2018/19 forecast Farmgate Milk Price revised down to \$6.75 per kgMS

October 2018

- Introduced a forecast Farmgate Milk Price range and revised down the forecast milk price to \$6.25-\$6.50 per kgMS
- We drop our volume ambition, refocus the business on value and set clear cost saving targets

December 2018

- 2018/19 forecast Farmgate Milk Price range revised down to \$6.00-\$6.30 per kgMS
- We announce the Fixed Milk Price scheme to help our farmers gain better certainty of what they will be paid for their milk



July 2018

- John Monaghan becomes Chairman



September 2018

- We outline three immediate steps to lift performance: Take stock of the business, get the basics right and ensure more accurate forecasting

November 2018

- Our Brightwater site begins co-firing its coal boiler on wood biomass



Spring

Good pasture growth leads to strong start to season

Summer

Hot and dry summer in New Zealand, drought in Australia

January 2019

- John Wilson passed away (retired from Board November 2018)

March 2019

- Miles Hurrell becomes permanent CEO
- We sell our interest in Venezuelan consumer joint venture Corporacion Inlaca
- We start a sales process for our 50% share of DFE Pharma



May 2019

- We sell Tip Top to global ice cream company Froneri
- We announce that we are closing our Dennington site in Australia
- 2018/19 forecast Farmgate Milk Price range narrows to \$6.30 - \$6.40 per kgMS
- Forecast earnings per share range revised down to 10-15 cents
- We announce a strategic review of our farm-hubs in China and that we are reviewing ownership of our DPA Brazil joint venture

July 2019

- We put a stop to installing any new coal boilers or increasing capacity to burn coal
- We set new waste targets of zero solid waste to landfill by 2025 and 100% recyclable, reusable or compostable packaging by 2025

February 2019

- We buy a stake in US based food company, Motif Ingredients, a company developing and commercialising bio-engineered animal and food ingredients
- 2018/19 forecast Farmgate Milk Price range increases to \$6.30-\$6.60 per kgMS
- FY19 forecast earnings per share revised down to 15-25 cents and we announce a full strategic review is underway

April 2019

- The Co-operative Difference launches, helping our farmer owners know what is expected now and in the future
- MPI sets three national goals to eradicate Mycoplasma bovis
- Trialled wood pellets in our Te Awamutu site's boiler

June 2019

- We announce the sale of our interest in foodspring



Autumn

Dry in some regions

Our Approach

Embedding sustainability at the heart of everything we do is a strategic priority.

We're a business built from farms passed down from one generation to the next, and that means ensuring the land and natural bounty of our country are preserved for generations to come.

By improving how we dairy, we believe we can make a more positive impact on the world. That means caring about nutrition, our environment, and our communities.

Nutrition:

Improving health and wellbeing through the products and services we deliver.

Environment:

Achieving a healthy environment for farming and society.

Community:

Delivering prosperity for our farmers and wider communities.

Fonterra supports the United Nations' Sustainable Development Goals and we have prioritised ten goals where we believe we can make the most difference. We are joining forces across sectors and society to contribute to a healthier planet and the lifestyles of the people on it.

The Board of Directors has formed a Sustainability Advisory Panel to challenge and guide us as we embed sustainability into our business. The six external experts are: Sir Rob Fenwick, Bridget Coates, Paul Gilding, Michelle Pye, Hugh Logan and Aroha Mead.

- On-track.
- Behind plan.

¹ 94% of sites globally are already certified.



Nutrition

- ✓ **Address public health challenges** by improving the nutritional profile of our products and promoting healthy diets.
- ✓ **Improve access to adequate nutrition** by developing affordable products tailored to specific nutritional needs of communities.
- ✓ **Improve the wellbeing of individuals** by leading innovation in advanced dairy nutritional products to address specific health needs.

FY19 delivery

- Launch a new affordable product.
- Continue to reformulate products to nutritional guidelines.
- Continue to rollout electronic product traceability.

Targets

- 2019: 100% sites certified to leading Food Safety and Quality (FSQ) levels.¹
- 2020: 75% of our product portfolio meets endorsed nutrition guidelines.
- 2025: 100% of our product portfolio meets endorsed nutrition guidelines.

Long-term contribution





Environment

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

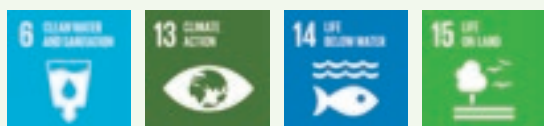
FY19 delivery

- Deliver another 1,000 FEPs.
- Commission biomass co-firing at Brightwater.
- Establish global targets for waste reduction.

Targets

- 2025: All farms have an FEP.
- 2026: All sites treating wastewater to leading industry standards.
- 2030: Climate neutral growth for farming.
- 2030: 30% reduction in GHG emissions for manufacturing operations.
- 2050: Net zero emissions for manufacturing operations.

Long-term contribution



Community

- ✓ **Support healthy, sustainable livelihoods for our farmers** by returning the most value from every drop of milk by moving more of our milk to higher value.
- ✓ **Provide positive livelihoods for our people** by developing a diverse, skilled and agile workforce and promoting a healthy and safe working environment.
- ✓ **Invest in the future of our communities** by sharing what we do best and building farming capability in key emerging dairy markets.

FY19 delivery

- Halve the gender pay gap for New Zealand employees from 2% to 1%.
- Continue to deliver free portions of dairy nutrition for New Zealand children.
- Deliver earnings per share forecast.

Targets

- Continue to invest in community programmes in key markets.
- World-class injury prevention (total recordable injury frequency rate).
- World-class engagement.
- Return on capital above our weighted average cost of capital.

Long-term contribution





We expanded our range of Soprole Protein+ products.



We extended our range of Mozzarella cheeses.



We launched two probiotics into the sports and active lifestyle market.



Anchor™ Greek yoghurt provides a source of protein and calcium.



Protein innovation

No.1

Soprole™ Protein+ Plain yoghurt was voted by consumers as the Product of the Year for innovation.

Providing nutrition

2 Mins.

Anmit™, our affordable nutrition pilot in Ethiopia, is ready in just two minutes.

Nutrition

Our products can help improve the health and wellbeing of people around the world. Here's a snapshot of how we helped this year.

Soprole™ Protein+

In Chile, we have continued to expand our range of Soprole™ Protein+ products this year with four new varieties hitting supermarket shelves. These products offer higher levels of quality dairy protein and help consumers spread their consumption of protein throughout the day. Protein+ Plain yoghurt was voted by consumers as the Product of the Year for innovation.

In New Zealand, we have also continued to expand our range of Anchor™ Protein+ products. Protein has a key role in maintaining bones, muscles, cartilage and skin.

Anchor™ Greek Yoghurt

In New Zealand we launched a new range of Anchor™ Greek yoghurt. It is made with authentic Greek cultures and provides a source of protein and calcium. The natural unsweetened variety has no added sugars and all varieties earn top scores of 4.5 or 5 stars in the Health Star Rating scheme.

Anmit™ – Affordable nutrition

We started piloting an affordable nutrition product in Ethiopia this year called Anmit™, an abbreviation of Anchor™ and Atmit. Atmit is an Ethiopian grain and dairy mixture like a drinkable porridge that can take up to a week to prepare, but our Anmit™ delivers the goodness in just two minutes. Developed with local stakeholders, including the Ethiopian Food and Nutrition Society, it is fortified with nutrients tailored to local needs and delivered at an affordable price.

NZMP™ NutriWhite Dairy-Based Powder

In Africa and South-East Asia it's sometimes difficult for low-income families to buy affordable, quality food. Their diets are often lacking in essential micronutrients. That's why we developed NZMP NutriWhite – an affordable, nutritionally-fortified dairy-based powder – which is designed for adding to tea and coffee. It's fortified with Iron, Zinc, Calcium and Vitamins A, C and D, and also tastes good.

NZMP™ Mozzarella Range

We have extended our range of Mozzarella cheeses to meet the needs of different customers. These include a premium variety right through to a cost-effective option, and some options that meet specific criteria – such as reduced salt. Salt is a vital ingredient in cheese-making. It adds flavour, helps with ripening and works as a natural preservative. Reducing salt is not easy and requires specific know-how, but by doing so means our customers can offer reduced salt options in their product ranges.

NZMP™ SureStart™ MFGM Lipid 70

Our latest innovative paediatric ingredient was launched at Health Ingredients Europe in November 2018. The benefits of MFGM Lipid 70 are backed by science which suggests there is a role supporting infant brain development and cognition, when used in infant formula products. Our ability to manufacture this ingredient at multiple sites gives our customers confidence we can supply the quantities they need.

NZMP™ Lifestyle Probiotics

We launched two NZMP probiotics into the sports and active lifestyle market this year. LactoB 001 (HN001™) and Bifido 019 (HN019™) were originally discovered in New Zealand dairy cultures. After extensive clinical research, we have commercialised these to help people improve their digestive health and immunity. Our specialised processing techniques mean we can offer customers a longer shelf-life in some applications.

Environment

Water and Biodiversity

Healthy freshwater and ecosystems are essential to the long-term success of our business, and to the communities where we live, work and farm.

Farming

On farm, we are helping farmers establish Farm Environment Plans (FEPs) which include a range of prioritised improvements unique to their farm (see Working with our farmers section). To support this we have developed a new nitrogen scorecard. Nitrogen loss risk is calculated across six farm management practices to help farmers further reduce the risk of nitrogen loss.

Sustainable water catchments require collaboration to help protect and regenerate waterways, and meet the environmental aspirations of local communities. Through our Living Water partnership with the Department of Conservation we are identifying game-changing and scalable solutions. In addition, we are supporting farmers, local iwi and community groups to deliver initiatives prioritised by the community. For example, in Canterbury an electric barrier is protecting endangered Mudfish from predators, in Northland work is underway to protect Whitebait habitat, and in other regions there are multiple wetland restoration projects.

Manufacturing

Our new target is to improve water efficiency at manufacturing sites in water-stressed regions by 30% by 2030 and continuously improve water efficiency at all other sites.

To achieve this, there are a large number of initiatives underway across our manufacturing sites. For example, at Edendale, by capturing the steam generated by one of the driers and treating it appropriately, we can reuse it instead of using fresh water. This means we draw less water from the aquifer and have less wastewater to treat. We estimated this initiative saved between 700-750m³ water per day in February when it went live, and can save about 1,000m³ water per day in optimal operating conditions.

Climate Change

Climate change is a global environmental, economic and social challenge, and we support a transition to a low-carbon economy.

Farming

Over the last 25 years, by improving the efficiency of their farming operations, New Zealand farmers have reduced on-farm emissions intensity by about 20%.¹

Owl Farm near Hamilton, a Fonterra farmer and DairyNZ partnership farm, has reduced Green House Gas (GHG) emissions by 8% and lifted operating profit by 14% through improved management practices over the last two years.

Achieving this is challenging and relies on highly-skilled farm management and high-quality data to support decision-making. To support our farmers, we have been working on a trial of farm-specific GHG reporting and our goal is for all our New Zealand farmers to have a report by the end of 2020.

Manufacturing

For our global manufacturing operations, our targets are to reduce our GHG emissions by 30% by 2030 and achieve net zero emissions by 2050.

All sites are focused on energy efficiency. It makes good economic sense, it helps reduce our emissions and will help our transition to low carbon fuel sources. Looking for alternative fuel sources, however, is the key to emissions reduction.

At Brightwater, we converted the boiler so it can co-fire wood biomass with coal. It went live in November 2018, reducing GHG emissions by about 480 tonnes CO₂-e during FY19.

Building on the lessons learned at Brightwater, we completed a successful trial at Te Awamutu where we converted the coal boiler to burn wood pellets and tested for three days. We are working to ensure security and quality of the wood pellet supply, but at this stage it is estimated that moving to this solution would reduce annual emissions by 84,000 tonnes CO₂-e.

¹ Interim Climate Change Committee (2019). Action on Agricultural Emissions (p26).



Nicki Atkinson setting a net at Waituna Lagoon as part of our Living Water partnership.



The Fonterra Australia packaging team with a bench made from recycled soft plastics.



New packaging target

100%

100% recyclable, reusable or compostable packaging by 2025.

New waste target

Zero

Zero solid waste to landfill from our sites by 2025.

On-Farm emissions

20%

In the last 25 years, New Zealand farmers have reduced on-farm emissions by 20%.

Open Gates visitors get a chance for some photos on farm.



A tanker up close at Open Gates.



Enjoying Kickstart Breakfast Club at Putaruru Primary School.

Open Gates

8,000

More than 8,000 people visited Fonterra farms throughout New Zealand.

Milk for Schools

18m

Fonterra farmers provided 18 million portions of milk this year to 140,000 children.

KickStart Breakfast

30m

In the last 10 years more than 30 million breakfasts have been served.



Fonterra Milk for Schools competition winners at Mossburn School got a special visitor.

Community

Caring for people is at the core of our Co-operative.

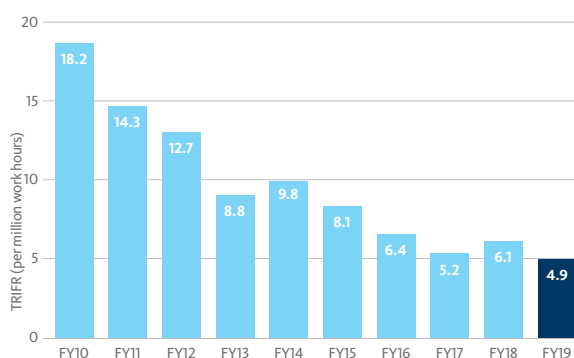
At Fonterra, we contribute to three interconnected communities:

- The people who own and work on the farms that supply us with milk, and others who work in the end-to-end supply chain providing us with goods and services.
- The people who are employed by Fonterra, all around the world.
- The people in the communities where we live and work.

Caring for our people

We want all our people to be healthy, live a balanced life and to go home from work safely every day. This year we reduced our injury rate to 4.9 per million work hours, a level which is considered world class for our industry. Tragically however, a member of staff lost their life on one of our China farms and serious harm injuries increased from 14 to 18. For all fatalities and serious injuries we conduct investigations to identify root causes and take the necessary corrective actions.

Total recordable injury frequency rate



We also recognise the importance of a diverse and inclusive workforce. Our LGBTTI+ (lesbian, gay, bisexual, transgender, takatāpui, intersex) friends and allies network has helped us make good progress towards achieving Rainbow Tick accreditation in New Zealand and we launched new e-learning modules on diversity and unconscious bias.

Connecting our communities – Open Gates

We expanded our Open Gates programme. It gives the public a chance to see what goes on behind farm and factory gates. It's about openness, engagement and education.

More than 8,000 people visited 16 shareholders' farms throughout New Zealand to learn how our farmers care for their animals and the environment. It's an opportunity for Kiwis to experience a working dairy farm, chat with farmers, see cows being milked and check out the technology on a Fonterra milk tanker.

Our Te Rapa, Darfield and Edendale sites also opened their gates, welcoming almost 3,000 visitors to see how we turn raw milk into high-quality nutritious food.

In-school Programmes

Fonterra Milk for Schools

Active in almost 1,400 schools, with around 140,000 children taking part every day, Fonterra farmers provided 18 million portions of milk this year. To celebrate back to school in 2019, schools were invited to nominate their local community hero. The winners were Rangikura School in Porirua, Mossburn School in Southland and Auckland's Willowbank School, who all received a visit from Fonterra Ambassador and former All Black captain, Richie McCaw.

KickStart Breakfast

This year, KickStart Breakfast grew to over 1,000 clubs with more than 30,000 Kiwi kids participating. In the last 10 years, more than 30 million breakfasts have been served through the programme, a partnership with Sanitarium and the Ministry of Social Development. The clubs not only provide kids with a healthy breakfast to kick-start their school day, they also help students develop social skills and take on extra responsibilities.

Caring for communities through social procurement

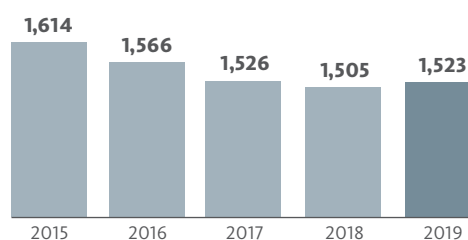
We joined other leading organisations and signed up as founding members of New Zealand's first social procurement buyer group. Established by the Ākina Foundation, the Fwd: platform connects procurement teams with social enterprises that have a positive impact on society as they deliver various goods and services. It gives us another way to do good through our business activities.

Group Financial Metrics

These charts have been selected to represent the financial metrics for Fonterra, to provide an historical summary of our performance.

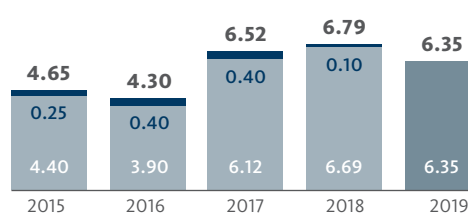
Milk Collection

kgMS (millions)



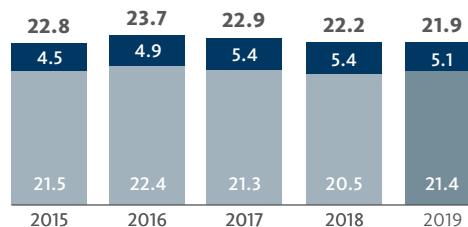
Total Cash Payout

\$ Farmgate Milk Price \$ Dividend



Sales Volume (LME bn)¹

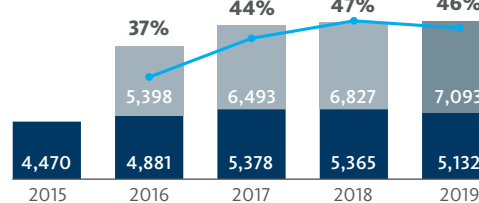
Ingredients Consumer and Foodservice



Volume to Higher Value²

Advanced Ingredients (LME m)⁴

Consumer and Foodservice (LME m)

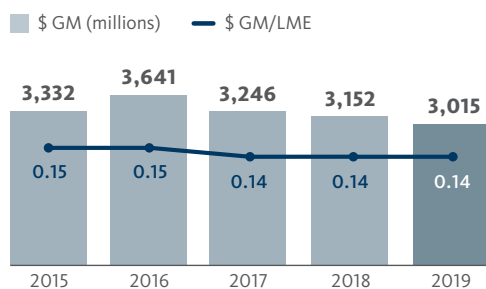
As % of Total LMEs³

¹ Does not add to total due to inter-group eliminations.

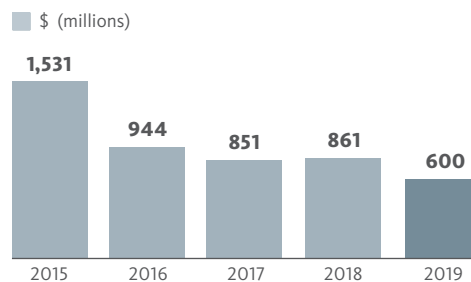
² Advanced Ingredients split only from 2016.

³ Advanced Ingredients and Consumer and Foodservice products as a percentage of total LMEs.

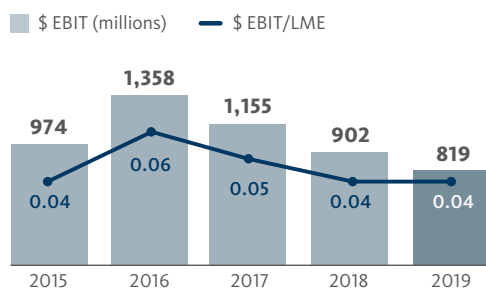
Normalised Gross Margin



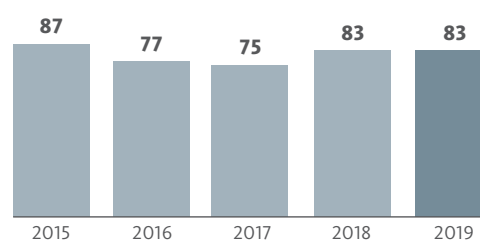
CAPEX⁶



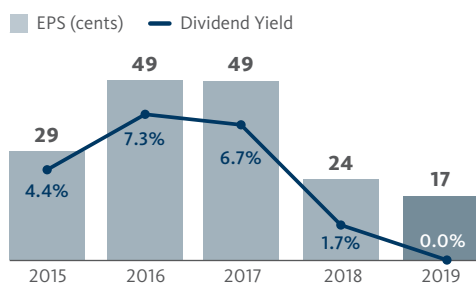
Normalised EBIT



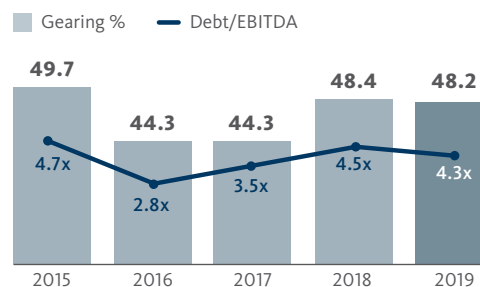
Working Capital Days



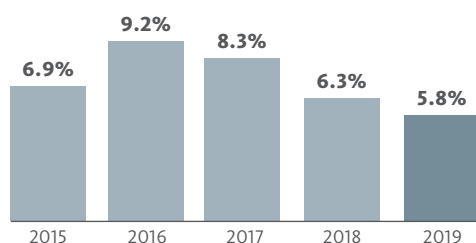
Dividend Yield and Normalised EPS



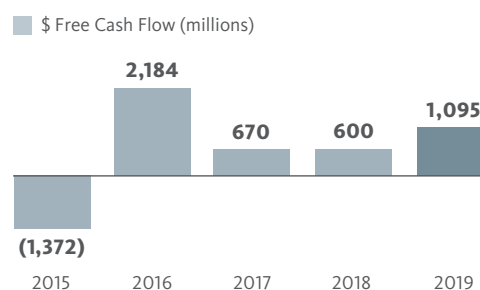
Leverage



Return on Capital (including intangibles and EAI⁵)



Free Cash Flow



4 The way in which Ingredients presents certain inter-segment sales between Ingredients and Foodservice was revised in FY19. This increased FY19 Advanced Ingredients sales volumes for the 12 months ended 31 July 2019 by 946 million LMEs.

5 Equity accounted investments.

6 Capital expenditure comprises purchases of property (less specific disposals where there is an obligation to repurchase), plant and equipment and intangible assets, and net purchases of livestock.

Group Overview

New Zealand Ingredients and our Foodservice business improved on last year but were offset by challenges in some markets, and significant impairments and one-off items, resulting in a net loss. Cash flow improved significantly and solid progress was made on reducing expenditure and decreasing debt.

The performance of the largest part of our business, New Zealand Ingredients, improved on last year with increased sales and lower operating expenses contributing to higher normalised earnings before interest and tax (EBIT). Our global Foodservice business also improved on last year with normalised gross margin up 10%. This was despite lower sales volumes, following a slow start to butter sales in Greater China and Asia. Key areas of challenge in the business included Australia Ingredients, the ingredients and consumer businesses in Latin America and the consumer businesses in Sri Lanka, Hong Kong and New Zealand. These challenges were the main reasons our normalised gross margin was down \$137 million, or 4%, on the previous year, but were largely offset by normalised operating expenses decreasing by \$185 million. 'Other income' declined due to lower one-off gains than the previous year, and as a result our normalised EBIT declined 9% to \$819 million, from \$902 million the previous year.

NZD MILLION	FOR THE YEAR ENDED		
	31 JULY 2019	31 JULY 2018	CHANGE ¹
Volume (LME, billion)	21.9	22.2	(2)%
Volume ('000 MT)	4,139	4,123	0%
Sales revenue	20,114	20,438	(2)%
Normalised gross margin ²	3,015	3,152	(4)%
Normalised gross margin percentage	15.0%	15.4%	–
Other income and other ³	115	246	(53)%
Reported operating expenses	(2,905)	(3,097)	(6)%
Normalised operating expenses ²	(2,311)	(2,496)	(7)%
Reported EBIT	(10)	262	(104)%
Normalised EBIT ²	819	902	(9)%
Net finance costs	(418)	(416)	(1)%
Reported tax expense	(177)	(42)	(321)%
Net loss after tax	(605)	(196)	(210)%
Reported earnings per share (cents)	(0.35)	(0.14)	(153)%
Normalised earnings per share ² (cents)	0.17	0.24	(29)%
Dividend per share (cents)	–	10	–
Adjusted debt to EBITDA ⁴ (ratio)	4.3x	4.5x	
Gearing ratio ⁵	48.2%	48.4%	
Return on capital ⁶	5.8%	6.3%	
Free cash flow ⁷	1,095	600	83%
Capital expenditure	600	861	(30)%

1 Percentages as shown in tables may not align to the calculation based on numbers in the tables due to rounding.

2 Refer to note 2 of the Notes to the Financial Statements.

3 Includes other operating income, net foreign exchange gain/(loss) and share of equity accounted investees.

4 Debt payback ratio is economic net interest bearing debt divided by earnings before interest, tax, depreciation and amortisation (known as Debt/EBITDA). Both Debt and EBITDA are adjusted, from reported amounts, for the impact of operating leases, certain normalisations and non-cash amounts.

5 Gearing ratio is economic net interest bearing debt divided by total capital. Total capital is equity excluding the hedge reserves, plus economic net interest bearing debt.

6 Return on capital is calculated as normalised EBIT, less a notional tax charge divided by capital employed including brands, goodwill and equity-accounted investments. Return on capital, excluding brands, goodwill and equity-accounted investments was 7.6% (31 July 2018: 8.0%).

7 Includes asset divestments.



There were also some significant one-off items. These totalled \$829 million before tax, and increasing to \$885 million after tax. Of this amount, \$59 million was attributable to non-controlling interests and the net amount attributable to equity holders is \$826 million. This included impairing the carrying values of some assets and other one-off accounting adjustments, the most significant being DPA Brazil, our Venezuelan consumer business, China Farms and our New Zealand consumer business. While they do not impact the day to day operations of the business, they are reported in the Income Statement and as a result we have reported a Net Loss After Tax of \$605 million. After adjusting for non-controlling interests, this represented 35 cents per share.

Our continued focus on financial discipline has resulted in a reduction in normalised operating expenses of \$185 million, or 7%, and capital expenditure reducing by \$261 million to \$600 million. Combined with improved trade working capital and divestments, our free cash flow improved significantly and debt reduced by \$469 million. Following the recently announced sale of our holding in foodspring™, and DFE Pharma for cash proceeds of \$0.6 billion, our debt is forecast to be reduced further in the next financial year.

While good progress has been made on improving cash flow and reducing debt, given the disappointing earnings and significant one-off items we decided not to pay a dividend this year.

Net Loss After Tax

\$605_m

Normalised EBIT

\$819_m

9%

Return on Capital

5.8%

from
6.3%

Normalised Earnings Per Share

0.17_c

29%

New Zealand milk collection for the 2018/19 season was 1,523 million kgMS, up 1.2% compared to the previous season. This was a result of the first half of the season benefiting from favourable weather conditions compared with last season. Our sales volume of Liquid Milk Equivalents (LME) was down 2% from 22.2 billion LME last year to 21.9 billion LME, mainly due to lower butter sales volume in Foodservice. On a metric tonne basis, sales volume increased 15,000MT on last year.

Fonterra's total sales revenue declined by 2% to \$20.1 billion, mainly due to product mix.

Our group normalised gross margin percentage reduced from 15.4% last year to 15.0%, predominantly due to reduced margin from the challenges in Australia Ingredients, Latin America and some of our Consumer markets.

In our Ingredients business, New Zealand Ingredients' gross margin performance improved from last year but was offset by Australia Ingredients, which was significantly down on last year due to drought, reduced domestic milk supply and intense competition. As a result, Ingredients normalised gross margin was down 3% to \$1,427 million. Ingredients' normalised operating expenses were down but not sufficient to offset Australia's significantly reduced gross margin, resulting in normalised EBIT down 8% from \$879 million to \$811 million.

Foodservice normalised gross margin increased 10%, mainly due to improved prices and product mix. Overall, Consumer normalised gross margin was down 8% due to the challenges predominantly in Latin America, Sri Lanka and Hong Kong. As a result, total Consumer and Foodservice normalised EBIT was down 14% on last year from \$525 million to \$450 million. Consumer and Foodservice improved its performance in the second half relative to the first half, as both Greater China and Latin America recovered from a slow start, with 70% of earnings generated in the second half. Greater China performance reflected strong demand for Anchor Food Professionals™ UHT milk and Anchor Food Professionals™ culinary cream. However, high in-market butter inventories impacted our sales volume and margins during the first half of the year.

Our Oceania Consumer and Foodservice business improved over last year, particularly across all core categories in our Australia Consumer business. This was offset by our performance in Latin America, with Soprole being impacted by a 'buy local' marketing campaign, which impacted the sales of a number of foreign owned companies. Latin America has recovered to more normal performance levels in the final quarter of 2019, with nearly three quarters of Latin America's 2019 earnings generated in the fourth quarter.

The performance of our two Fonterra-owned farming hubs in China improved, however, the joint venture farms increased their losses as they go through the start-up phase. We are continuing to see improvement in the average price our Ingredients business has been achieving for milk from our China Farms, with 39% of our revenue from milk sold for more than 4RMB versus 19% in 2018. But it is still less than what Ingredients buys it for. Our end-to-end China Farms operation recorded a total loss of \$30 million, compared to a loss of \$38 million last year.

With our continued focus on financial discipline, we have made good progress on reducing our expenditure. Our normalised operating costs were \$2,311 million this year, \$185 million below the previous year, and we intend to continue reducing these further. We also made significant progress reducing our capital expenditure. We set ourselves a target to reduce our capital expenditure by \$200 million this year. We achieved a \$261 million reduction, with capital expenditure decreasing from \$861 million last year to \$600 million.

Our net finance costs were in line with the previous year but our tax expense increased by \$135 million, from \$42 million last year to \$177 million. This was mainly due to the derecognition of the deferred tax asset from our joint venture in Brazil.

While our earnings performance has been disappointing, our cash flows and liquidity are strong and contribute to the strength of our balance sheet. This year, our free cash flow, being the cash flow that is available to pay interest and dividends and to reduce debt, increased by \$495 million to \$1,095 million. The main reasons for this were lower capital expenditure, and proceeds from divestments, combined with our continued strong controls on working capital, with working capital days unchanged at 83 days.

With the improved free cash flow, we reduced our economic net interest bearing debt by \$469 million. This was less than our target of \$800 million by 31 July 2019, but with continued financial discipline and the proceeds from the divestment of our interests in foodspring™, and in DFE Pharma, and our plan to sell some of our shares in Beingmate, we are confident that we will reduce our debt and leverage to within our target ranges.

As a result of the full business review, it became clear that Fonterra needed to reduce the carrying value of several of its assets and take account of other one-off accounting adjustments. These totalled \$829 million before tax, and increasing to \$885 million after tax. Of this amount, \$59 million was attributable to non-controlling interests and the net amount attributable to equity holders is \$826 million.

Our carrying value of DPA Brazil has been impaired by \$149 million before tax and \$259 million after tax, of which \$200 million is attributable to equity holders. This change is mainly due to the economic conditions in Brazil and business performance recovering slower than previously forecast.

As a result of the sale of our Venezuelan consumer business, and the closing of our small Venezuelan Ingredients business, we made an accounting adjustment of \$134 million relating primarily to the release of the adverse accumulated foreign currency translation reserve.

Our carrying value for China Farms was impaired by \$203 million due to the slower than expected improvement in operating performance.

In our New Zealand Consumer business, the impact of the strategy review is a \$244 million loss before tax and a \$210 million loss after tax. This is due to the accounting loss on disposal from selling Tip Top, and impairment of the consumer business assets reflecting the compounding effect of operational challenges, along with a slower than planned recovery in our market share.

Our Australian Ingredients business is adapting to lower milk collections. As a result we announced the closure of our Dennington factory, which combined with other restructuring costs, saw a one-off adverse impact of \$68 million before tax and \$50 million after tax.

Normalised Operating Expenses

\$2,311m 7%

Free Cash Flow

\$1,095m 83%

Capital Expenditure

\$600m 30%



Our continued focus on financial discipline has contributed to the strength of our balance sheet.

Ingredients

New Zealand Ingredients' performance improved on last year. However, our normalised EBIT declined 8% to \$811 million due to ongoing challenges in our offshore businesses – Australia Ingredients and Prolesur in Chile.

Summary Financials

NZD MILLION	FOR THE YEAR ENDED		
	31 JULY 2019	31 JULY 2018	CHANGE ¹
Volume (LME, billion)	21.4	20.5	4%
Volume ('000 MT)	3,171	2,986	6%
Sales revenue	17,035	16,306	4%
Normalised total gross margin	1,427	1,472	(3)%
Normalised New Zealand Ingredients	1,332	1,297	3%
– New Zealand Reference products	626	555	13%
– New Zealand Non-reference products	701	791	(11)%
– China raw milk ²	(19)	(30)	37%
– Other gross margin	24	(19)	225%
Normalised Australia Ingredients	10	77	(87)%
Other gross margin	85	98	(13)%
Normalised EBIT	811	879	(8)%
Gross margin (\$ per MT) – New Zealand Ingredients			
Reference products (\$ per MT)	336	309	9%
Non-reference products (\$ per MT)	905	1,275	(29)%

New Zealand milk collection for the 2018/19 season was 1,523 million kgMS, up 1.2% compared to the previous season. This was mainly because of favourable weather conditions in the first half, resulting in higher peak day collections. However, less favourable on-farm conditions in the second half meant collections were down in the second half compared to last season; the net result being collections were up 18 million kgMS on last season.

As noted in the 2019 Interim Report, volume and sales revenue for Ingredients in FY19 now includes all inter-segment sales, whereas previously some sales to Foodservice were only shown in Foodservice. This was due to the way in which Ingredients presents certain inter-segment sales between Ingredients and Foodservice being revised in 2019. The change increased Ingredients' sales volumes for the 12 months ended 31 July 2019 by 1.1 billion LME and 188,000MT, and increased sales revenue by \$901 million. This change had no impact to the reported gross margin for the Ingredients or Foodservice businesses. Therefore on a like for like basis, total sales volumes and revenue were down from last year due mainly to lower sales in Australia Ingredients and product mix changes.

Overall, our Ingredients' normalised gross margin was down from 9.0% to 8.4% and in dollar terms it declined 3% to \$1,427 million, largely due to challenges in our Australian Ingredients business. Lower operating expenses, down \$73 million to \$735 million, were not enough to offset Australia's performance and lower 'other operating income', resulting in Ingredients' normalised EBIT declining 8% to \$811 million.

Normalised New Zealand Ingredients' gross margin increased 3% to \$1,332 million. We have seen favourable pricing within both the reference and non-reference portfolios, with higher price premiums achieved from global accounts and government tenders and favourable price relativities achieved in the non-reference portfolio.

¹ Percentages as shown in tables may not align to the calculation based on numbers in the tables due to rounding.

² China raw milk gross margin represents the net benefit/(loss) from the external sale of milk produced by China Farms and sold to the Ingredients business in China at an internal raw milk price.

This was because the average price for non-reference products decreased less than the fall in reference product pricing. New Zealand Ingredients' favourable pricing was partially offset by higher conversion costs associated with bringing new plants online and additional costs of processing larger volumes of milk at peak. The gross margin on our reference products was \$626 million, up 13% on last year reflecting the lower cost of fat following a decline during the year in fat prices. The gross margin for non-reference products was \$701 million, down 11% on the year before due to the increased cost of protein. Our New Zealand Ingredients business also benefited from improved 'other gross margin', predominantly in its global sourcing business due to favourable commodity prices.

The New Zealand Ingredients' gross margin was also impacted by a \$19 million loss representing the difference between the domestic milk price and the internal raw milk price paid to China Farms. Last year this loss was \$30 million. We include the China Farms' volumes and earnings in Ingredients as we use our sales expertise to maximise sales revenue of the raw milk.

In Australia, milk collection for the 2018/19 season was 120 million kgMS, 33 million kgMS or 22% lower than the 2017/18 season. Reduced Australian collections were due to poor seasonal conditions and high input costs, primarily feed and water, leading to herd size reductions, farm exits from key regions (particularly northern Victoria) and declining share in a highly competitive market.

Higher milk prices and a smaller milk pool meant Australia Ingredients had a challenging year. We increased our milk price in response to the competitive market, but lower collections meant that some factories were underutilised. These factors increased our cost of goods and adversely impacted our normalised gross margin, which declined from \$77 million to \$10 million. We rationalised resources at Stanhope and continue to work with a range of partners to fill Darum, which returned to 100% Fonterra ownership this year after we unwound the joint venture with Beimgmate. We also announced the closure of our Dennington site in Victoria. The closure had a one-off impact on earnings of \$54 million, which was normalised.

We undertook a business simplification process which resulted in a significant reduction in operating expenses, and addressing this overcapacity is expected to result in future cost savings. We expect high milk prices to continue to be a factor next season, and product mix will be important as we utilise a smaller milk pool.

In Latin America, Prolesur's milk collections were down 16% due to strong competition for farmers' milk. The increased cost of milk and reduced collections resulted in Prolesur not making a profit. Prolesur was the main reason Ingredients' 'other gross margin' was down 13% to \$85 million.

New Zealand Ingredients' Normalised Gross Margin

\$1,332m

3%

Normalised Total Gross Margin

\$1,427m

3%

New Zealand Ingredients' Revenue and Volume¹

NZD MILLION	FOR THE YEAR ENDED		
	31 JULY 2019	31 JULY 2018	CHANGE
PRODUCTION VOLUME ('000 MT)			
Reference products	1,881	1,849	2%
Non-reference products	768	762	1%
SALES VOLUME ('000 MT) ²			
Reference products	1,864	1,794	4%
Non-reference products	774	620	25%
REVENUE PER MT (NZD) ²			
Reference products	4,739	4,851	(2)%
Non-reference products	5,427	5,637	(4)%

¹ Table excludes bulk liquid milk. Bulk liquid milk for the 12 months to 31 July 2019 was 73,000 MT (12 months ended 31 July 2018: 68,000 MT).

² The way in which Ingredients presents certain inter-segment sales between Ingredients and Foodservice was revised in FY19. This increased sales volumes for the 12 months ended 31 July 2019 by 21,000 MT and 167,000 MT on reference and non-reference products respectively, and increased sales revenue by \$153 million and \$748 million on reference and non-reference products respectively. This change had no impact to the reported gross margin for the Ingredients business.

Consumer and Foodservice

Our Foodservice business improved on last year despite a slow start in butter sales. However, our Consumer business was down on last year due to challenges in some markets. Normalised EBIT for our combined Consumer and Foodservice business was down 14% to \$450 million.

Overall, sales volumes in LME were down 4% on last year mainly due to the lower sales of butter in Greater China and Asia in the first half. Foodservice's normalised gross margin percentage improved from 15.7% to 18.0%, but was offset by a reduction in Consumer's normalised gross margin percentage from 27.9% to 25.7%, largely due to pricing pressure in Latin America and Asia.

Normalised operating expenses reduced by \$40 million, but this was not sufficient to cover the reduced normalised gross margin resulting in normalised EBIT decreasing 14% on last year to \$450 million. The slow start to the year was also reflected in earnings, with 70% of normalised EBIT earned in the second half of the year. Our Oceania Consumer and Foodservice business performed well, with normalised EBIT of \$92 million, up 38% from last year.

Summary Financials

NZD MILLION	FOR THE YEAR ENDED		
	31 JULY 2019	31 JULY 2018	CHANGE ¹
Volume (LME, billion) ²	5.1	5.4	(4)%
– Consumer	2.9	2.9	1%
– Foodservice	2.2	2.4	(10)%
Volume ('000 MT)	1,782	1,765	1%
Sales revenue	7,011	7,122	(2)%
Normalised gross margin	1,621	1,683	(4)%
Normalised gross margin (%)	23.1%	23.6%	–
– Consumer	25.7%	27.9%	–
– Foodservice	18.0%	15.7%	–
Normalised EBIT	450	525	(14)%

Normalised EBIT: key performance drivers

NZD MILLION	FOR THE YEAR ENDED	
	31 JULY 2019	31 JULY 2018
Normalised EBIT prior year	525	576
Volume	16	(18)
Price	(180)	671
Cost of goods sold	102	(714)
Operating expenses and other ³	(13)	10
Normalised EBIT	450	525

¹ Percentages as shown in tables may not align to the calculation based on numbers in the tables due to rounding.

² Summing of individual numbers from the regional and divisional breakdown may not add up to the totals in each category due to rounding.

³ Includes net other operating income, net foreign exchange gains/losses and share of profit/loss of equity accounted investees.

Greater China

In Greater China our volumes declined 15% on last year to 1,208 million LME, driven by a similar decrease in Foodservice volumes as a result of higher in-market butter inventories at the start of the year. This situation was resolved in the second half with improved volumes and earnings. Growth in Mainland China's Consumer business was offset by subdued retail sales in Hong Kong, resulting in Greater China Consumer volumes decreasing 10% on last year.

Foodservice gross margins increased to 18.1% compared to 15.2% last year. The main reason was good growth in both Anchor Food Professionals™ UHT milk and Anchor Food Professionals™ UHT culinary cream in the Beverage House channel. Our Anchor™ UHT cream volumes, had strong growth and we are continuing to innovate in this area, including the launch of a beer macchiato in July.

Consumer normalised gross margin was down 3% to \$145 million. Bringing Annum™ distribution in-house has returned a profit of \$6 million with growth expected to continue next year. However, subdued retail sales in Hong Kong impacted Annum™ and Anlene™ performance. This has weakened our overall Consumer sales volumes and normalised gross margin for Greater China. Normalised EBIT was \$160 million in Greater China Consumer and Foodservice, down 3% on last year's \$165 million.

Latin America

Our sales volumes in Latin America were up 4% to 779 million LME but normalised gross margin was down 13% to \$399 million. Our earnings declined 66%, with normalised EBIT down from \$117 million last year to \$40 million.

The main reason for the decline in earnings was a result of a 'buy local' marketing campaign in Chile, which impacted the sales and earnings of a number of foreign-owned companies, including our own, Soprole. However, Soprole's performance has shown signs of returning to more normal earnings levels in the last quarter of FY19, with nearly three quarters of Latin America's FY19 earnings generated in the fourth quarter. Soprole's brand strength means it holds a number one position in most consumer product categories.

In Brazil, economic challenges led to higher input costs for milk, which impacted our gross margins for the first three quarters of 2019. However, the last quarter saw an improvement in normalised gross margins and market shares.

We had lower volumes in Venezuela, driven by the country's severe socio-economic situation which restricted consumers' ability to access goods and services, and made accessing the raw ingredients and materials to run our factories challenging. For these reasons, we exited the market in March and as a result had one-off items impacting our earnings.

Greater China Normalised Gross Margin

\$349_m  4%

Latin America Normalised Gross Margin

\$399_m  13%

Asia Normalised Gross Margin

\$451_m  1%

Oceania Normalised Gross Margin

\$422_m  3%



Greater China Foodservice margins were up despite a slow start to butter sales.

OUR PERFORMANCE

Consumer and Foodservice CONTINUED

Consumer and Foodservice Performance

	LME (BILLION)			NORMALISED EBIT (\$M)		
	YEAR ENDED 31 JULY 2019	YEAR ENDED 31 JULY 2018	CHANGE ¹	YEAR ENDED 31 JULY 2019	YEAR ENDED 31 JULY 2018	CHANGE ¹
Consumer and Foodservice ²	5.1	5.4	(4)%	450	525	(14)%
Oceania	1.7	1.7	2%	92	67	38%
Asia	1.4	1.5	(6)%	158	176	(10)%
Greater China	1.2	1.4	(14)%	160	165	(3)%
Latin America	0.8	0.7	4%	40	117	(66)%

Asia

Our sales volumes in Asia were down 6% to 1.4 billion LME, predominantly due to lower butter sales in the Middle East and Indonesia. The Middle East was impacted by challenging economic conditions and in Indonesia we have focused on value, moving away from lower margin butter sales, which has resulted in improved gross margin. In Sri Lanka, political uncertainty and price constraints contributed to lower margins and a decrease in Asia's overall normalised gross margin from 24.5% last year to 24.2%.

Our Asia Consumer business volume declined 2% to 890 million LME. In Malaysia, our Fernleaf™ powder sales volume has grown 51% year-on-year supported by the increase in market share from 24% to 31% in the Family Milk Powder segment. The increase was mainly driven by customer trend switching from value-add powders to full cream milk powder. However, this was more than offset by the lower butter sales in the Middle East and trading challenges in Sri Lanka. The pricing constraints in Sri Lanka were the main reason for normalised gross margin decreasing in Asia Consumer, down 5% to \$359 million.

In Foodservice, volumes were down 13% to 559 million LME also due to the lower butter sales in the Middle East and Indonesia. Sales volume in Thailand increased on last year due to Anlene™ and Annum™ continuing to perform well, with total market share increasing from 40% to 43%. The change in Indonesia's operating model was the main contributor to the normalised gross margin increasing in Asia Foodservice, up 17% to \$93 million.

Our normalised EBIT for Consumer and Foodservice in Asia was \$158 million down 10%, predominantly due to 'other income' declining as a result of fewer one-off gains than the previous year.

Oceania

Our performance in Oceania Consumer and Foodservice improved from last year. Sales volumes were up 2% to 1.7 billion LME, largely due to good growth across all core categories in our Australia Consumer business. Gross margin was down 3% to \$422 million due to lower gross margin in New Zealand Consumer from pricing competition in key categories. The lower Oceania gross margin was more than offset by the result of New Zealand Consumer's commitment to cost control and improved manufacturing performance. This resulted in an improved Oceania Consumer and Foodservice normalised EBIT of \$92 million, up 38% from last year.

In our Consumer business, sales volumes were up 3% to 1.3 billion LME. Australia's Consumer volumes grew across our core categories, where we continue to be the largest branded player in spreads and cheese with 34% and 22% value share respectively. This is our highest share in spreads in five years and reflects our strong focus on partnering with retailers to drive category growth. New Zealand's Consumer volumes were down due to our market share declining in key categories, particularly yoghurt and cheese. However, reduced operating expenditure meant it contributed positively to Oceania earnings growth. Our New Zealand Consumer business continues to focus on improving its service levels and has seen strong improvement this year in customer surveys, lifting from the bottom of the survey to within the top half.

Oceania's Foodservice business performed well against last year due to Australia. Our Australian Foodservice business continues to be recognised by industry partners with numerous supplier awards, which has contributed to this result. Oceania's Foodservice sales volumes were up 1% to 433 million LME and gross margin was up 5% to \$98 million.

¹ Percentages as shown in tables may not align to the calculation based on numbers in the tables due to rounding.

² Summing of individual numbers from the regional and divisional breakdown may not add up to the totals in each category due to rounding.



Foodservice Normalised Gross Margin

\$426_m  10%

Greater China Foodservice
Normalised Gross Margin

\$203_m  9%

Oceania Normalised EBIT

\$92_m  38%

China Farms

Our farming operations in China comprise seven farms across two hubs, producing high-quality fresh milk for the China ingredients, foodservice and consumer markets, and an investment in two farms with our joint venture partner.

We milk more than 31,000 cows across our two farm hubs in China – around 17,000 at Yutian and 14,000 at Ying. Sales volumes were down 5% to 259 million LME compared to last year. Rainstorms and floods in Yutian and animal health costs have impacted milk production and subsequently sales volumes.

On a full end-to-end basis, China Farms made total losses of \$30 million normalised EBIT. This is made up of a \$14 million direct loss from China Farms inclusive of our share of losses on the joint venture farms of \$19 million, a further \$20 million loss in Ingredients and \$4 million gain in Consumer and Foodservice.

Factors impacting performance were lower production volumes, additional animal management costs, and increasing feed commodity prices due to trade disputes between China and the US. Initiatives to drive efficiencies on-farm and reduce our cost base did improve performance in the second half.

China Farms Reported Financials

NZD MILLION	FOR THE YEAR ENDED		
	31 JULY 2019	31 JULY 2018	CHANGE ¹
Volume (LME, billion)	0.3	0.3	(5)%
Volume ('000 MT)	20	22	(5)%
Sales revenue	249	262	(5)%
Normalised gross margin	5	5	(6)%
Normalised EBIT	(14)	(9)	59%

End-to-End China Farms Normalised EBIT

NZD MILLION	FOR THE YEAR ENDED		
	31 JULY 2019	31 JULY 2018	CHANGE ¹
China Farms	(14)	(9)	(59)%
– Fonterra-owned	5	(4)	247%
– Joint venture	(19)	(5)	(259)%
New Zealand Ingredients	(20)	(30)	33%
Consumer and Foodservice	4	1	194%
Total	(30)	(38)	21%

Our Ingredients business is responsible for purchasing the raw milk from the Fonterra-owned farms and capturing the highest value for this milk. We have seen an improvement in the average price Ingredients has been achieving for milk, which has seen our loss from China Farms in Ingredients decrease from \$30 million last year to \$20 million this year. In FY19, domestic milk prices improved and 39% of our revenue was from milk sold for more than 4RMB, versus 19% in FY18.

Our strategy for China Farms is to deliver the highest value through integrating them into our Ingredients and Consumer and Foodservice businesses in Greater China. China Farms' partnerships with Carrefour, Hema Fresh, Starbucks, McDonald's and other Quick Service Restaurant channels continue to build positive momentum, as its raw milk goes into higher value channels. These volumes are up to 12% of our milk from China Farms, up 7% from last year.

¹ Percentages as shown in tables may not align to the calculation based on numbers in the tables due to rounding.



Normalised Gross Margin

\$5_m

6%

Costs down

33%

FROM
2018

Historical Financial Summary

Market Statistics

	JULY 2019	JULY 2018	JULY 2017	JULY 2016	JULY 2015
Fonterra Seasonal Statistics¹					
Total New Zealand milk collected (million litres)	17,123	16,932	17,051	17,585	18,143
Highest daily volume collected (million litres)	85.4	82.0	80.1	86.9	89.7
New Zealand shareholder supply milk solids collected (million kgMS)	1,413	1,404	1,417	1,453	1,520
New Zealand contract supply milk solids collected (million kgMS)	110	101	109	113	94
New Zealand milk solids collected (million kgMS)	1,523	1,505	1,526	1,566	1,614
Total number of shareholders at 31 May	9,887	10,162	10,267	10,579	10,753
Total number of sharemilkers at 31 May	2,602	2,712	2,722	3,098	3,379
Total number of shares on issue at 31 May (million)	1,612	1,612	1,607	1,602	1,599
Shareholder Supplier Returns					
Farmgate Milk Price (per kgMS) ²	6.35	6.69	6.12	3.90	4.40
Dividend (per share)	–	0.10	0.40	0.40	0.25
Dividend yield (%) ³	–	1.7	6.7	7.3	4.4
Cash payout (per share) ⁴	6.35	6.79	6.52	4.30	4.65
Retentions (per share) ⁵	–	–	0.06	0.11	0.04
Weighted average share price (\$ NZD) ⁶	4.63	5.84	5.96	5.48	5.60
Weighted Average Commodity Prices (\$ USD per MT FOB)					
Whole Milk Powder ⁷	2,907	3,091	2,855	2,111	2,639
Skim Milk Powder ⁷	2,216	1,968	2,216	1,803	2,552
Butter ⁷	4,448	5,575	4,221	2,830	3,027
Cheese ⁸	3,772	3,853	3,763	2,766	3,477
Fonterra's average NZD/USD conversion rate⁹	0.69	0.71	0.70	0.71	0.79
Staff Employed					
Total staff employed (000s, permanent full-time equivalents)	20.0	21.5	21.4	21.3	22.0
New Zealand	11.4	11.9	11.7	11.4	11.9
Overseas	8.6	9.6	9.7	9.9	10.1

Group Overview^{10,11}

	JULY 2019	JULY 2018	JULY 2017	JULY 2016	JULY 2015
Income					
Volume (liquid milk equivalents, billion)	21.9	22.2	22.9	23.7	22.8
Volume (000s MT)	4,139	4,123	4,180	4,313	4,303
Sales revenue (\$ million)	20,114	20,438	19,232	17,199	18,845
Normalised EBITDA (\$ million) ¹²	1,380	1,446	1,681	1,928	1,535
Normalised EBIT (\$ million) ¹³	819	902	1,155	1,358	974
Normalised NPAT (\$ million) ¹⁴	269	382	781	789	456
Reported earnings per share	(0.35)	(0.14)	0.46	0.51	0.29
Normalised earnings per share	0.17	0.24	0.49	0.49	0.29
Revenue Margin Analysis					
Normalised EBITDA ¹⁵	6.9%	7.1%	8.7%	11.2%	8.1%
Normalised EBIT ¹⁶	4.1%	4.4%	6.0%	7.9%	5.2%
Normalised NPAT ¹⁷	1.3%	1.9%	4.1%	4.6%	2.4%
Cash Flow (\$ million)					
Operating cash flow ¹⁸	1,123	1,548	1,376	3,278	668
Free cash flow ¹⁸	1,095	600	670	2,184	(1,372)
Net working capital ¹⁹	3,168	3,432	3,055	2,159	3,650
Capital Measures					
Equity excluding hedge reserve (\$ million)	6,149	6,616	7,056	6,883	7,196
Economic net interest-bearing debt (\$ million) ²⁴	5,730	6,199	5,601	5,473	7,120
Economic debt to debt plus equity ratio ²⁵	48.2%	48.4%	44.3%	44.3%	49.7%
Debt/EBITDA ²²	4.3x	4.5x	3.5x	2.8x	4.7x
Capital employed (\$ million) ²³	12,904	13,052	12,717	13,188	12,918
Capital employed (\$ million) ²⁴	9,668	9,552	9,093	9,392	9,487
Capital expenditure (\$ million) ²⁵	600	861	851	944	1,531
Return on capital (including intangibles and EAI) ²⁶	5.8%	6.3%	8.3%	9.2%	6.9%
Return on capital (excluding intangibles and EAI) ²⁷	7.6%	8.0%	11.1%	12.4%	8.9%

OUR PERFORMANCE

Historical Group Summary CONTINUED

Ingredients^{10,11}

	JULY 2019	JULY 2018	JULY 2017	JULY 2016
Sales Volume (000 MT)^{28,29}				
Reference Products	1,864	1,794	1,841	1,920
Non-reference Products	774	620	696	720
Revenue (\$/MT)^{28,29}				
Reference Products	4,739	4,851	4,262	3,276
Non-reference Products	5,427	5,637	5,567	4,972
Gross Margin (\$/MT)				
Reference Products	336	309	232	330
– Margin	7.1%	6.4%	5.4%	10.1%
Non-reference Products	905	1,275	1,165	1,348
– Margin	16.7%	22.6%	20.9%	27.1%
Ingredients				
Volume (liquid milk equivalents, million) ³⁰	21,421	20,520	21,305	22,390
Volume (000s MT) ³⁰	3,171	2,986	3,019	3,074
Revenue (\$ million)	17,035	16,306	15,266	13,005
Normalised gross margin (\$ million)	1,427	1,472	1,473	1,860
Normalised gross margin % ³¹	8.4%	9.0%	9.7%	14.3%
Normalised earnings (\$ million)	811	879	943	1,204
Normalised earnings margin % ³²	4.8%	5.4%	6.2%	9.3%

Divisional Breakdown – Ingredients^{10,11,33}

	JULY 2019	JULY 2018	JULY 2017	JULY 2016
New Zealand Ingredients				
Volume (liquid milk equivalents, million) ³⁰	19,494	18,427	19,369	20,350
Volume (000s MT) ³⁰	2,972	2,778	2,879	2,911
Revenue (\$ million)	15,393	14,564	14,087	11,835
Normalised gross margin (\$ million)	1,332	1,297	1,333	1,733
Normalised gross margin % ³¹	8.7%	8.9%	9.5%	14.6%
Fonterra Ingredients Australia				
Volume (liquid milk equivalents, million) ³⁰	1,659	1,755	1,619	1,600
Volume (000s MT) ³⁰	328	350	305	316
Revenue (\$ million)	1,760	1,877	1,522	1,396
Normalised gross margin (\$ million)	10	77	78	58
Normalised gross margin % ³¹	0.6%	4.1%	5.1%	4.2%
Other and Eliminations				
Volume (liquid milk equivalents, million) ³⁰	268	338	317	440
Volume (000s MT) ³⁰	(129)	(142)	(165)	(153)
Revenue (\$ million)	(118)	(135)	(343)	(226)
Gross margin (\$ million)	85	98	62	69

Regional Breakdown – Consumer and Foodservice^{10,11,33,34}

	JULY 2019	JULY 2018	JULY 2017	JULY 2016
Oceania				
Volume (liquid milk equivalents, million) ³⁰	1,692	1,656	1,743	1,834
Volume (000s MT) ³⁰	627	623	636	698
Revenue (\$ million)	2,159	2,159	1,952	2,051
Normalised gross margin (\$ million)	422	433	438	444
Normalised gross margin % ³¹	19.5%	20.1%	22.4%	21.6%
Normalised earnings (\$ million)	92	67	87	97
Normalised earnings margin % ³²	4.3%	3.1%	4.5%	4.7%
Asia				
Volume (liquid milk equivalents, million) ³⁰	1,450	1,549	1,624	1,549
Volume (000s MT) ³⁰	297	298	300	292
Revenue (\$ million)	1,862	1,865	1,810	1,944
Normalised gross margin (\$ million)	451	456	501	599
Normalised gross margin % ³¹	24.2%	24.5%	27.7%	30.8%
Normalised earnings (\$ million)	158	176	194	244
Normalised earnings margin % ³²	8.5%	9.4%	10.7%	12.6%
Greater China				
Volume (liquid milk equivalents, million) ³⁰	1,208	1,413	1,278	874
Volume (000s MT) ³⁰	299	266	237	167
Revenue (\$ million)	1,483	1,564	1,277	916
Normalised gross margin (\$ million)	349	335	359	329
Normalised gross margin % ³¹	23.5%	21.4%	28.1%	35.9%
Normalised earnings (\$ million)	160	165	204	131
Normalised earnings margin % ³²	10.8%	10.5%	16.0%	14.3%
Latin America				
Volume (liquid milk equivalents, million) ³⁰	779	747	735	623
Volume (000s MT) ³⁰	559	578	600	643
Revenue (\$ million)	1,507	1,534	1,478	1,385
Normalised gross margin (\$ million)	399	459	446	436
Normalised gross margin % ³¹	26.5%	29.9%	30.2%	31.5%
Normalised earnings (\$ million)	40	117	91	108
Normalised earnings margin % ³²	2.7%	7.6%	6.1%	7.8%
Total Consumer and Foodservice				
Volume (liquid milk equivalents, million) ³⁰	5,129	5,365	5,380	4,882
Volume (000s MT) ³⁰	1,782	1,765	1,773	1,800
Revenue (\$ million)	7,011	7,122	6,517	6,296
Normalised gross margin (\$ million)	1,621	1,683	1,744	1,808
Normalised gross margin % ³¹	23.1%	23.6%	26.8%	28.7%
Normalised earnings (\$ million)	450	525	576	580
Normalised earnings margin % ³²	6.4%	7.4%	8.8%	9.2%

OUR PERFORMANCE

Historical Group Summary CONTINUED

Regional Breakdown – Consumer^{10,11,33,34}

	JULY 2019	JULY 2018	JULY 2017	JULY 2016
Oceania				
Volume (liquid milk equivalents, million) ³⁰	1,258	1,228	1,309	1,415
Volume (000s MT) ³⁰	524	525	538	599
Revenue (\$ million)	1,641	1,644	1,508	1,618
Normalised gross margin (\$ million)	324	340	355	354
Normalised gross margin % ³¹	19.7%	20.7%	23.5%	21.9%
Asia				
Volume (liquid milk equivalents, million) ³⁰	890	906	1,025	1,030
Volume (000s MT) ³⁰	204	201	209	215
Revenue (\$ million)	1,276	1,238	1,284	1,482
Normalised gross margin (\$ million)	359	377	402	492
Normalised gross margin % ³¹	28.1%	30.5%	31.3%	33.2%
Greater China				
Volume (liquid milk equivalents, million) ³⁰	126	139	112	76
Volume (000s MT) ³⁰	76	71	58	43
Revenue (\$ million)	361	343	269	233
Normalised gross margin (\$ million)	145	149	120	105
Normalised gross margin % ³¹	40.2%	43.5%	44.6%	45.1%
Latin America				
Volume (liquid milk equivalents, million) ³⁰	670	653	637	543
Volume (000s MT) ³⁰	527	550	569	613
Revenue (\$ million)	1,364	1,418	1,363	1,289
Normalised gross margin (\$ million)	367	429	414	405
Normalised gross margin % ³¹	26.9%	30.3%	30.4%	31.4%
Total Consumer				
Volume (liquid milk equivalents, million) ³⁰	2,944	2,928	3,084	3,064
Volume (000s MT) ³⁰	1,330	1,347	1,373	1,470
Revenue (\$ million)	4,642	4,643	4,424	4,622
Normalised gross margin (\$ million)	1,195	1,295	1,291	1,359
Normalised gross margin % ³¹	25.7%	27.9%	29.2%	29.4%

Regional Breakdown – Foodservice^{10,11,33,34}

	JULY 2019	JULY 2018	JULY 2017	JULY 2016
Oceania				
Volume (liquid milk equivalents, million) ³⁰	433	427	433	419
Volume (000s MT) ³⁰	104	98	98	99
Revenue (\$ million)	518	515	444	433
Normalised gross margin (\$ million)	98	93	83	90
Normalised gross margin % ³¹	18.9%	18.1%	18.8%	20.8%
Asia				
Volume (liquid milk equivalents, million) ³⁰	559	643	599	520
Volume (000s MT) ³⁰	93	98	90	77
Revenue (\$ million)	586	627	526	462
Normalised gross margin (\$ million)	93	79	99	107
Normalised gross margin % ³¹	15.8%	12.6%	18.8%	23.2%
Greater China				
Volume (liquid milk equivalents, million) ³⁰	1,083	1,273	1,166	798
Volume (000s MT) ³⁰	223	195	179	124
Revenue (\$ million)	1,122	1,221	1,008	683
Normalised gross margin (\$ million)	203	186	239	224
Normalised gross margin % ³¹	18.1%	15.2%	23.7%	32.8%
Latin America				
Volume (liquid milk equivalents, million) ³⁰	109	94	97	80
Volume (000s MT) ³⁰	32	28	32	30
Revenue (\$ million)	143	116	115	96
Normalised gross margin (\$ million)	33	30	32	31
Normalised gross margin % ³¹	22.8%	25.9%	27.8%	32.3%
Total Foodservice				
Volume (liquid milk equivalents, million) ³⁰	2,185	2,437	2,295	1,817
Volume (000s MT) ³⁰	452	419	399	330
Revenue (\$ million)	2,369	2,479	2,093	1,674
Normalised gross margin (\$ million)	426	388	453	452
Normalised gross margin % ³¹	18.0%	15.7%	21.7%	27.0%

OUR PERFORMANCE

Historical Group Summary CONTINUED

China Farms^{10,11}

	JULY 2019	JULY 2018	JULY 2017	JULY 2016
Volume (liquid milk equivalents, million) ³⁰	259	273	335	229
Volume (000s MT) ³⁰	20	22	26	16
Revenue (\$ million)	249	262	269	183
Normalised gross margin (\$ million)	5	5	23	(40)
Normalised gross margin % ³¹	2.1%	1.9%	8.6%	(22.0)%
Normalised earnings (\$ million)	(14)	(9)	1	(59)
Normalised earnings margin % ³²	(5.6)%	(3.4)%	0.4%	(32.2)%

Notes to the Historical Financial Summary

- 1 All seasonal statistics are based on the 12-month milk season of 1 June – 31 May.
- 2 The Farmgate Milk Price has been determined by the Board. In making that determination, the Board takes into account the Farmgate Milk Price calculated in accordance with the Farmgate Milk Price Manual.
- 3 Dividend yield is dividend (per share) over volume weighted average share price for the period 1 August – 31 July.
- 4 Average payout for a 100% share-backed supplier.
- 5 Retentions (per share) are calculated as net profit after tax attributable to Fonterra Co-operative Group Limited shareholders for the year ended 31 July divided by the number of shares at 31 May, less dividend per share. Retentions are reported as nil where Fonterra has reported a net loss after tax.
- 6 Weighted average share price represents the average price Fonterra Co-operative Group Limited shares traded at, weighted against the trading volume at each price over the period 1 August – 31 July.
- 7 Source: Fonterra Farmgate Milk Price Statement representing the weighted-average United States Dollar contract prices of Reference Commodity Products.
- 8 Source: Oceania Export Series, Agricultural Marketing Service, US Department of Agriculture.
- 9 Fonterra's average NZD/USD conversion rate is the rate that Fonterra has converted net United States Dollar receipts into New Zealand Dollars including hedge cover in place.
- 10 Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of reported figures.
- 11 Includes normalisation adjustments.
- 12 Normalised EBITDA is calculated as profit for the period before net finance costs, tax, depreciation and amortisation, adjusted for normalisations.
- 13 Represents earnings before finance income, finance costs and tax.
- 14 Normalised NPAT attributable to equity holders of the Parent.
- 15 Normalised EBITDA divided by normalised sales revenue.
- 16 Normalised EBIT divided by normalised sales revenue.
- 17 Normalised NPAT divided by normalised sales revenue.
- 18 Refer to Cash Flow Statement for detail on Operating cash flow. Free cash flow is the total of net cash flows from operating activities less cash flows from investing activities.
- 19 Net working capital is calculated as total trade and other receivables plus inventories, less trade and other payables. It excludes amounts owing to suppliers and employee entitlements. Previously shown on an inclusive basis.
- 20 Economic net interest-bearing debt reflects total borrowings less cash and cash equivalents and non-current interest-bearing advances, adjusted for derivatives used to manage changes in hedged risks.
- 21 Gearing ratio is economic net interest bearing debt divided by total capital. Total capital is equity excluding the hedge reserves, plus economic net interest bearing debt.
- 22 Debt payback ratio is economic net interest bearing debt divided by earnings before interest, tax, depreciation and amortisation (known as Debt/EBITDA). Both Debt and EBITDA are adjusted, from reported amounts, for the impact of operating leases, certain normalisations and non-cash amounts.
- 23 Capital employed includes brands, goodwill and equity accounted investments.
- 24 Capital employed excludes brands, goodwill and equity accounted investments.
- 25 Capital expenditure comprises purchases of property (less specific disposals where there is an obligation to repurchase), plant and equipment and intangible assets, and net purchases of livestock.
- 26 Return on capital is calculated as normalised EBIT, less a notional tax charge divided by capital employed including brands, goodwill and equity accounted investments.
- 27 Return on capital is calculated as normalised EBIT, less a notional tax charge divided by capital employed excluding brands, goodwill and equity accounted investments.
- 28 Figures exclude bulk liquid milk. The bulk liquid milk volume for the year ended 31 July 2019 was 73,000 MT of kgMS equivalent (year ended 31 July 2018 was 68,000 MT of kgMS equivalent).
- 29 The way in which Ingredients presents certain inter-segment sales between Ingredients and Foodservice was revised in FY19. This increased sales volumes for the year ended 31 July 2019 by 188,000 MT and increased sales revenue by \$901 million. This change had no impact to the reported gross margin for the Ingredients business.
- 30 Includes sales to other strategic platforms.
- 31 Normalised gross margin divided by normalised sales revenue.
- 32 Normalised earnings divided by normalised sales revenue.
- 33 Summing of individual numbers from the regional and divisional breakdown may not add up to the totals in each category due to rounding.
- 34 Includes share of Consumer and Foodservice overhead allocations, the total impact of which is \$67 million.

Corporate Governance

Strong governance plays a critical role in the success of our Co-operative and the Board, Shareholders' Council and Management of Fonterra are committed to achieving the highest standard of corporate governance, representation and leadership.

To support this the Board has developed governance systems that reflect Fonterra's unique characteristics and requirements as a significant New Zealand based co-operative competing in the global dairy market.

Fonterra continuously reviews its governance representation and leadership to ensure they reflect best practice for the Co-operative.

This Corporate Governance statement is current as at 25 September 2019 and has been approved by the Fonterra Co-operative Group Limited Board.

CHANGES TO THE FONTERRA BOARD

The Board of Directors has up to 11 members. The number of Directors elected by farmer shareholders (Farmer Directors) on the Board is not more than seven, with not more than four Directors appointed by the Board (Appointed Directors). There were a number of changes to the Fonterra Board during the financial year ending 31 July 2019:

- In November 2018, Professor Nicola Shadbolt, Mr Ashley Waugh and Mr John Wilson, all Farmer Directors, retired from the Board and Ms Leonie Guiney and Mr Peter McBride were elected to the Board as Farmer Directors.
- In December 2018, Mr John Nicholls was elected to the Board as a Farmer Director.

COMPLIANCE WITH BEST PRACTICE GOVERNANCE STANDARDS

The Board's governance framework takes into consideration contemporary standards in New Zealand and Australia, including the principles in the NZX Corporate Governance Code which came into effect for reporting periods from 1 January 2019 (NZX Code).

Fonterra focuses on governance in a way that promotes:

- the interests of our farmer shareholders, unit holders and other key stakeholders
 - Fonterra's Co-operative philosophy, which is largely expressed through the Co-operative principles
 - transparency, giving our farmer shareholders, unit holders and other stakeholders the information they need to assess our performance
 - effective risk management and compliance to assist Fonterra in meeting its business objectives and all legal and reporting requirements
 - an appropriate balance between the roles and responsibilities of the Board and Management
 - communication with important stakeholder groups, including farmer shareholders, employees, customers, unit holders, debt investors, governments and the communities Fonterra operates in.
-

Corporate Governance CONTINUED

Principle 1: Code of Ethical Behaviour

CODE OF ETHICS

A culture of honesty and integrity is integral to Fonterra's commitment to, and reputation as an organisation that our customers, farmers, business partners and communities trust.

Fonterra expects its Directors, officers and employees to maintain high ethical standards and to operate ethically and legally in the countries where we do business, underpinned by our four values, especially 'Do What's Right'.

Fonterra's code of ethics is made up of three documents: The Way We Work (Code of Business Conduct), the Board Charter and the Group Ethical Behaviour Policy. These documents, available on fonterra.com and supported by our employment agreements and other policy documents, lay out clear expectations for our Directors, officers and employees regarding ethical behaviour, including the requirement for the highest standard of integrity, honesty and transparency, dealing with conflicts of interest, the use of corporate information, assets and property, giving and receiving gifts, procedures for whistle blowing and managing breaches of the code of ethics. The Board has also developed a Code of Conduct for Directors.

The Way We Work also guides us in how to apply Fonterra's four values in everyday situations with our farmers, unit holders, customers, suppliers and the wider community.

Fonterra's Group Ethical Behaviour Policy and The Way We Work are available to all employees on the Fonterra intranet, in multiple languages. As with all Group Policies, training on these documents is an important part of our global induction programme, and there is a yearly check-in and certification process to support our people's awareness and understanding of these. In addition, annual refresher learning on our Ethical Behaviour commitments, expectations, systems and processes is required throughout the business.

Fonterra's independently administered whistleblowing hotline provides individuals with a confidential channel (by phone, email, mail, or online) to report concerns about serious wrongdoing, or behaviour that is unethical or does not meet the standards described in The Way We Work. Individuals are able to make anonymous complaints and raise issues without disclosing their identity to Fonterra.

The hotline is available to everyone across our Co-operative no matter where they are. In the 2019 financial year, 47 reports were made to the hotline. Disclosures are investigated by a Fonterra team not involved in the substance of the concern (Internal Audit, other specialist teams or, where appropriate, an external investigator). Appropriate action is then taken, with timely updates made available to the whistle-blower through the hotline.

Fonterra operates a Conflict of Interest register where our employees must enter actual or potential personal conflicts of interests. Fonterra also operates a Gift & Entertainment register where employees must record all gifts given or received, including hospitality and entertainment with third parties, above a nominal level.

SECURITIES TRADING POLICY

Fonterra has adopted a Securities Trading Policy that details the rules for trading in shares, capital notes, retail bonds, units, milk price futures and options traded on the NZX and other listed securities of Fonterra or the Fonterra Shareholders' Fund from time to time. This applies to Directors, officers, employees and contractors of the Fonterra Group around the world and members of the Shareholders' Council and Milk Price Panel. We do this in addition to legislative requirements for trading securities in New Zealand and Australia.

The Securities Trading Policy and other key Group Policies are available on fonterra.com. All our Directors comply with the legislative requirements for disclosing interests in listed voting securities of Fonterra and its related companies.

Principle 2: Board Composition and Performance

BOARD CHARTER

The Board Charter includes details about the Board's role, responsibilities and obligations, Board composition and procedures including the Chairman's election and role, the Board's relationship with Management, incident management engagement, training provided to Directors, and the process for assessing the Board's performance.

The Charter is reviewed each year. The Board Charter and the Charters of the Board Committees are available on fonterra.com.

BOARD APPOINTMENTS

The Constitution of Fonterra provides for not more than 11 Directors and sets out how they are appointed.

In accordance with the Constitution, not more than seven Directors are elected by farmer shareholders from the shareholder base (Farmer Directors), and not more than four Directors are appointed by the Board (Appointed Directors).

The Board is committed to building capabilities and maintaining the highest standards of governance. The Board considers it important that there is a good balance of experience on the Board. A list of attributes that all Directors must be able to demonstrate has been developed by the Board and is reviewed annually.

The Board has also developed a list of skills that the Board believes are required to effectively govern a complex, international co-operative, operating in multiple markets, and answering to diverse stakeholders. The skills list is reviewed annually and, if required, updated. The Board then develops a Skills Matrix by assessing the required weighting of each skill against the aggregate skills of the current Board.

OUR CORPORATE GOVERNANCE

Corporate Governance CONTINUED

The Skills Matrix is used to identify the skills to be targeted in each year, through the Farmer Director election process and in the appointment of the Appointed Directors. The list of attributes and skills, the Skills Matrix and the Board's targeted skills are published each year as part of the Farmer Director election process to assist potential candidates in assessing their suitability and to assist farmer shareholders when assessing the candidates put forward for election.

In July 2019 changes to the Farmer Director election process were introduced. A three member Independent Selection Panel recommends appropriate candidates to be put to farmer shareholders for their consideration to be elected as Farmer Directors. The members of the Independent Selection Panel are all independent of Fonterra. One member is appointed by the Board, one by the Shareholders' Council and a third appointed by the other two members of the panel. In addition to candidates recommended by the Independent Selection Panel, there is a non-assessed candidate process where candidates can propose themselves for election as Farmer Directors with the support of 35 shareholders. The Farmer Directors are elected by postal ballot and online voting by farmer shareholders. The voting packs circulated to all farmer shareholders include biographical information on each candidate including relevant skills and experience. The elections are overseen by the Shareholders' Council.

The Appointments and Remuneration Committee oversees the process for identifying and recommending potential Appointed Directors. Prior to appointment by the Board, the Fonterra Shareholders' Fund is consulted. The Appointed Directors are ratified by farmer shareholders at the next Annual Meeting.

Appointed Directors are selected to enable the Board to access a full complement of skills and competencies needed to lead an enterprise of Fonterra's size, global reach and complexity.

They bring to the Board perspectives, experience and skills to complement and enhance the attributes and skills provided by the Farmer Directors.

DISCLOSURE

Information about each Director (including experience, length of service, independence and ownership interests and attendance at Board meetings) is disclosed at the end of this section or in the statutory information section of this Annual Review.

DIVERSITY AND INCLUSION POLICY

Embedding diversity and inclusion in how we think, act and operate enables innovation to flourish throughout Fonterra and is fundamental to delivering our sustainable Co-operative ambition.

Fonterra publishes its Diversity and Inclusion Policy on fonterra.com and through the leadership of our Talent and Engagement Director we are driving our strategic framework globally.

Fonterra's Diversity and Inclusion Policy has three key areas of focus:

Our People: attracting, selecting, developing, promoting and retaining diverse talent, while avoiding practices that are discriminatory or exclusive.

Our Strategy: ensuring our organisation reflects the diversity of our markets, customers, stakeholders and the communities in which we operate.

Our Identity: respecting, leveraging and embracing the unique skills and diverse perspectives of our people, reflecting a core Fonterra value of 'Do What's Right'.

DIVERSITY AND INCLUSION TARGETS AND OBJECTIVES

In 2018, Fonterra formalised its commitment to increasing the representation of women and ethnic minorities within senior leadership levels. The Board approved aspirational targets and objectives to increase women in leadership to 50%¹ by 2022 and further targeting a mix of 20% ethnic diversity within global leadership levels.²

To achieve our gender and ethnicity targets, we have placed emphasis on gender balanced long and short-lists for leadership recruitment as well as establishing strong foundations of flexible work practices, pay equity, and attractive parental leave policies to attract, engage and retain women and minorities in our workplace. We are actively working to mitigate the effects of unconscious bias in recruitment, performance and talent management.

Approved targets are underpinned by comprehensive metrics that enable regular reporting on progress globally.

1 Our gender targets include a variance of +/- 10% to account for when we have low population sizes i.e.: n<20.

2 Ethnic diversity is defined as increased representation from minority groups globally.

Corporate Governance CONTINUED

EXECUTIVE LEADERSHIP GENDER COMPOSITION

As at 31 July 2018

FONTERRA MANAGEMENT TEAM		GENDER		
FTE	MALE	FEMALE	GENDER DIVERSE	UNDECLARED
7	6	1	–	–
%	86%	14%	0%	0%

As at 31 July 2019

The gender composition of Fonterra Management Team members changed between 2018 and 2019.

FONTERRA MANAGEMENT TEAM		GENDER		
FTE	MALE	FEMALE	GENDER DIVERSE	UNDECLARED
7	5	2	–	–
%	71%	29%	0%	0%

BOARD GENDER COMPOSITION

As the majority of Directors are appointed by farmer shareholders through an independent process, the Board has not adopted gender targets for the Board in 2019. The Board remains committed to addressing the gender composition of the Board, including by building a pipeline of Directors through the Fonterra Governance Development programme and through the Farmer Director election process.

As at 31 July 2018

BOARD		GENDER		
FTE	MALE	FEMALE	GENDER DIVERSE	UNDECLARED
11	9	2	–	–
%	82%	18%	0%	0%

As at 31 July 2019

As at 31 July 2019 the gender composition of Board members comprised two female and nine male Directors.

BOARD		GENDER		
FTE	MALE	FEMALE	GENDER DIVERSE	UNDECLARED
11	9	2	–	–
%	82%	18%	0%	0%

ONGOING TRAINING

Following appointment to the Board, Directors undertake an induction programme to familiarise themselves with Fonterra and its global business. Areas covered include:

- business strategy and planning
- an overview of key financial metrics to monitor business performance
- an overview of material areas of the Fonterra business, including through meetings with key executives and visits to key offshore markets
- Fonterra's Constitution and other governance systems.

Directors are expected to keep themselves abreast of changes and trends in the business, Fonterra's environment and markets, and the economic, political, social and legal climate generally. The Board holds training and workshops on relevant subjects

each year, is provided with strategic readings each month and Directors are also expected to keep up to date with governance issues. Board visits to Fonterra's global businesses occur regularly.

ASSESS PERFORMANCE

Directors formally assess the performance of the Board each year. A regular programme of peer review of individual Directors occurs as part of an ongoing Director development programme. Directors are also encouraged to attend external development and training programmes. The Shareholders' Council reviews the Board's Statement of Intentions against the performance and operation of the Group and reports on this to farmers annually. The Board is also responsible for reviewing the Chief Executive's performance.

DIRECTOR INDEPENDENCE

The rules of the Fonterra Shareholders' Market (FSM Rules) require Fonterra to have a minimum of two Independent Directors or if there are eight or more Directors, three or one-third of the total number of Directors of Fonterra, whichever is greater. With Fonterra's current Board of eleven Directors, four must be Independent Directors.

In order to be an Independent Director, a Director must not be an executive officer of Fonterra, or have a 'disqualifying relationship'.

A Director has a disqualifying relationship where he or she has a direct or indirect interest or relationship that could reasonably influence, in a material way, the Director's decisions in relation to Fonterra. The FSM Rules contain specific examples of what may give rise to a disqualifying relationship. Appointed Directors cannot be shareholders and are expected to maintain independence for the length of their term.

Farmer Directors must be qualified as farmer shareholders under section 12.3 of the Constitution and are therefore not considered Independent Directors.

As at 31 July 2019, Clinton Dines, Bruce Hassall, Simon Israel and Scott St John each did not have (and continue not to have) any disqualifying relationship in relation to Fonterra and were therefore Independent Directors.

DIVISION OF ROLES

John Monaghan, who is a Farmer Director, is the Board-elected Chairman. The Chairman and Chief Executive roles at Fonterra are not exercised by the same individual.

Principle 3: Board Committees

Fonterra has a number of permanent Board Committees, as detailed below. Additional Board Committees will be formed when it is efficient or necessary to facilitate efficient decision-making by providing for a sub-group of Directors to focus on particular areas or issues and to develop recommendations to the full Board.

The Board Committees have standard 'Terms of Reference' and each committee has a charter, which defines the scope and responsibilities of that committee and is approved by the Board each year. The minutes for each of the Board Committees' meetings are supplied to the Board for review. The charters for each of the Board Committees are available on fonterra.com.

In December 2018 the name and purpose of two Board Committees were updated. The People, Culture and Safety Committee was renamed as the Appointments and Remuneration Committee and the Risk Committee was renamed as the Safety and Risk Committee. Responsibility for health, safety and wellbeing has moved to the Safety and Risk Committee.

During FY19 the Board formed three non-permanent Committees: the Director Election Review Committee, the Divestment Review Committee and the Capital Structure Committee. The Director Election Review Committee was a joint Board and Shareholders' Council Committee established in March 2019 to review what aspects, if any, of the Director election process could be improved. Mr Bruce Hassall, Mr Peter McBride and Mr Brent Goldsack were the Board's appointees to the Committee. The Divestment Review Committee was established in March 2019 to oversee material divestments and similar transactions. Mr Scott St John is the chair of the Committee and Ms Leonie Guiney, Mr Brent Goldsack, Mr Bruce Hassall and Mr Simon Israel are members of the Committee. The Capital Structure Committee was established in June 2019 to provide guidance over Management's review of Fonterra's capital structure. Mr Bruce Hassall is the chair of the Committee and Ms Leonie Guiney, Mr Brent Goldsack, Mr Peter McBride and Mr John Nicholls are members of the Committee.

COMMITTEE OR GROUP	MEMBERSHIP AS AT 31 JULY 2019		PURPOSE
Appointments and Remuneration Committee	John Monaghan (Chair) Andrew Macfarlane Simon Israel (Independent)	Clinton Dines (Independent) Bruce Hassall (observer)	To assist the Board in fulfilling its corporate governance responsibilities in relation to the recruitment, retention, remuneration and development of Directors, executives and other employees.
Audit and Finance Committee	Bruce Hassall (Chair and Independent) Donna Smit Peter McBride	Leonie Guiney Scott St John (Independent)	To assist the Board in fulfilling its corporate governance responsibilities in relation to Fonterra's financial reporting, audit activities, treasury matters, financial risk management and internal control frameworks.
Co-operative Relations Committee	Brent Goldsack (Chair) Andrew Macfarlane John Nicholls	Donna Smit Peter McBride	To assist the Board in fulfilling its corporate governance responsibilities in relation to the supply of milk from Fonterra suppliers, and to seek to resolve supplier complaints before reference to the Milk Commissioner.
Milk Price Panel	Scott St John (Chair and Independent) Bruce Hassall (Independent) Brent Goldsack	Andrew Wallace (Independent) Bill Donaldson	To provide assurances to the Board as to the governance of the Milk Price and the Milk Price Manual, and the proper application of the Milk Price Principles.
Safety and Risk Committee	Leonie Guiney (Chair) Bruce Hassall (Independent)	Brent Goldsack Scott St John (Independent)	To assist the Board in fulfilling its corporate governance responsibilities in relation to Fonterra's management of health and safety and key enterprise wide risks. This includes promoting a safe and healthy working environment and overseeing Fonterra's risk management framework to ensure the behaviours required, guidelines, policies and processes for monitoring and mitigating enterprise-wide risks are in place.

Corporate Governance CONTINUED

BOARD AND COMMITTEE ATTENDANCE

	BOARD		AUDIT AND FINANCE COMMITTEE		APPOINTMENTS AND REMUNERATION COMMITTEE		CO-OPERATIVE RELATIONS COMMITTEE		MILK PRICE PANEL		SAFETY AND RISK COMMITTEE	
	Eligible to Attend	Attendance	Eligible to Attend	Attendance	Eligible to Attend	Attendance	Eligible to Attend	Attendance	Eligible to Attend	Attendance	Eligible to Attend	Attendance
Clinton Dines	16	15	-	-	6	6	-	-	-	-	1	1
Brent Goldsack	16	16	-	-	-	-	5	5	9	9	3	3
Leonie Guiney	9	9	5	5	-	-	-	-	-	-	2	2
Bruce Hassall	16	15	7	7	6	5	-	-	9	5	3	2
Simon Israel	16	12	-	-	6	6	-	-	-	-	-	-
Andrew Macfarlane	16	16	2	2	4	4	5	5	-	-	-	-
Peter McBride	9	8	5	5	-	-	4	4	-	-	-	-
John Monaghan	16	16	3	3	6	6	1	1	-	-	-	-
John Nicholls	7	7	-	-	-	-	4	4	-	-	-	-
Nicola Shadbolt	6	5	1	1	-	-	-	-	-	-	1	1
Donna Smit	16	16	7	7	-	-	5	5	-	-	-	-
Scott St John	16	15	7	6	-	-	-	-	9	9	2	2
Ashley Waugh	6	6	1	0	2	2	-	-	-	-	1	1
John Wilson	7	4	-	-	2	0	-	-	-	-	-	-

AUDIT AND FINANCE COMMITTEE

There is an established Audit and Finance Committee as described above.

The Audit and Finance Committee comprises two Appointed Directors and three Farmer Directors. The Committee is chaired by Bruce Hassall, who is an Independent Director and a Fellow of the New Zealand Institute of Chartered Accountants.

MILK PRICE PANEL

The Board has created the Milk Price Panel for the purpose of providing assurances as to the governance of the Farmgate Milk Price and the proper application of the Farmgate Milk Price Manual and the Milk Price Principles.

The Panel does not determine the Farmgate Milk Price, as this is a decision for the Board.

The Dairy Industry Restructuring Act 2001 (New Zealand) requires that the Chair and a majority of the members of the Panel are independent. The Panel consists of two Appointed Directors, one Farmer Director and two appropriately qualified persons nominated by the Shareholders' Council, at least one of whom must be independent. The Chair must be one of the Appointed Director members. The Panel is currently chaired by Scott St John. Other Board members are Bruce Hassall and Brent Goldsack. The Shareholders' Council appointees are Andrew Wallace and Bill Donaldson. The Board confirmed that at 31 July 2019, Scott St John, Bruce Hassall and Andrew Wallace are considered to be Independent Members of this Panel.

NOMINATIONS COMMITTEE

The Nominations Committee was disestablished in June 2019 as part of the recommendations of the Director Election Review Committee.

MAJORITY INDEPENDENT DIRECTORS – AUDIT AND FINANCE COMMITTEE AND APPOINTMENTS AND REMUNERATION COMMITTEE

The Audit and Finance Committee and Appointments and Remuneration Committee do not comprise a majority of Independent Directors.

There is currently no headroom for Fonterra, based on having 11 Directors, to have more than four Independent Directors (as prescribed by the FSM Rules), as the Farmer Directors fill each of the seven positions open to them (and as noted above, the Farmer Directors are not considered Independent Directors). Given this, it is difficult for Fonterra to appoint a majority of Independent Directors to these committees without excluding Farmer Directors or significantly increasing the workload of the Independent Directors.

Fonterra does not consider that this is a significant issue, as the Audit and Finance Committee is chaired by an Independent Director and the Appointments and Remuneration Committee is chaired by a Farmer Director. In addition, under the FSM Rules, the Audit and Finance Committee is not required to comprise of a majority of Independent Directors.

Employees attend Audit and Finance Committee and Appointments and Remuneration Committee meetings at the request of the Committee.

TAKEOVER OFFER

Given its co-operative structure and the thresholds on share ownership in the Constitution, the Board does not believe that it is necessary to establish protocols for a takeover offer.

Principle 4: Reporting and Disclosure

DISCLOSURE POLICY

Fonterra is committed to promoting well-informed and efficient markets in its shares, units issued by the Fonterra Shareholders' Fund and debt securities. The Board has approved a Group Disclosure Policy to ensure compliance with the FSM Rules regarding disclosure. The Group Disclosure Policy governs Fonterra's communications with investors and market participants, and the disclosure of information relevant to Fonterra. This policy, and the Group Disclosure Standard which gives effect to the policy, are available on fonterra.com.

Fonterra's Disclosure Committee holds regular and ad hoc meetings to oversee Fonterra's continuous disclosure obligations. The members of the Disclosure Committee are the CEO, CFO, Managing Director Co-operative Affairs, Director Capital Markets and the Director Governance, Risk and Audit.

The Disclosure Committee's Charter states that the Committee has responsibility for overseeing Fonterra's continuous disclosure obligations and reviewing, monitoring and implementing the Group Disclosure Policy. The Committee maintains a register of continuous disclosure matters and also ensures a consistent and high standard of communication with farmer shareholders, unit holders, other investors and market participants on a timely basis.

The Chairman of the Board, the Chairman of the Audit and Finance Committee, the Chairman of the Milk Price Panel and the Chairman of the Co-operative Relations Committee attend the Committee's meetings to review and approve the release of the Interim and Annual Reports, and on an ad hoc basis to provide input into specific continuous disclosure obligations.

Fonterra and the Manager of the Fonterra Shareholders' Fund have entered into an arrangement to co-operate with each other and take all steps reasonably required to ensure that information to be disclosed by either of them under the FSM Rules and the listing rules of the NZX or the ASX (as the case may be) is disclosed simultaneously to the Fonterra Shareholders' Market, the NZX Main Board and the ASX. Fonterra simultaneously discloses relevant information on ASX on behalf of the Fonterra Shareholders' Fund.

WEBSITE DISCLOSURE

At present Fonterra has the following documents available on fonterra.com:

- Board Charter
- Board Code of Conduct
- Audit and Finance Committee Charter
- Co-operative Relations Committee Charter
- Safety and Risk Committee Charter
- Appointments and Remuneration Committee Charter
- Group Privacy Policy
- The Way We Work (Code of Business Conduct)
- Group Disclosure Policy and Group Disclosure Standard
- Group Diversity and Inclusion Policy
- Group Health, Safety and Wellbeing Policy
- Group Environmental Policy
- Group Ethical Behaviour Policy
- Group Securities Trading Policy.

Fonterra does not have a Director Remuneration Policy for the reasons noted below under the heading 'Director Remuneration'.

NON-FINANCIAL REPORTING

Fonterra is guided by international best practice and agrees that adoption of internationally recognised reporting frameworks is a good way of allowing users of our disclosure information to more easily compare it with others. For this reason we have adopted the Global Reporting Initiative (GRI) guidelines.

In this Annual Review, we provide coverage of both financial and non-financial matters. Non-financial reporting includes coverage of our new strategy in the 'Our New Direction' section. High-level consideration of activities across our sustainability pillars of Nutrition, Environment and Community are included in the 'Our Year That's Been' section. In November 2018 Fonterra issued its second Sustainability Report based upon GRI guidelines to further expand our non-financial disclosure for each financial year. We plan to release the Sustainability Report annually, with the next report due to be issued in November 2019.

Corporate Governance CONTINUED

Principle 5: Remuneration

Fonterra's remuneration framework is designed to attract, retain and motivate high quality Directors and senior management.

DIRECTOR REMUNERATION

The Constitution modifies the discretion of the Board to set remuneration of Directors. In accordance with the Constitution, farmer shareholders elect an independent committee of six farmer shareholders (the Directors' Remuneration Committee) to consider and make recommendations to the Annual Meeting on remuneration for Farmer Directors, which is required to be approved by farmer shareholders.

The members of the Directors' Remuneration Committee as at 31 July 2019 were David Gasquoine (Chair), John Gregan, Glenn Holmes, Scott Montgomerie and Stephen Silcock. Gerard Wolvers resigned on 7 June 2019.

The Board has full discretion over the remuneration of Appointed Directors with such remuneration not being approved at the Annual Meeting. The Board has historically remunerated Appointed Directors at the same level as Farmer Directors in line with Directors' Remuneration Committee recommendations.

Given the arrangements outlined above, Fonterra does not have a specific policy for remuneration of Directors.

Directors and employees attend Directors' Remuneration Committee meetings at the invitation of the Committee.

The details of the Directors' remuneration are contained on page 79 of the Annual Financial Results for the year ended 31 July 2019.

REMUNERATION OF OUR PEOPLE

Remuneration of our CEO and Management is governed by the Appointments and Remuneration Committee (previously known as the People, Culture and Safety Committee). Their focus is on balancing the need to attract and retain talented people, with the need to deliver the highest possible overall returns to our farmer shareholders and unit holders.

Our remuneration framework remains largely unchanged for the year ended 31 July 2019. The key points to note for FY19 are:

- we did not meet the FY18-19 minimum performance thresholds and therefore no Long-Term Incentive payments were earned
- the decision was made not to make any Short-Term Incentive payments or annual Sales Incentive Plan payments in relation to FY19 performance
- for the FY19 performance period our previous CEO, Theo Spierings, received total remuneration of \$4,673,359 which included performance payments realised for FY17
- for the FY19 performance period our CEO, Miles Hurrell, received total remuneration of \$2,263,045 which includes his payment for acting in the role between 15 August 2018 and 4 March 2019 before his permanent appointment on 5 March 2019.

REMUNERATION BENCHMARKING

Benchmarking of our remuneration is conducted using independent third-party advisors as appropriate to the market in which our employees work. Where appropriate, Fonterra will use supplementary pay intelligence data.

Pay benchmarking for the CEO, Fonterra Management Team (FMT) and certain senior roles is conducted using independent third-party remuneration advisers appointed by the Board. Given that our Co-operative's size and global scale is unique to New Zealand, the peer group for these roles is comprised of 24 Australian listed companies that are more closely matched to the size, complexity and operational scope of Fonterra, allowing a more appropriate benchmarking of senior executive remuneration. The benchmark also reflects that senior positions within Fonterra require global expertise, and are typically recruited from competitive global talent markets, particularly Australia and Asia. Fonterra aims to pay at the median of the benchmark of the given peer group for our senior executives.

Fonterra's remuneration framework for salaried staff is based on a 'total remuneration' approach, which is consistent with best practice globally. This includes base salary, benefits (superannuation and insurance), and variable remuneration (incentives).

The remuneration we pay our employees is benchmarked against comparable companies in the country or region where they are located, using information obtained from independent remuneration consultants. Adjustments may occur on a cyclical basis, such as an annual salary review, or on an as-needed basis to recognise factors such as additional responsibilities.

The framework is designed to consider budget, market conditions, internal equity, and governance factors such as local legislation, as well as taking into account individual performance.

INCENTIVE PLANS

Fonterra's incentive programmes are designed to drive our Co-operative's performance by:

- focusing on our Co-operative's primary objective of maximising returns for its farmer shareholders
- promoting collaboration and a one team approach to achieve Fonterra's goals
- establishing targets which are challenging yet achievable; and linked to team (such as business unit) and group performance.

At the end of each financial year, performance is reviewed and incentive payments are approved by the Appointments and Remuneration Committee at its discretion. The Board and the Committee retain absolute discretion in respect to payments for all incentive schemes.

EXECUTIVE REMUNERATION AND INCENTIVE PLANS

Fonterra's remuneration framework for the CEO and members of the FMT is designed to attract and retain key talent while ensuring a strong link between performance and reward. Remuneration for these employees comprises three components: Fixed Remuneration, Short-Term Incentives and Long-Term Incentives. Each of the components are detailed below.

Fixed Remuneration

Fixed Remuneration consists of base salary and benefits. Fixed Remuneration for the CEO and FMT is generally reviewed on an annual basis, with consideration to market relativities and the individual performance of each senior executive. Any Fixed Remuneration changes for the CEO must be approved by the Board.

Short-Term Incentives

STIs are total at-risk payments that are designed to align and focus the FMT on delivering exceptional results. STI targets are expressed as a percentage of base remuneration. For the CEO the STI is set at 60% of Fixed Remuneration and for the FMT, the STI target is set between 30% and 60% of Fixed Remuneration.

At the beginning of each financial year, the Board agrees the business plan and organisational objectives. These objectives form the basis on which the year's STI plan is then set. The FY19 STI outcomes for the CEO and the FMT are determined by three elements:

- Fonterra Group Performance (Volume and EBIT)
- Health & Safety and Food Safety & Quality
- Total Farmer Pay-out

A minimum performance threshold must be met for achievement of any of the Group performance elements. The maximum incentive opportunity for the CEO and the FMT is capped at 200% of individual target pay-out.

Long-Term Incentives

Fonterra's LTI is designed to reward the CEO and the FMT for delivering successful outcomes for our Co-operative over the long term. LTI targets are expressed as a percentage of base remuneration. The LTI target is set at 60% of fixed remuneration for the CEO. For the remaining FMT members, the LTI target is set between 30% and 50% of Fixed Remuneration.

The FY18-20 and FY19-21 LTI outcomes for the FMT are determined by two elements:

- Return on Capital including intangibles (NOPAT/Invested Capital)
- Growth in Earnings per Share (EPS)

For any payment to be made, a minimum performance threshold must be met as outlined in the LTI plan. The maximum incentive opportunity is capped at 200% of individual target pay-out.

CEO REMUNERATION**Chief Executive Officer³ – Total Remuneration FY19**

Miles Hurrell held the role of Chief Executive Officer on an interim basis from 15 August 2018 to 4 March 2019 before being permanently appointed on 5 March 2019. Mr Hurrell's annual fixed remuneration as at 31 July 2019 was \$1,950,000. The total remuneration he received in FY19 was \$2,263,045, made up as follows.

FIXED REMUNERATION			PAY FOR PERFORMANCE		TOTAL REMUNERATION
SALARY	BENEFITS ⁴	STI	LTI ⁵	OTHER ⁶	
\$1,377,756	\$65,914	0	\$219,375	\$600,000	\$2,263,045

³ The total remuneration received in FY19 by Mr Theo Spiering, whose employment as Chief Executive Officer ceased on 31 August 2018, was \$4,673,359. FY19 remuneration received included base salary, superannuation contributions, holiday pay entitlement and short-term and long-term incentive payments in relation to performance in previous years.

⁴ Employer superannuation contribution.

⁵ Payment of the FY17 VLI deferred payment in relation to performance in FY17.

⁶ Comprises a payment of \$600,000 in relation to interim CEO position and appointment as permanent CEO. This payment was contractually agreed on 5 March 2019 and was paid in two instalments of \$300,000 in May 2019 and July 2019.

Corporate Governance CONTINUED

REMUNERATION AND INCENTIVE PLANS FOR SALARIED STAFF

Fixed Remuneration

Under our 'total remuneration' approach for salaried positions, Fonterra generally aims to pay at the median rate in the markets in which we operate. For roles that are deemed critical or that have a significant influence on business performance, Fonterra may choose to benchmark at the upper quartile rate. This is particularly true for certain international markets where securing key talent can be difficult.

Review of Fixed Remuneration

Fixed remuneration for salaried and waged employees who are not covered by a collective agreement is reviewed annually.

Remuneration for employees who are on collective agreements is negotiated and agreed in partnership with Fonterra's employee representative organisations and is reviewed in line with the schedules agreed with those employee representative organisations.

Short Term Incentive Plans

The majority of permanent salaried employees in Fonterra participate in an annual short-term incentive (STI) plan. In FY19, this incentive covered approximately 6,500 employees.

The STI plan encourages our people to focus on Fonterra's strategic objectives within each financial year. At the beginning of each financial year a series of Group and business unit key performance indicators (KPIs) are identified and approved by the Appointments and Remuneration Committee.

The KPIs are established every year, but normally include important financial measures (revenue and EBIT), operational efficiency measures, and measures centred around health and safety and food safety and quality.

For a small, targeted group of employees, our STI plan also includes an incentive component that is based on the total available farmer pay-out. This is designed to align the targeted group's incentive outcomes to that of our farmer shareholders' financial outcomes.

Some employees who are eligible for the STI plan have a portion of their incentive aligned with their individual performance (typically 50% of the total STI), and others are aligned fully to the relevant Group or business unit KPI scorecard. Senior Management is typically aligned to 100% of Fonterra Group Performance, resulting in their incentives being fully aligned to Fonterra's outcomes as a business.

The decision was made not to make any STI or annual Sale Incentive Plan payments in FY19.

Other Incentive Plans

Some business units, both in New Zealand and offshore, use sales incentive plans for market facing sales and support teams. These are targeted to achieve specific revenue growth outcomes in key markets as well as aligning to our Group and business unit strategic objectives.

Employees in these plans do not participate in any other short-term incentive plans.

Long Term Incentive Plans

This year Fonterra changed the eligibility of the FY19-21 Long-Term Incentive (LTI) plan to CEO and FMT members only.

Previous LTI plans extended eligibility beyond FMT to certain senior executives. For purposes of clarification, we have summarised below the LTI plans that are active or where deferred payments have been made in FY19 for non-FMT members.

Velocity Leadership Incentive (FY17)

The Velocity Leadership Incentive (VLI) was the LTI plan in place for FY17. It has been discontinued and did not apply in FY18 or beyond. The VLI was a targeted two-year plan to accelerate and reward the Fonterra business transformation, which our Co-operative referred to as 'Velocity'.

The FY17 VLI payment schedule was a 50% payment following the end of FY17, with the remaining 50% deferred over two years. The second and final 25% deferral was paid in November 2018.

FY18–FY20 Long-Term Incentive

In FY18, the Appointments and Remuneration Committee approved a new LTI plan for FY18 to FY20 and beyond.

The change marked a return to a more traditional LTI plan designed to incentivise the achievement of longer-term strategic objectives of our Co-operative. This LTI used two core financial metrics to measure achievement of our Co-operative's performance. The metrics are Return on Capital and Earnings per Share.

LTI plan targets were set over a three-year performance period. Assuming performance thresholds have been met at the end of the three-year period, 100% of the resulting outcome is paid in cash in October the following fiscal year.

FY18 and FY18-19 Long-Term Incentives

With the introduction of the new LTI structure and the subsequent discontinuation of the VLI, two shorter term 'bridging' LTI plans were developed to ensure that Fonterra appropriately incentivised performance over the FY18 and FY18-19 vesting periods.

Both the FY18 and FY18-19 LTI plans are based on the same structure and retain the same measures as the FY18-20 LTI plan, albeit for a shorter performance period. Targets for these plans were developed with reference to the FY18 and FY19 business plans and were approved by the Appointments and Remuneration Committee.

For both the FY18 and FY18-19 plan, performance thresholds were not met and no payment was made.

Principle 6: Risk Management

RISK MANAGEMENT FRAMEWORK

Fonterra's integrated risk management framework is based on a three lines of defence model. The Board sets the risk appetite settings for our Co-operative which are used to inform decision making, policy settings and the risk management framework.

As the first line of defence, our people leaders have clear responsibilities for business risk management and to ensure compliance with external requirements as well as Group Policy and Standards. Technical functions provide the second line of defence through a range of specialist audit programmes across the business. Our Internal Audit programme, external and customer audit systems comprise the third line of defence. Compliance with our Group Policy Framework is a condition of employment at Fonterra, which is also articulated in our Group Policy Principles.

Our integrated risk management framework is aligned with international best practice and includes a consistent approach that:

- supports our people to understand risk, rationale and relevance to business decision-making
- informs a customised risk management process for Fonterra
- enables the identification and implementation of appropriate options to manage our risk
- enables continuous awareness and understanding of the nature and level of risks across the business
- assures and improves the quality and effectiveness of our risk management process design, implementation and outcomes
- is an integral part of the business's governance framework.

Fonterra's Risk Management Policy outlines our risk principles, accountabilities and the requirements for managing and reporting risk within the business. The Integrated Risk Forum meets quarterly to ensure a balanced view of risk and that our most material risk and exposure profile is understood, reviewed, appropriately managed and reported.

Members of the Integrated Risk Forum are senior managers from across the business who evaluate our risks, identify and prepare for emerging risks and provide a senior management level of risk oversight through monitoring of, and reporting against our Risk Appetite Statement, indicators and tolerances. This is then provided to the Safety and Risk Committee. The Safety and Risk Committee receives reports on Fonterra's integrated risk management framework and the Board receives regular updates from the Safety and Risk Committee.

In our Sustainability Report we provide more detailed information on our approach to health and safety, food safety and quality, environmental and animal welfare risks.

HEALTH AND SAFETY

Fonterra is committed to providing a safe and healthy work environment to anyone who is affected by our operations. Continuous health and safety improvement is an integral part of everything we do. Achieving effective health and safety improvement is regarded as essential to our long-term success and an integral part of our values and how we run our business. We have focused programmes to address our critical risks and injury reduction ambitions.

Fonterra's health and safety performance is measured using a number of reactive and preventive indicators. These include Total Recordable Injury Frequency Rate (TRIFR), number of serious harm injuries, status of controls implemented as an outcome of self-assurance and internal audits and serious event investigations.

While our TRIFR has decreased over the past year from 5.2 to 4.9, there have been a higher number of serious harm injuries in FY19 (18) compared to FY18 (14), and one fatality in China.

We remain committed to maintaining our longer term TRIFR goal of 5.0 which represents world class within our industry group. We will continue to track our efforts on a broad range of personal safety, health and wellbeing programmes to enhance our people care as well as on managing critical risks and process safety to assure our key risk controls are effective.

Corporate Governance CONTINUED

Principle 7: Auditors

AUDITOR FRAMEWORK

The Audit and Finance Committee is responsible for making recommendations to the Board regarding the appointment of the external auditor. The external auditor is appointed by farmer shareholders at the Annual Meeting.

The Audit and Finance Committee reviews the independence of the auditor and reviews the external audit fees, the terms of engagement and annual audit plan.

Fonterra encourages the rotation of the lead external audit partner in the relationship in accordance with best practice. Fonterra has a Group Audit Independence Policy for certain activities the auditor may undertake for the Group. This policy is prescriptive as to the types of activities that the auditor may undertake, those the auditor may only undertake with the approval of the Audit and Finance Committee, and the types of activities that are not permitted. The Audit and Finance Committee will not approve the auditor performing any tasks that have the potential to create a conflict except in exceptional circumstances and then only if appropriate safeguards are in place. The Audit and Finance Committee monitors the performance of these additional activities undertaken by the auditor.

The Audit and Finance Committee Chairman communicates regularly with the external auditor and the Audit and Finance Committee meets with the external auditor without Management at least twice a year.

The Audit and Finance Committee is responsible for ensuring that the ability of the auditor to carry out its statutory audit role is not impaired, or could reasonably be perceived to be impaired.

The fees paid to Fonterra's auditor, PricewaterhouseCoopers, are detailed in Note 4 to the Annual Financial Results for the year ended 31 July 2019.

An RFP process was completed during the year for the provision of external audit services for the financial year ended 31 July 2020. KPMG was the successful party in that process and the Board will be recommending their appointment as external auditor to farmer shareholders at the Annual Meeting.

ANNUAL MEETING

The external auditor is required to attend Fonterra's Annual Meeting and be available to answer questions from farmer shareholders in relation to the audit.

INTERNAL AUDIT

Fonterra's internal audit function provides the Audit and Finance Committee and Management with objective and independent assurances on the design and effectiveness of internal controls.

A close working relationship with Management is critical to ensure Internal Audit remains relevant and provides adequate audit coverage.

Internal Audit supports the achievement of Fonterra's Group business objectives by:

- evaluating the effectiveness of risk management, controls and governance processes
- delivering reasonable assurance over key business risks to the Audit and Finance Committee and Management
- providing recommendations for control environment improvements.

The approach to internal audit is based on the principle of line management responsibility for risk and controls.

- Management is responsible for implementing, operating and monitoring the system of internal controls to provide reasonable assurance of achieving business objectives.
- Internal Audit is responsible for:
 - delivering a reasonable degree of assurance (as determined by the Audit and Finance Committee) over business risk
 - assisting the business with special reviews or investigations
 - complying with the Internal Audit methodology.

Principle 8: Shareholder Rights and Relations

WEBSITE

Fonterra has a website (fonterra.com) where investors and interested stakeholders can access financial and operational information and key corporate governance information about Fonterra as an issuer.

SHAREHOLDERS' COUNCIL

One of the Board's most important relationships is with the Shareholders' Council. The Council, Fonterra's representative body, which is established under the Fonterra Constitution, is independent of the Board and as at 31 July 2019 comprised 25 farmer shareholders elected as Councillors, representing 25 wards across New Zealand. The Shareholders' Council was created to be the guardian of the Co-operative Principles which apply to the cornerstone activities of our Co-operative. The functions of the Council are set out in the Constitution. The Council reviews the Board's Statement of Intentions for the performance and operations of the Group and publishes an annual report, commenting on these matters.

The Council, Board and Management have a working interface document which sets out the principles to facilitate the working partnership between the Board, the Council and Management and the way operational issues will be dealt with by the Board and the Council.

The working interface document is available on the Farm Source™ website.

The Council and the Board meet regularly, as do the Chairs of the Board and the Council and the Chairs of their respective Committees.

FARMER COMMUNICATIONS

Fonterra is committed to maintaining and improving communication with its farmers. An extensive farmer and supplier relations programme is managed by the Farm Source™ team. Channels for electronic communication are provided through the fonterra.com and Farm Source™ websites and the My Co-op phone application. In addition, Fonterra provides farmers with the ability to receive communications (such as the Annual Report) from Fonterra electronically.

Fonterra's communications with farmers include regular face-to-face meetings, Sky broadcasts, a regular Global Dairy Update, Farm Source™ magazine publication, My Co-op posts and regular emails from the Chairman, CEO and Regional Heads. As described above, Fonterra releases to the relevant stock exchanges all material information, and will comply with the listing rules of the Fonterra Shareholders' Market with respect to shareholder communications.

FARMER MEETINGS

A schedule of regular meetings with farmer shareholders, sharemilkers and farm workers is held across the country at least twice each year. Often these are run in conjunction with the Shareholders' Council and Farm Source™ regional teams.

Farmer Directors also regularly attend other farmer meetings during the year on specific topics.

In addition, the Board consults with farmers on specific issues as they arise.

FONTERRA.COM AND FARM SOURCE™ DIGITAL TOOLS

An overview of our Co-operative's operations, financial presentations and public announcements are all available on the fonterra.com website. Our Co-operative also uses emails, including regular updates from the Chairman, CEO and regular farmer updates to share information with its stakeholders.

The Farm Source™ website enables farmer shareholders, their employees and business partners to transact online with Fonterra and access information and tools on milk production and quality, online statements and up-to-the-minute news and weather. This site is also used to provide information on the business to farmer shareholders.

Fonterra's My Co-op app provides constantly updated news and information from across our Co-operative and the industry including milk price announcements, updates from the Chairman and CEO, and rural and regional council news. The On Farm app provides daily milk production and quality information, comparisons against last season volumes, tanker movements, and summary reports of key milk performance information for the last 30 days.

ANNUAL OR SPECIAL MEETING

The Board views the Annual Meeting of farmer shareholders, which is held at a different venue around New Zealand each year, as an opportunity to communicate directly with farmer shareholders and the Board ensures that adequate time is provided at these meetings for farmer shareholders to raise issues or ask questions from the floor.

The Constitution describes the process whereby a farmer shareholder can raise a proposal for discussion or resolution at the next meeting of farmer shareholders at which the farmer shareholder is entitled to vote.

Notices of Annual or Special Meetings are sent to farmer shareholders at least 10 working days before the meeting.

Corporate Governance CONTINUED

ANNUAL REPORT

The Group's Annual Report including financial statements and an annual review, together with the half-year reports and other material announcements, are designed to present a balanced and clear view of Fonterra's activities and prospects and are available on fonterra.com.

OTHER DISCLOSURES

Information on the Group's performance, annual and half-year financial results, Director changes, and other significant matters, is advised to the market through the NZX and ASX in accordance with the Group Disclosure Policy. Farmer shareholders and other stakeholders receive regular updates on these and other issues relevant to them and all media and market releases are available on fonterra.com.

VOTING

Shareholders have the right to vote on major transactions (as defined in the Companies Act 1993) as well as other major decisions that may change the nature of Fonterra as prescribed by the listing rules of the FSM. In particular, FSM Rule 8.1.1 restricts Fonterra from entering into any transaction (or series of linked or related transactions) which would change the essential nature of the business of Fonterra or in respect of which the gross value is in excess of 50% of the average market capitalisation of Fonterra without the prior approval of Fonterra's shareholders.

In accordance with the co-operative nature of Fonterra, voting is based on the quantity of milk solids supplied to Fonterra, backed by shares and is not on the principle of one vote per share.

Summary Financial Statements

FOR THE YEAR ENDED 31 JULY 2019

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Directors' Statement

FOR THE YEAR ENDED 31 JULY 2019

The Directors hereby approve and authorise for issue the summary financial statements for the year ended 31 July 2019 presented on pages 77 to 109. For and on behalf of the Board:



JOHN MONAGHAN

Chairman

25 September 2019



BRUCE HASSALL

Director

25 September 2019

Fonterra Co-operative Group Limited (Fonterra, the Company or the Co-operative) is a co-operative company incorporated and domiciled in New Zealand. Fonterra is registered under the Companies Act 1993 and the Co-operative Companies Act 1996, and is an FMC Reporting Entity under the Financial Markets Conduct Act 2013. Fonterra is also required to comply with the Dairy Industry Restructuring Act 2001.

These summary financial statements comprise Fonterra and its subsidiaries (together referred to as the Group) and include the Group's interest in its equity accounted investees after adjustments to align to the accounting policies of the Group. They have been prepared in accordance with Financial Reporting Standard No. 43: Summary Financial Statements and have been extracted from the Group's full financial statements. The Group's full financial statements comply with International Financial Reporting Standards. They also comply with New Zealand Equivalents to International Financial Reporting Standards and have been prepared in accordance with Generally Accepted Accounting Practice applicable to for-profit entities.

The Board has elected to present summary financial statements for the year ended 31 July 2019 as part of the Annual Report sent to Shareholders. These summary financial statements include notes setting out key information.

These summary financial statements are presented for the year ended 31 July 2019. The comparative information is for the year ended 31 July 2018. These summary financial statements of the Group have been prepared using the same accounting policies and measurement basis as the Group's full financial statements for the year ended 31 July 2019.

In the process of applying the Group's accounting policies, management make a number of judgements, estimates of future events, and assumptions. These are all believed to be reasonable based on the most current set of circumstances available to the Group. Judgements and estimates that have the most significant effect on the amounts recognised in the financial statements for the year ended 31 July 2019 are:

- The recoverable amounts of the China Farms assets, the consumer and foodservice businesses in New Zealand and Brazil, and the Australia ingredients business.
- The investment in Beingmate.

These matters are also communicated as key audit matters in the audit opinion on the full financial statements.

The full financial statements for the year ended 31 July 2019, approved and authorised for issue by the Board on 25 September 2019, have been audited by PricewaterhouseCoopers and given an unqualified opinion.

The Group is primarily involved in the collection, manufacture and sale of milk and milk-derived products and in fast-moving consumer goods and foodservice businesses. These summary financial statements are presented in New Zealand Dollars (\$ or NZD), which is Fonterra's functional and presentation currency, and rounded to the nearest million, except where otherwise stated.

The summary financial statements cannot be expected to provide as complete an understanding of the financial affairs of the Group as the full financial statements, which are available from Fonterra's registered office at 109 Fanshawe Street, Auckland, New Zealand or on Fonterra's website, www.fonterra.com.

OUR FINANCIAL SUMMARY

Income Statement

FOR THE YEAR ENDED 31 JULY 2019

	NOTES	GROUP \$ MILLION	
		31 JULY 2019	31 JULY 2018
Revenue from sale of goods	3	20,114	20,438
Cost of goods sold	4	(17,099)	(17,279)
<i>Impact of Strategy Review:</i>			
– China Farms impairment	2	(203)	–
– Australian strategic reset	2	(23)	–
– New Zealand consumer and foodservice business	2	(7)	–
– Other strategic reset costs	2	(2)	–
Gross profit		2,780	3,159
Other operating income		91	192
Selling and marketing expenses		(590)	(651)
Distribution expenses		(561)	(572)
Administrative expenses		(773)	(873)
Other operating expenses		(387)	(400)
Net foreign exchange losses		(1)	(12)
Share of profit of equity accounted investees		25	20
WPC80 recall costs		–	(196)
Impairment of Beingmate		–	(405)
<i>Impact of Strategy Review:</i>			
– New Zealand consumer and foodservice business and Tip Top disposal	2	(237)	–
– Brazil consumer and foodservice business impairments	2	(149)	–
– Disposal of Venezuelan operations	2	(134)	–
– Australian strategic reset	2	(45)	–
– Other strategic reset costs	2	(17)	–
– Beingmate	2	(12)	–
(Loss)/profit before net finance costs and tax		(10)	262
Finance income		16	23
Finance costs		(434)	(439)
Net finance costs		(418)	(416)
Loss before tax		(428)	(154)
Tax expense	13	(177)	(42)
Loss after tax		(605)	(196)
Loss after tax is attributable to:			
(Loss)/profit attributable to non-controlling interests		(48)	25
Loss attributable to equity holders of the Co-operative		(557)	(221)
Loss after tax		(605)	(196)

	GROUP \$	
	31 JULY 2019	31 JULY 2018
Earnings per share:		
Basic and diluted earnings per share	(0.35)	(0.14)

The accompanying notes form part of these summary financial statements.

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 JULY 2019

	NOTES	GROUP \$ MILLION	
		31 JULY 2019	31 JULY 2018
Loss after tax		(605)	(196)
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges and other costs of hedging, net of tax		(1)	(459)
Net investment hedges and translation of foreign operations, net of tax		(12)	188
Hyperinflation (losses)/gains attributable to equity holders		(10)	17
Foreign currency translation reserve losses transferred to the income statement	2	193	–
Hyperinflation reserve gains transferred to the income statement	2	(12)	–
Other reserve movements		–	(1)
Total items that may be reclassified subsequently to profit or loss		158	(255)
Items that will not be reclassified subsequently to profit or loss:			
Net fair value (losses)/gains on investments in shares		(1)	8
Foreign currency translation gains/(losses) attributable to non-controlling interests		1	(2)
Hyperinflation movements attributable to non-controlling interests		–	12
Total items that will not be reclassified subsequently to profit or loss		–	18
Total other comprehensive income/(expense) recognised directly in equity		158	(237)
Total comprehensive expense		(447)	(433)
Total comprehensive (expense)/income is attributable to:			
Equity holders of the Co-operative		(415)	(468)
Non-controlling interests		(32)	35
Total comprehensive expense		(447)	(433)

The accompanying notes form part of these summary financial statements.

OUR FINANCIAL SUMMARY

Statement of Financial Position

AS AT 31 JULY 2019

		GROUP \$ MILLION	
	NOTES	31 JULY 2019	31 JULY 2018
ASSETS			
Current assets			
Cash and cash equivalents		550	446
Trade and other receivables		1,900	2,355
Inventories		2,944	2,917
Tax receivable		45	4
Derivative financial instruments		48	59
Assets held for sale		229	–
Other current assets		116	141
Total current assets		5,832	5,965
Non-current assets			
Property, plant and equipment	9	6,512	6,810
Equity accounted investments		202	615
Livestock	10	295	288
Intangible assets		2,597	3,227
Deferred tax assets		592	667
Derivative financial instruments		440	204
Other non-current assets		604	323
Total non-current assets		11,242	12,134
Total assets		17,074	18,099
LIABILITIES			
Current liabilities			
Bank overdraft		34	161
Borrowings	7	1,175	831
Trade and other payables		1,869	2,116
Owing to suppliers	8	1,534	1,579
Tax payable		37	35
Derivative financial instruments		215	296
Provisions		63	14
Other current liabilities		71	101
Total current liabilities		4,998	5,133
Non-current liabilities			
Borrowings	7	5,361	5,907
Derivative financial instruments		537	480
Provisions		141	130
Deferred tax liabilities		99	89
Other non-current liabilities		57	11
Total non-current liabilities		6,195	6,617
Total liabilities		11,193	11,750
Net assets		5,881	6,349
EQUITY			
Subscribed equity		5,887	5,887
Retained earnings		360	934
Foreign currency translation reserve		(183)	(364)
Hedge reserves		(268)	(267)
Other reserves		8	29
Total equity attributable to equity holders of the Co-operative		5,804	6,219
Non-controlling interests		77	130
Total equity		5,881	6,349

The accompanying notes form part of these summary financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 31 JULY 2019

GROUP \$ MILLION	ATTRIBUTABLE TO EQUITY HOLDERS OF THE CO-OPERATIVE						NON-CONTROLLING INTERESTS	TOTAL EQUITY
	SUBSCRIBED EQUITY	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION RESERVE	HEDGE RESERVES	OTHER RESERVES	TOTAL		
As at 1 August 2018	5,887	934	(364)	(267)	29	6,219	130	6,349
Loss after tax	–	(557)	–	–	–	(557)	(48)	(605)
Other comprehensive (expense)/income	–	(17)	181	(1)	(21)	142	16	158
Total comprehensive (expense)/income	–	(574)	181	(1)	(21)	(415)	(32)	(447)
Transactions with equity holders in their capacity as equity holders:								
Equity instruments issued	–	–	–	–	–	–	1	1
Dividend paid to non-controlling interests	–	–	–	–	–	–	(22)	(22)
As at 31 July 2019	5,887	360	(183)	(268)	8	5,804	77	5,881
As at 1 August 2017	5,858	1,637	(552)	192	5	7,140	108	7,248
(Loss)/profit after tax	–	(221)	–	–	–	(221)	25	(196)
Other comprehensive (expense)/income	–	–	188	(459)	24	(247)	10	(237)
Total comprehensive (expense)/income	–	(221)	188	(459)	24	(468)	35	(433)
Transactions with equity holders in their capacity as equity holders:								
Dividend paid to equity holders of the Co-operative	–	(482)	–	–	–	(482)	–	(482)
Equity instruments issued	29	–	–	–	–	29	15	44
Dividend paid to non-controlling interests	–	–	–	–	–	–	(28)	(28)
As at 31 July 2018	5,887	934	(364)	(267)	29	6,219	130	6,349

The accompanying notes form part of these summary financial statements.

OUR FINANCIAL SUMMARY

Cash Flow Statement

FOR THE YEAR ENDED 31 JULY 2019

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
Cash flows from operating activities		
(Loss)/profit before net finance costs and tax	(10)	262
Adjustments for:		
– Foreign exchange (gains)/losses	(29)	239
– Depreciation and amortisation	561	544
– China Farms impairment	203	–
– New Zealand consumer and foodservice business and Tip Top disposal	214	–
– Brazil consumer and foodservice business impairments	149	–
– Disposal of Venezuelan operations	134	–
– Australian strategic reset	32	–
– Beingmate	12	–
– Impairment of equity accounted investees	–	405
– Other	35	5
	1,311	1,193
Decrease/(increase) in working capital:		
Inventories	(52)	(313)
Trade and other receivables	388	75
Amounts owing to suppliers	(222)	277
Payables and accruals	(124)	98
Other movements	(112)	42
Total	(122)	179
Cash generated from operations	1,179	1,634
Net taxes paid	(56)	(86)
Net cash flows from operating activities	1,123	1,548
Cash flows from investing activities		
Cash was provided from:		
– Proceeds from sale of businesses	396	–
– Proceeds from disposal of property, plant and equipment	32	26
– Proceeds from sale of livestock	28	79
– Proceeds from sale of investments	7	7
– Co-operative support loan repayments	177	149
– Other cash inflows	25	6
Cash was applied to:		
– Acquisition of property, plant and equipment	(541)	(858)
– Acquisition of livestock (including rearing costs)	(37)	(45)
– Acquisition of intangible assets	(82)	(147)
– Acquisition of investments	(10)	(14)
– Advances to and investments in equity accounted investees	(6)	(151)
– Other cash outflows	(17)	–
Net cash flows from investing activities	(28)	(948)
Cash flows from financing activities		
Cash was provided from:		
– Proceeds from borrowings	3,746	4,334
– Interest received	14	18
Cash was applied to:		
– Interest paid	(427)	(446)
– Repayment of borrowings	(4,149)	(4,077)
– Dividends paid to non-controlling interests	(22)	(27)
– Dividends paid to equity holders of the Co-operative	–	(453)
– Other cash outflows	(12)	(74)
Net cash flows from financing activities	(850)	(725)
Net increase/(decrease) in cash	245	(125)
Opening cash	285	382
Effect of exchange rate changes	(14)	28
Closing cash	516	285
Reconciliation of closing cash balances to the statement of financial position:		
Cash and cash equivalents	550	446
Bank overdraft	(34)	(161)
Closing cash	516	285

The accompanying notes form part of these summary financial statements.

Notes to the Summary Financial Statements

FOR THE YEAR ENDED 31 JULY 2019

NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Impact of adopting NZ IFRS 15 Revenue from Contracts with Customers

Fonterra adopted NZ IFRS 15 from 1 August 2018.

Fonterra is not materially impacted by the adoption of NZ IFRS 15 because:

- Fonterra has historically recognised revenue at the time the risks and rewards of ownership of the products pass to the customer. Fonterra determined that customers obtain control of the products at the same time as risks and rewards of ownership pass to the customer. The timing of revenue recognition is therefore unchanged by the adoption of NZ IFRS 15.
- In relation to the contract price, Fonterra has not identified any material changes to the accounting for trade spend, rebates, or other items of variable consideration.

Fonterra has elected to utilise the cumulative effect transition approach and to apply NZ IFRS 15 to contracts that were not completely fulfilled at 1 August 2018. No transition adjustment is recognised as the impact of the adoption of NZ IFRS 15 and use of the practical expedient has not had a material impact on the timing of revenue recognition or on the measurement of revenue.

The Group's revenue accounting policy is disclosed in Note 3 of the Group's full financial statements.

Accounting standards issued but not yet effective

NZ IFRS 16 LEASES

NZ IFRS 16 Leases replaces the current guidance on lease accounting. It requires a lease liability reflecting future lease payments, and a 'right-of-use asset', to be recognised for most lease contracts where Fonterra is a lessee. This includes many of the leases currently classified as operating leases for which no asset or liability is reflected on the statement of financial position under existing accounting rules.

Fonterra has elected to utilise the modified retrospective approach. This will require an adjustment to equity as at 1 August 2019, and prior year comparatives will not be restated. Fonterra has also elected to retain the current accounting treatment for short-term leases and low-value assets.

Management has assessed the effect of applying NZ IFRS 16 through a project that included collecting and validating Fonterra's portfolio of leases, assessing the lease term and discount rate assumptions, implementing an IT system solution for lease accounting under NZ IFRS 16, and implementing changes to internal processes and controls. Management is in the final stages of completing the validation of the portfolio of leases through a review of historic supply arrangements. In addition, the long-term supply arrangement with A-Ware disclosed in Note 21 of the Group's full financial statements is currently being assessed to determine if it meets the definition of a lease under NZ IFRS 16. Any lease accounting implications would be recognised during FY20 when the A-Ware plant supporting the agreement is commissioned.

On transition to NZ IFRS 16 at 1 August 2019, based on management's current expectation of the portfolio of leases, Fonterra expects to recognise a right-of-use asset of \$465 million and a lease liability of \$487 million.

The adoption of NZ IFRS 16 does not have a significant impact on Fonterra's net profit after tax. However, there will be an increase in profit before net finance costs and tax, because a portion of the lease costs currently reported in cost of goods sold or operating expenses will be recorded as finance costs. Following adoption of NZ IFRS 16, the presentation of lease payments in the cash flow statement will change from operating activities to financing activities.

Based on Fonterra's current expectation of the portfolio of leases held by Fonterra at 31 July 2019, the impact of adopting NZ IFRS 16 on the financial results for the year ending 31 July 2020 is estimated to be a reduction in the expenses of \$98 million, an increase in interest expense of \$16 million, and additional depreciation of \$86 million. This results in an overall decrease in net profit of \$5 million. Any change in the portfolio of leases following completion of the validation and review process will change the estimated impact on Fonterra's financial results. Fonterra's lease population is likely to change during the year ending 31 July 2020, so the actual impact is likely to vary from these estimates. At the date of these financial statements Fonterra had not yet determined any deferred tax accounting impact of adopting NZ IFRS 16.

Fonterra's operating lease commitments at 31 July 2019 are disclosed in Note 21 of the Group's full financial statements.

There are no other new or amended standards that are issued but not yet effective that are expected to have a material impact on the Group.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

PERFORMANCE

1 SEGMENT REPORTING

a) Operating segments

Operating segments reflect the way financial information is regularly reviewed by the Fonterra Management Team (FMT). The measure of profit or loss used by the FMT to evaluate the underlying performance of operating segments is normalised segment earnings before net finance costs and tax.

Transactions between segments are based on estimated market prices, except for the sale of milk from China Farms to Ingredients. The transfer price used for these transactions is RMB 4.00 per kg.

Unallocated costs represent corporate costs including Corporate Affairs and Group services.

REPORTABLE SEGMENT	DESCRIPTION
Ingredients	Represents the collection, processing and distribution of the ingredients business in New Zealand, global sales and marketing of New Zealand and non-New Zealand ingredients products, Fonterra Farm Source™ stores, and the Australian and South American ingredients businesses.
Consumer and foodservice	
– Oceania	Represents the fast-moving consumer goods (FMCG) and foodservice businesses in New Zealand and Australia (including export to the Pacific Islands).
– Asia	Represents FMCG and foodservice businesses in Asia (excluding Greater China), Africa and the Middle East.
– Greater China	Represents FMCG and foodservice businesses in Greater China.
– Latin America	Represents FMCG and foodservice businesses in South America and the Caribbean.
China Farms	Represents farming operations in China.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) Operating segments CONTINUED

GROUP \$ MILLION									
31 JULY 2019									
	INGREDIENTS	CONSUMER AND FOODSERVICE				CHINA FARMS	UNALLOCATED COSTS AND ELIMINATIONS	TOTAL	
NOTES	OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL				
Normalised segment income statement									
External revenue	13,328	1,989	1,814	1,481	1,502	6,786	–	–	20,114
Inter-segment revenue ¹	3,707	170	48	2	5	225	249	(4,181)	–
Revenue from sale of goods	17,035	2,159	1,862	1,483	1,507	7,011	249	(4,181)	20,114
Cost of goods sold	(15,608)	(1,737)	(1,411)	(1,134)	(1,108)	(5,390)	(244)	4,143	(17,099)
Segment gross profit	1,427	422	451	349	399	1,621	5	(38)	3,015
Operating expenses	(735)	(333)	(284)	(190)	(366)	(1,173)	(21)	(382)	(2,311)
Net other operating income	61	3	1	4	4	12	22	(4)	91
Net foreign exchange gains/(losses)	16	–	(8)	(2)	(1)	(11)	(1)	(5)	(1)
Share of profit/(loss) of equity accounted investees	42	–	(2)	(1)	4	1	(19)	1	25
Normalised segment earnings before net finance costs and tax	811	92	158	160	40	450	(14)	(428)	819
Normalisation adjustments:									
New Zealand consumer and foodservice business	2	–	(204)	–	–	(204)	–	–	(204)
Disposal of Tip Top	2	–	(25)	–	–	(25)	–	(15)	(40)
China Farms impairment	2	–	–	–	–	–	(203)	–	(203)
Brazil consumer and foodservice business impairments	2	(6)	–	–	–	(143)	–	–	(149)
Disposal of Venezuelan operations	2	(22)	–	–	–	(112)	–	–	(134)
Australia strategic reset	2	(68)	–	–	–	–	–	–	(68)
Other strategic reset costs	2	–	(2)	–	–	(5)	–	(12)	(19)
Beingmate	2	–	–	–	(12)	–	–	–	(12)
Segment earnings before net finance costs and tax	715	(139)	158	148	(220)	(53)	(217)	(455)	(10)
Finance income									16
Finance costs									(434)
Loss before tax									(428)
Other segment information:									
Volume ² (liquid milk equivalents, billion)	21.42	1.69	1.45	1.21	0.78	5.13	0.26	(4.96)	21.85
Volume ² (metric tonnes, thousand)	3,171	627	297	299	559	1,782	20	(834)	4,139
Depreciation and amortisation (\$ million)	(408)	(27)	(12)	(2)	(33)	(74)	(26)	(53)	(561)
Capital expenditure ³	445	43	10	1	30	84	23	48	600
Equity accounted investments	112	–	–	–	12	12	69	9	202
Capital employed ⁴ (\$ million)	9,272	509	180	(42)	362	1,009	735	(1,348)	9,668

Reconciliation of reported to segment gross profit for the year ended 31 July 2019:

GROUP \$ MILLION	
Segment gross profit	3,015
Normalisation adjustments:	
– China Farms impairment	(203)
– Australian strategic reset	(23)
– New Zealand consumer and foodservice business strategic review impact	(7)
– Other restructuring costs	(2)
Reported gross profit	2,780

¹ Ingredients inter-segment revenue includes sales to Foodservice businesses across the Group, this is a change from the way in which those sales were reported for the year ended 31 July 2018 where they were reflected as an adjustment to the cost of goods sold. The change increased sales revenue by \$901 million for the year ended 31 July 2019, there was no impact on the gross profit or earnings of the Ingredients business or the Group.

² Includes sales to other strategic platforms. Total column represents total external sales.

³ Capital expenditure comprises purchases of property, plant and equipment and intangible assets, and net purchases of livestock.

⁴ Capital employed is calculated as the average for the period of: net assets excluding net-interest bearing debt, deferred tax balances and brands, goodwill and equity accounted investments. These balances incorporate intersegment net working capital and funding arrangements.

OUR FINANCIAL SUMMARY

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) Operating segments CONTINUED

GROUP \$ MILLION									
31 JULY 2018									
	INGREDIENTS	CONSUMER AND FOODSERVICE				CHINA FARMS	UNALLOCATED COSTS AND ELIMINATIONS	TOTAL	
		OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA				
Normalised segment income statement									
External revenue ¹	13,485	2,001	1,849	1,564	1,532	6,946	–	–	20,431
Inter-segment revenue	2,821	158	16	–	2	176	262	(3,259)	–
Revenue from sale of goods	16,306	2,159	1,865	1,564	1,534	7,122	262	(3,259)	20,431
Cost of goods sold	(14,834)	(1,726)	(1,409)	(1,229)	(1,075)	(5,439)	(257)	3,251	(17,279)
Segment gross profit	1,472	433	456	335	459	1,683	5	(8)	3,152
Operating expenses	(808)	(373)	(289)	(183)	(368)	(1,213)	(31)	(444)	(2,496)
Net other operating income	111	8	18	14	24	64	22	(5)	192
Net foreign exchange gains/(losses)	50	(1)	(9)	(1)	(2)	(13)	–	(37)	–
Share of profit/(loss) of equity accounted investees	54	–	–	–	4	4	(5)	1	54
Normalised segment earnings before net finance costs and tax	879	67	176	165	117	525	(9)	(493)	902
Normalisation adjustments:									
Reduction in the carrying value of investment in Beingmate ²	–	–	–	(439)	–	(439)	–	–	(439)
WPC80 recall costs ³	(196)	–	–	–	–	–	–	–	(196)
Time value of options ⁴	(5)	–	–	–	–	–	–	–	(5)
Segment earnings before net finance costs and tax	678	67	176	(274)	117	86	(9)	(493)	262
Finance income									23
Finance costs									(439)
Loss before tax									(154)
Other segment information:									
Volume ⁵ (liquid milk equivalents, billion)	20.52	1.66	1.55	1.41	0.75	5.37	0.27	(3.96)	22.20
Volume ⁵ (metric tonnes, thousand)	2,986	623	298	266	578	1,765	22	(650)	4,123
Depreciation and amortisation (\$ million)	(389)	(26)	(13)	(2)	(29)	(70)	(26)	(59)	(544)
Capital expenditure ⁶	644	62	17	2	61	142	(25)	100	861
Equity accounted investments	308	–	–	204	10	214	85	8	615
Capital employed ⁷ (\$ million)	9,156	515	95	(65)	332	877	788	(1,269)	9,552

1 Total Group revenue from the sale of goods is \$20,438 million. The difference of \$7 million relates to the normalisation of time value of options.

2 Of the \$439 million normalisation adjustment, \$405 million relates to impairment of equity accounted investees and \$34 million relates to Fonterra's equity accounted share of Beingmate's losses.

3 The \$196 million normalisation adjustment relates to operating expenses.

4 Of the \$5 million normalisation adjustment, \$7 million relates to revenue offset by \$12 million of net foreign exchange losses.

5 Includes sales to other strategic platforms. Total column represents total external sales. LMEs for FY18 have been restated to better reflect internal sales between business segments.

6 Capital expenditure comprises purchases of property, plant and equipment and intangible assets, and net purchases of livestock.

7 Capital employed is calculated as the average for the period of: net assets excluding net-interest bearing debt, deferred tax balances and brands, goodwill and equity accounted investments. These balances incorporate intersegment net working capital and funding arrangements.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

b) Geographical revenue

	GROUP \$ MILLION								TOTAL
	CHINA	REST OF ASIA	AUSTRALIA	NEW ZEALAND	UNITED STATES	EUROPE	LATIN AMERICA	REST OF WORLD	
Geographical segment external revenue:									
Year ended 31 July 2019	4,294	5,590	1,776	2,182	931	851	2,126	2,364	20,114
Year ended 31 July 2018	3,980	5,684	1,836	2,076	793	681	2,272	3,116	20,438

Revenue is allocated to geographical segments on the basis of the destination of the goods sold.

c) Non-current assets

	GROUP \$ MILLION							
	INGREDIENTS		OCEANIA		ASIA	GREATER CHINA	LATIN AMERICA	TOTAL GROUP
	NEW ZEALAND	REST OF WORLD	NEW ZEALAND	AUSTRALIA				
<i>Geographical segment non-current assets:</i>								
As at 31 July 2019	5,467	305	756	1,007	840	944	891	10,210
As at 31 July 2018	5,538	467	1,324	928	827	1,127	1,052	11,263

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Reconciliation of geographical segment's non-current assets to total non-current assets:		
Geographical segment non-current assets	10,210	11,263
Deferred tax assets	592	667
Derivative financial instruments	440	204
Total non-current assets	11,242	12,134

OUR FINANCIAL SUMMARY

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

2 STRATEGY REVIEW

During the year the Fonterra Board conducted a review of the business with the goal to align the business strategy, priorities, resources and asset base with its long-term sustainable value drivers.

The Strategy Review had three dimensions:

- Strategic – to ensure alignment of focus and resources on our sources of differentiation and value creation to ensure we can continue to create goodness for generations.
- Asset portfolio – to provide clarity on the assets that were aligned with the more focused strategy and those that were now non-strategic or have been consistently underperforming, with a view to confirming an approach of hold, invest or divest.
- Operational – to review our operational performance, specifically in underperforming areas and where appropriate implement the necessary improvement initiatives.

Many of the under-performing areas had previously implemented performance improvement plans that didn't deliver sufficient improvement.

Fonterra has reviewed the forecast earnings, incorporating the changed strategic direction and priorities, as well as the level of success of current performance improvement activities.

The operational and asset portfolio reviews were commenced and announced in September 2018. In December 2018 it was announced that as part of the asset portfolio review, Fonterra had reached an agreement with Beingmate to return to full ownership of the Darnum plant in Australia and that Fonterra was looking at its ongoing ownership of Tip Top and considering a range of options in relation to this asset.

In February 2019 it was announced that a full review of strategy was underway. In March 2019 Fonterra announced its interim result and that it was commencing a sales process for its 50% share of DFE Pharma. It was also announced that Fonterra was considering its options for its shareholding in Beingmate, that strong interest in Tip Top had been received and that Fonterra's share of the Venezuelan consumer joint venture, Corporacion Inlaca had been sold.

In May 2019 Fonterra announced that Tip Top had been sold, that a strategic review of the two Fonterra-owned farm-hubs in China had commenced, the closure of the Dennington site in Australia and that Fonterra had agreed options for the future ownership of the DPA Brazil joint venture, which included a potential sale of respective stakes.

In August 2019 Fonterra announced it intends to sell a portion of its stake in Beingmate and also announced a number of one-off accounting adjustments related to non-cash impairment charges on four specific assets and the divestments made during the financial year.

Throughout the year Fonterra has provided updates on the progress made in the operational review, which included reducing debt, capital expenditure and operating expenses.

This note explains the accounting impact of the Strategy Review on the financial statements.

Summary Table: Net profit before tax impact of Strategy Review.

	NOTE	GROUP \$ MILLION					TOTAL IMPACT
		IMPAIRMENT INTANGIBLE	IMPAIRMENT PP&E	TOTAL IMPAIRMENT	OTHER	LOSS ON DISPOSAL	
New Zealand consumer and foodservice business	a)	(189)	(7)	(196)	(8)		(204)
Disposal of Tip Top	a)					(40)	(40)
Sub-total Fonterra New Zealand		(189)	(7)	(196)	(8)	(40)	(244)
China Farms impairment	b)		(203)	(203)			(203)
Brazil consumer and foodservice business impairments	c)	(133)		(133)	(16)		(149)
Disposal of Venezuelan operations	d)					(134)	(134)
Australia strategic reset	e)	(9)	(23)	(32)	(36)		(68)
Other strategic reset costs	f)				(19) ¹		(19)
Beingmate	g)				(12)		(12)
Total net loss before tax impact		(331)	(233)²	(564)	(91)	(174)	(829)

1 \$2 million of the \$19 million relates to costs separately disclosed above gross margin in the income statement.

2 The \$233 million of production related asset impairments are separately disclosed above gross margin in the income statement.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) New Zealand consumer and foodservice business and Tip Top disposal

The New Zealand consumer and foodservice business, including Tip Top, is reported in the Oceania consumer and foodservice segment. Fonterra's New Zealand consumer and foodservice business has historically had strong market shares and delivered significant returns. Goodwill was recognised on the acquisition of New Zealand Dairy Foods and the lower North Island consumer business, as shown in the goodwill table later in this note, and the historic returns supported these balances.

In more recent times, Fonterra's New Zealand consumer and foodservice business has experienced a decline in performance due to market conditions and operational challenges in FY18. During FY19 Fonterra has delivered improved year-on-year operational performance, but margin compression has continued to be a challenge reflecting the increased level of competition in the New Zealand market.

While the core dairy business remains a strategic priority, the Tip Top ice cream business was identified as non-strategic and was divested in May 2019, supporting Fonterra's objective to reduce debt levels.

As part of the strategic review, several options were considered to drive margin recovery and overall earnings growth. After balancing the impact of ongoing competition, the level of capital investment required, the likelihood of successful delivery and the reality of the current level of performance, a revised strategic plan was agreed. The outcome of the Strategy Review results in a lower level of forecast earnings growth, resulting in an impairment as discussed below.

Consumer and Foodservice New Zealand goodwill and brand impairment

	\$ MILLION
Impairment of Red Cow brand ¹	4
Goodwill impairment	185
Fonterra New Zealand goodwill and brand impairment	189

¹ Brand carrying amounts have been reviewed. The carrying amount of the Red Cow brand was not supported by future cash flows therefore the full carrying amount of \$4 million has been impaired.

The recoverable amount of the New Zealand consumer and foodservice business was assessed at \$730 million. This was lower than the carrying value of the business, resulting in an impairment of the goodwill attributed to the business of \$185 million.

The revised business forecast reflects a recovery in business performance that will generate sufficient earnings to support goodwill of \$250 million and brands of \$283 million.

A summary of the initial recognition of goodwill and the movements in the FY19 year is shown below.

	\$ MILLION
Acquisition of Tip Top on Fonterra formation	31
Acquisition of New Zealand Dairy Foods in 2005	365
Acquisition of lower North Island consumer business in 2006	124
Goodwill on other FBNZ acquisitions	91
Goodwill balance as at 1 August 2018	611
Goodwill balance allocated to Tip Top at divestment ¹	(176)
Impairment	(185)
Goodwill balance as at 31 July 2019	250

¹ The entire goodwill balance in the table above is associated with the New Zealand consumer and foodservice business CGU, and is therefore tested for impairment as part of that CGU. That CGU included Tip Top, up until Tip Top was sold. This means that goodwill was required to be attributed to the accounting impact on disposal of the Tip Top business based on the fair value of Tip Top relative to the New Zealand consumer and foodservice business at the date of disposal. That allocation resulted in attribution of \$176 million of goodwill to Tip Top at the date of Tip Top's disposal.

OUR FINANCIAL SUMMARY

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) New Zealand consumer and foodservice business and Tip Top disposal CONTINUED

Assumptions used in the impairment assessment

The recoverable amount of the business was determined on a value in use basis using a discounted cash flow methodology. The assumptions used in the value in use calculation are based on management approved forecasts. The actual outcome is not certain and any change to the assumptions could potentially lead to an additional impairment.

The forecast cash flows used in the impairment model are based on a five-year business plan and have been prepared considering past performance as well as future expected performance aligned with the Board's Strategy Review.

The forecast resulted in a reduction in expected volume growth and market shares, as well as margin improvement driven from initiatives in trade spend management, manufacturing and supply chain efficiencies and reduced expenses.

Initiatives driving rationalisation of trade spend management and cost out, both through improved productivity in our manufacturing and supply chain and through reduced operating expenditure, are the largest drivers of forecast earnings improvement.

The long-term growth rate applied to the future cash flows at year five of the forecast is 2.7 per cent (31 July 2018: 2.4 per cent). This reflects the weighted average inflation rate of New Zealand and this business's export markets.

The post-tax discount rate is 8.1 per cent (31 July 2018: 8.1 per cent). The pre-tax discount rate is 10.2 per cent.

The impact of changes in these key assumptions on the recoverable amount are shown in the table below. The sensitivities shown assume the specific assumption changes in isolation, while all other assumptions are held constant.

KEY ASSUMPTIONS	VALUE ATTRIBUTED	IMPACT ON THE RECOVERABLE AMOUNT
Annual trade spend management savings (by year 5)	\$31 million	An increase/(decrease) in trade spend management savings of \$20 million from year three would result in an increase/(decrease) in the recoverable amount of \$225 million.
Annual productivity savings (manufacturing and supply chain efficiencies) (by year 5)	\$19 million	An increase/(decrease) in productivity savings of \$3 million from year three would result in an increase/(decrease) in the recoverable amount of \$34 million.
Annual operating expense savings (by year 5)	\$14 million	An increase/(decrease) in operating expense savings of \$4 million from year three would result in an increase/(decrease) in the recoverable amount of \$45 million.
Terminal growth rate	2.7 per cent	An increase/(decrease) in the terminal growth rate of 10 basis points would result in an increase/(decrease) in the recoverable amount of \$11 million
Discount rate (post-tax)	8.1 per cent	An increase/(decrease) in the discount rate of 50 basis points would result in a decrease/(increase) in the recoverable amount of \$67 million

The fair value less cost to dispose was also considered when determining the recoverable amount to ensure the higher of fair value less cost to dispose and value in use was applied.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) New Zealand consumer and foodservice business and Tip Top disposal CONTINUED

Sale of Tip Top

In May 2019, Fonterra sold its New Zealand ice cream business, Tip Top, to Froneri for \$380 million. The transaction resulted in a post-tax loss on sale of \$11 million. The assets disposed of include: the net assets of Tip Top, the Tip Top brand, the carrying amount of the Kapiti ice cream brand as a perpetual license was granted to Froneri, and an allocation of \$176 million goodwill from the New Zealand consumer and foodservice CGU.

	\$ MILLION
Sales proceeds¹	380
Net assets disposed excluding goodwill	(200)
Transaction costs	(15)
	165
Goodwill balance allocated to Tip Top at divestment	(176)
Loss on sale²	(11)

1 Cash received of \$376 million, net of working capital adjustments.

2 Of the net loss on sale of \$11 million: a loss of \$40 million is recognised in net loss on divestment; and \$29 million is recognised as a tax benefit relating to the reversal of deferred tax liabilities.

The net assets allocated to the sale transaction were:

	\$ MILLION
Trade and other receivables	17
Inventories	26
Property, plant and equipment	99
Brands	106
Trade and other payables	(19)
Deferred tax liability	(29)
Goodwill	176
Net assets disposed	376

Tip Top is presented in the Oceania consumer and foodservice reportable segment. Excluding the loss on disposal, the profit after tax attributable to Fonterra's equity holders generated by Tip Top is \$11 million in the 10 months to 31 May 2019 (year ended 31 July 2018: \$12 million).

PP&E impairment and other costs

\$7 million of plant, property and equipment (PP&E) impairment has been recognised relating to assets that have been written off. There are also \$8 million of redundancy costs, consulting costs to support the review and other transition costs incurred.

OUR FINANCIAL SUMMARY

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

b) China Farms impairment

Fonterra has announced it is assessing a wide range of options for its investment in its Fonterra-owned China Farms assets. This reflects the reduced focus on off shore milk pools, the current losses being generated, and the intention to focus on Fonterra's strategic priorities.

As at 31 July 2018, the recoverable amount of the China Farm assets was equivalent to the carrying amount, which meant that any adverse change in the supporting assumptions would result in an impairment.

The FY19 performance for the Fonterra-owned China Farms assets (including the amount recorded within the Ingredients business) was a loss of \$13 million compared to a \$32 million loss in FY18. This improvement reflects an increase in average pricing and a reduction in operating expenditure however this result was still behind the plan to break-even in FY19.

There have been several events over the years, highlighting a higher level of risk in operating the farms than previously anticipated. Consequently, the current expectation of long-term sustainable milk production has reduced by seven per cent. This reduction across the FY19 five-year plan and through the terminal value has been the most significant factor in the reduction in the recoverable amount of the China Farms assets compared to prior year.

While the average milk price increased in FY19 to RMB 3.64, it remains short of the targeted RMB 4.00 per kg assumed in the FY18 recoverable amount assessment. Fonterra has revised the future milk price forecast to reflect a phased increase in pricing, driven by the growth of premium customers and reduced volume being sold through traders. The lag in achieving this price point is the other major contributor to the reduction in the recoverable amount relative to the FY18 recoverable amount.

The recoverable amount of the China Farms assets is \$546 million. This was lower than the carrying value of the assets, resulting in an impairment of property, plant and equipment of \$203 million.

Assumptions used in the impairment assessment

The recoverable amount of the assets are determined on a value in use basis using a discounted cash flow methodology. The assumptions used in the value in use calculation are based on management approved forecasts. The actual outcome is not certain and any change to the assumptions could potentially lead to an additional impairment.

The forecast cash flows used in the impairment model are based on a five-year business plan and have been prepared considering past performance as well as future expected performance aligned with the Board's Strategy Review.

The long-term growth rate applied to the future cash flows at year five of the forecast is 2.6 per cent (31 July 2018: 3.0 per cent).

The post-tax discount rate is 9.1 per cent (31 July 2018: 9.1 per cent).

The impact of changes in these assumptions on the recoverable amount are shown in the table below. The sensitivities shown assume the specific assumption changes in isolation, while all other assumptions are held constant.

KEY ASSUMPTIONS	VALUE ATTRIBUTED	IMPACT ON THE RECOVERABLE AMOUNT
Future milk price (year five) ¹	RMB 4.16 per kg	An increase/(decrease) in the milk price of RMB 0.10 per kg would result in an increase/(decrease) in the recoverable amount of \$82 million.
Milk production for sale (year five) ¹	350 million kg	An increase/(decrease) in the milk production of three per cent would result in an increase/(decrease) in the recoverable amount of \$47 million.
Feed costs per kg of milk sold (year five) ¹	RMB 1.99 per kg	An increase/(decrease) in feed costs of RMB 0.10 per kg would result in an increase/(decrease) in the recoverable amount of \$82 million.
Effluent costs per kg of milk sold (year five) ¹	RMB 0.14 per kg	An increase/(decrease) in effluent costs of RMB 0.02 per kg would result in an increase/(decrease) in the recoverable amount of \$16 million.
Terminal growth rate	2.6 per cent	An increase/(decrease) in the terminal growth rate of 10 basis points would result in an increase/(decrease) in the recoverable amount of \$7 million.
Discount rate (post-tax)	9.1 per cent	An increase/(decrease) in the discount rate of 50 basis points would result in a decrease/(increase) in the recoverable amount of \$47 million.

¹ Year five has been chosen as it reflects the estimated long-term sustainable position.

The fair value less cost to dispose was also considered when determining the recoverable amount to ensure the higher of fair value less cost to dispose and value in use was applied.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

c) Brazil consumer and foodservice business impairments

The Brazil consumer and foodservice business is reported in the Latin America consumer and foodservice segment.

At 31 July 2019, Fonterra is in the process of investigating a range of options for the Brazil consumer and foodservice business. No decision has been made on the option to be formally progressed.

Consumer and foodservice Brazil goodwill impairment

The goodwill attributable to the consumer and foodservice business in Brazil of \$133 million was recognised in 2015 when Fonterra acquired a controlling interest in DPA Brazil.

The economy in Brazil has been challenging and previously expected growth in the chilled dairy category has not eventuated. The chilled dairy category performance is closely aligned with Fonterra's volume and pricing outcomes.

Several improvement initiatives were implemented in the second half of 2019, improving gross margins and reducing operating expenditure. While these have improved business performance they did not meet the level of improvement anticipated in the forecast prepared in FY18.

The current forecast reflects some improvement in aspects of the Brazilian economy that will support the chilled dairy category growth and enable both pricing and volume growth to be realised. However, given the lower level of improvement delivered in FY19 than was expected, future expectations on the key revenue growth and margin assumptions, driven by volume and pricing, have reduced in comparison to the FY18 recoverable amount assumptions. This has driven the bulk of the change in the recoverable amount from prior year with both lower revenue and margin per cent growth now forecast.

The recoverable amount of the Brazil consumer and foodservice business was \$234 million. This was lower than the book value of the business, resulting in an impairment of the goodwill attributed to the business. Fonterra has written off the \$133 million of goodwill.

The reduction in the recoverable amount results from a downward reassessment of forecast earnings. The change in the forecast earnings outlook also impacts the forecast future taxable profits which are used to support the carrying amount of the deferred tax asset in Brazil. The reduction in forecast future taxable profits means that the deferred tax asset in Brazil is now not expected to be utilised in the foreseeable future. The deferred tax asset of \$110 million has been derecognised through tax expense (refer Note 13). Fonterra's 51 per cent share is \$55 million.

Assumptions used in the impairment assessment

The recoverable amount of the business was determined on a value in use basis using a discounted cash flow methodology. The assumptions used in the value in use calculation are based on management approved forecasts. The actual outcome is not certain and any change to the assumptions could potentially lead to an additional impairment.

The forecast cash flows used in the impairment model are based on a three-year business plan and have been prepared considering past performance as well as future expected performance aligned with the Board's Strategy Review.

The assumption used for revenue growth is 9.8 per cent (compared to 9.6 per cent in FY18). Actual revenue growth was four per cent in FY19. The revenue growth assumption is dependent on the recovery in the Brazilian economy and successful execution of initiated and planned performance improvement activities. Gross margin assumptions have reduced compared to those forecast in FY18, with a lower starting point and reduced margin improvements (2.7 per cent in FY19 compared to 4.8 per cent in FY18). These assumptions include the impacts of inflation, volume growth and the annualised impact of the pricing initiatives delivered in FY19.

An annual growth rate of 6.86 per cent (2018: 8.3 per cent) has been applied to the year three cash flows to derive years four to 10. This growth rate includes volume growth plus inflation. The terminal growth rate of 3.75 per cent (2018: 4.5 per cent) has been applied to the cash flows from year 10.

The post-tax discount rate is 11.0 per cent (31 July 2018: 10.9 per cent). The pre-tax discount rate was 13.8 per cent.

The impact of changes in these assumptions on the recoverable amount are shown in the table below. The sensitivities shown assume the specific assumption changes in isolation, while all other assumptions are held constant.

KEY ASSUMPTIONS	VALUE ATTRIBUTED	IMPACT ON THE RECOVERABLE AMOUNT
Revenue growth (first three-year CAGR)	9.8 per cent	An increase/(decrease) in revenue growth of 200 basis points would result in an increase/(decrease) in the recoverable amount of \$24 million.
Gross margin improvement (first 3 years)	2.7 per cent	An increase/(decrease) in the gross margin percentage of 50 basis points would result in an increase/(decrease) in the recoverable amount of \$25 million.
Year 4-10 growth rate	6.86 per cent	An increase/(decrease) in the growth rate percentage of 100 basis points would result in an increase/(decrease) in the recoverable amount of \$15 million.
Terminal growth rate	3.75 per cent	An increase/(decrease) in the terminal growth rate of 10 basis points would result in an increase/(decrease) in the recoverable amount of \$2 million.
Discount rate (post-tax)	11.0 per cent	An increase/(decrease) in the discount rate of 50 basis points would result in a decrease/(increase) in the recoverable amount of \$16 million.

The fair value less cost to dispose was also considered when determining the recoverable amount to ensure the higher of fair value less cost to dispose and value in use was applied.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

c) Brazil consumer and foodservice business impairments CONTINUED

Provision for utilisation of indirect taxes

Fonterra has assessed its ability to recover Brazilian indirect tax credits and has concluded that a provision of \$16 million is appropriate given challenges in utilising and recovering certain tax credits.

Future divestment considerations

In combination with Nestlé, Fonterra's joint venture partner, Fonterra is considering strategic options for the Brazil consumer and foodservice business including potential divestment options. If a divestment was to occur this would trigger the release of the foreign currency translation reserve balance associated with the Brazil consumer and foodservice business to profit or loss. This balance is \$68 million debit at 31 July 2019. Given the range of options being considered, the business does not meet the held for sale criteria.

The business also has an asset relating to the indirect business tax credits of \$142 million. Fonterra's 51 per cent share being \$72 million, the value of which to a potential purchaser may be dependent on the nature of their business.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

d) Disposal of Venezuelan operations

Due to the continued economic and political instability, Fonterra has divested its operations in Venezuela. The impact of the divestment of the businesses in Venezuela on these financial statements is shown below:

	\$ MILLION
Loss on sale of the Venezuelan consumer business	(112)
Closure of the Venezuelan ingredients operation	(22)
Impact on loss before tax	(134)

Venezuelan consumer business

The Venezuelan consumer business was identified as a non-strategic asset in the Strategic Review and given the impact of current economic conditions on business performance was flagged as an asset for potential divestment.

In March 2019, Fonterra sold its Venezuela consumer business to Mirona Foods Ltd. for \$16 million (€9.7 million). The transaction resulted in a loss on sale of \$112 million, primarily due to the foreign currency translation reserve balance of \$124 million attributable to the Venezuelan business recognised in profit or loss on disposal of the business.

The loss on disposal is shown below.

	\$ MILLION
Sales proceeds (cash) received	16
Net assets disposed	(16)
Gain before reclassification of reserves	–
Reclassification of foreign currency translation reserve	(124)
Reclassification of hyperinflation reserve	12
Loss on sale	(112)

The net assets disposed of were:

	\$ MILLION
Trade and other receivables	9
Property, plant and equipment	20
Brands	1
Trade and other payables	(14)
Net assets disposed	16

The Venezuelan consumer business is presented in the Latin America consumer and foodservice reportable segment. Excluding the loss on disposal, the loss after tax attributable to Fonterra's equity holders generated by the Venezuelan consumer business was \$3 million for the eight months to 31 March 2019 (year ended 31 July 2018: profit \$9 million).

Venezuelan ingredients business

No material ingredient sales have been made into Venezuela since 2016, responding to Fonterra's credit risk management expectations, and reduced demand. Accordingly, in July 2019, Fonterra formally closed its ingredients sales office in Venezuela in line with the operational review. This sales office had been supporting sales across the Latin America region in recent years and these sales will now be supported out of Mexico.

This resulted in a loss of \$22 million relating to the reclassification to profit or loss of the foreign currency translation reserve balance attributable to the business.

OUR FINANCIAL SUMMARY

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

e) Australian strategic reset

The Australian ingredients business is reported within the Ingredients segment.

As part of the Strategy Review, the Board was presented with several options for the future of the Australian ingredients business. The Strategy Review incorporated the material decline in the performance of the Australian ingredients business during FY19. The key drivers of this were the reduced milk volumes due to drought conditions and the increased competition for milk reducing Fonterra's share of collected volumes, the under-utilisation of Fonterra's nutritional assets, including low demand through the joint venture with Beingmate and the additional costs associated with Fonterra's investment in new cheese capacity.

Impairment assessment

The Strategic Review and reduced performance are indicators of impairment and require an impairment assessment.

The Australian ingredients assets are considered a single CGU for the goodwill and asset impairment assessments because milk is optimised across Fonterra's Victorian and Tasmanian sites. These are considered separate from the Australian consumer and foodservice business, which has delivered continued earnings growth in FY19.

The recoverable amount, which was determined using fair value less costs of disposal (FVLCD) of the Australian Ingredients business is higher than the \$942 million carrying amount and therefore, no impairment was required.

The FVLCD was determined using recent observable transactions which provided evidence of relevant multiples such as Enterprise Value (EV) to revenue, EV to tangible assets and EV to milk supply. Fonterra considered these three multiples as the most relevant multiples. All three of these multiples supported a similar FVLCD mid-point.

Assumptions used in the impairment assessment

Key assumptions used in determining the FVLCD are milk supply and revenue.

The milk supply outlook in the short-term is uncertain, however Fonterra expects it to normalise in the medium-term.

In the current year, the recoverable amount was determined using a FVLCD as it is higher than value in use. The reason for this is the carrying value of the Australian Ingredient business increased with the completion of Stanhope's expansion and the acquisition of the Darnum site from Beingmate and the reduction in forecast milk supply reduced the CGU's value in use.

The fair value measurement is in Level 3 of the fair value hierarchy. A reasonably possible change in assumptions would not cause the CGU's carrying amount to be impaired.

The value in use was also considered when determining the recoverable amount to ensure the higher of fair value less cost to dispose and value in use was applied.

Strategic Review implications

The Strategy Review identified several initiatives, with an emphasis on sustainable milk supply, improved asset utilisation, productivity improvements and operating expense reduction.

As a result, several actions were taken, including unwinding the joint arrangement with Beingmate to regain full control of the Darnum site, shutting the Dennington site and reductions in operating expenditure. Fonterra is also pursuing several initiatives to improve utilisation of the remaining assets.

The impact of these drivers and the responses on these financial statements is shown below:

	\$ MILLION
Closure of the Dennington site	(54)
Other restructuring costs	(14)
Loss before tax	(68)

The closure of the Dennington site was announced in May 2019, resulting in recognition of a loss of \$54 million comprising of an impairment of property, plant and equipment of \$23 million, and additional costs of \$31 million primarily relating to redundancy costs and site restoration.

f) Other strategic reset costs

During the year ended 31 July 2019, Fonterra incurred other costs in relation to the Strategy Review of \$17 million which are not allocated to items addressed elsewhere in Note 2. \$10 million of these relate to advisors supporting the asset review process where the review and divestment process has not yet completed. Driven from the operational review, there are \$7 million of redundancy costs in segments of our business not addressed elsewhere in this note.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

g) Changes to arrangements with Beingmate Baby & Child Food Co., Ltd (Beingmate)

Acquisition of Darnum manufacturing plant

In January 2019 Fonterra regained full ownership of the Darnum manufacturing plant in Australia, unwinding the joint arrangement with Beingmate, and renegotiating commercial terms for product purchases by Beingmate.

The transaction price of \$126 million (AU\$120 million) represents the 51 per cent share of the Darnum manufacturing plant and associated working capital balances. This has been treated as an asset purchase as no processes were acquired. Fonterra had been providing these services to the joint venture under the terminated management agreement.

Amounts owed to Fonterra by Beingmate of \$64 million (AU\$61 million) have been settled against the transaction price, resulting in a net amount owed to Beingmate of \$62 million (AU\$59 million). As at 31 July 2019 Fonterra has an amount payable to Beingmate of \$62 million (AU\$59 million) in relation to this transaction. The amount payable is unsecured and accrues interest at a market interest rate. It is repayable in four equal annual instalments. The arrangement with Beingmate also includes an offsetting supply agreement of the same timeframe that commits Beingmate to purchase minimum volumes of product from the Darnum plant.

Classification of the investment in Beingmate

In September 2018, Fonterra announced the strategic review of its investment in Beingmate. This review resulted in the termination of several commercial arrangements with Beingmate, including the joint venture arrangement relating to the Darnum manufacturing plant discussed above.

A further consequence of the review is that Fonterra has determined the Co-operative no longer has significant influence over its Beingmate investment. This loss of significant influence means that Fonterra ceased equity accounting for its Beingmate investment, and is recording the investment at fair value. Movements in fair value following the cessation of equity accounting are recorded in profit or loss.

This determination that significant influence has been lost required judgement. Fonterra's judgement referenced a combination of factors:

- Fonterra has the right under a shareholders' agreement to require the current controlling shareholder of Beingmate to support Fonterra's appointment of two directors to the Beingmate board. At the time Fonterra acquired its shareholding in Beingmate, it nominated two individuals for appointment to the Beingmate board. These nominees were appointed to the Beingmate board with the support of the Beingmate controlling shareholder.
- One of the Fonterra-nominated directors on Beingmate's board resigned in March 2019. As a result, Fonterra has one remaining director on Beingmate's nine-person board. At this time, there are practical restrictions on Fonterra's ability to appoint a further director onto the Beingmate board. This means that Fonterra has less than 20 per cent voting rights on the Beingmate board and less than 20 per cent ownership interest. NZ IFRS requires that with this level of interest, in order for Fonterra to assert significant influence over Beingmate, Fonterra must rebut a presumption of no significant influence.
- Fonterra's investment in Beingmate was originally accompanied by a broader strategic relationship. The nature of this relationship has materially reduced. During FY19, Fonterra regained full ownership of the Darnum manufacturing plant in Australia, following the unwind of its Darnum joint venture with Beingmate as described above. Fonterra also terminated Beingmate's rights to distribute Annum in China in FY19.
- Fonterra has now also implemented a heightened information barrier between the Co-operative and its remaining director on the Beingmate board. This has been put in place because of Fonterra's intention to sell a portion of its Beingmate shareholding.

After assessing all relevant facts and circumstances and given the overall uncertainty as to Fonterra's role and level of influence, Fonterra considers there is no longer sufficient evidence to be able to clearly demonstrate the Co-operative continues to have significant influence. As a result, Fonterra ceased equity accounting during FY19.

On cessation of equity accounting, Fonterra's investment in Beingmate is classified as "held for trading" in accordance with NZ IFRS 9 because it is held principally for the purpose of sale. This means the investment is recorded at fair value, with changes in fair value recorded in profit or loss. Fonterra has determined that, in accordance with NZ IFRS 13, the quoted share price is the appropriate price to use to determine fair value. Fair value is therefore calculated as the quoted share price, multiplied by the number of shares held.

The cessation of equity accounting resulted in a \$41 million gain. This \$41 million is represented by a \$71 million upwards revaluation to fair value, less \$30 million of foreign currency translation reserve losses recycled to profit or loss. Between the date of cessation of equity accounting and 31 July 2019, the fair value of Fonterra's investment in Beingmate reduced by a further \$52 million and Fonterra recorded \$1 million of its share of losses before ceasing equity accounting. The total income statement impact is a \$12 million loss.

The investment in Beingmate is presented in the Greater China consumer and foodservice reportable segment. Fonterra's share of losses from Beingmate as an equity accounted investment in the year ended 31 July 2019 was \$1 million prior to the cessation of equity accounting (31 July 2018: loss \$34 million).

At 31 July 2019, the carrying value of Fonterra's investment in Beingmate was \$234 million. This is represented by 192 million shares, at RMB 5.54 per share.

OUR FINANCIAL SUMMARY

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

g) Changes to arrangements with Beingmate Baby & Child Food Co., Ltd (Beingmate) CONTINUED

Intention to reduce the shareholding in Beingmate

In August 2019, Fonterra announced its intention to sell down, over time, its 18.8 per cent equity shareholding in Beingmate. Restrictions on the percentage of shares that can be sold down in individual transactions and uncertainty in the level of demand mean that the timing and pricing of the sell-down is uncertain.

Fonterra can sell up to a maximum of one per cent on-market in each 90-day period. Applying the closing share price as at 31 July 2019, a one per cent shareholding in Beingmate has a value of \$12 million.

Given the level of uncertainty in the disposal plan and the small shareholding that could be disposed within 12 months using block trade and/or on-market sales, classification as held for sale, which would recognise the entire investment as a current asset is not considered appropriate.

Any future sales of Fonterra's Beingmate shares will be transacted at the selling price achieved at the disposal date. This is likely to differ from the 31 July 2019 fair value.

h) Assets held for sale

As at 31 July 2019 the following investments, valued at \$229 million, were classified as 'held for sale'. No investments met the held for sale classification criterion as at 31 July 2018.

Goodminton AG (Goodminton)

In June 2019, Fonterra entered into an agreement to sell its investment in Goodminton. The sale is subject to regulatory approvals and is expected to complete within one year of balance date. Accordingly, the investment in Goodminton was reclassified from equity accounted investments to assets held for sale on 30 June 2019. The transaction was completed on 3 September 2019.

The investment in Goodminton is presented in the Ingredients reportable segment. Fonterra's share of earnings relating to the investment in Goodminton was \$nil million for the 11 months to 30 June 2019 (year ended 31 July 2018: \$nil million).

DMV Fonterra Excipients GmbH & Co.KG (DFE Pharma)

In March 2019, Fonterra announced that it had commenced a sales process for its 50 per cent shareholding in DFE Pharma. As at 31 July 2019 this process was well advanced and it was reasonable to believe that a transaction would be highly probable.

The investment in DFE Pharma is presented in the Ingredients reportable segment. Fonterra's share of earnings relating to the investment in DFE Pharma was \$44 million for the year ended 31 July 2019 (31 July 2018: \$47 million).

DFE Pharma Post Balance Sheet Event

On 24 September 2019, Fonterra approved the sale of its 50 per cent shareholding in DFE Pharma. The sales price of €363 million (\$633 million at the 24 September foreign exchange conversion rate) is made up of cash of €308 million (\$537 million) and an interest bearing loan of €55 million (\$96 million). The sale and purchase agreement also contains earnout clauses in relation to earnings before interest, tax, depreciation and amortisation for the 2019 and 2020 financial year, and specifies completion adjustments, which are not included in the sales price above. Given the proximity to the date of authorising the financial statements, being 25 September 2019, an estimate of the financial effect of the sale and any earnout clauses has not yet been determined.

i) Foreign Currency Translation Reserve

A summary of the amounts transferred to the income statement from the foreign currency translation reserve, including amounts triggered by items identified in this note are summarised below.

	NOTE	\$ MILLION
Disposal of Venezuelan consumer business	d)	124
Closure of Venezuelan ingredients operations	d)	22
Change in classification of investment in Beingmate	g)	30
Other		17
Foreign currency translation reserve losses transferred to the income statement		193

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

3 REVENUE FROM SALE OF GOODS

Revenue from the Group's reportable segments is shown below.

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
Ingredients external revenue	13,328	13,485
Consumer and Foodservice external revenue	6,786	6,946
China Farms external revenue	–	–
Total external revenue	20,114	20,431

4 COST OF GOODS SOLD

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
Opening inventory	2,917	2,593
Cost of milk:		
– New Zealand sourced	9,748	10,115
– Non-New Zealand sourced	966	1,245
Other costs	6,412	6,243
Impairment of production related assets ¹	235	–
Closing inventory	(2,944)	(2,917)
Total cost of goods sold	17,334	17,279

1 Impairments of production related assets in New Zealand, China and Australia are included with cost of goods sold (refer to Note 2).

OUR FINANCIAL SUMMARY

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

DEBT AND EQUITY

5 SUBSCRIBED EQUITY INSTRUMENTS

Co-operative shares, including shares held within the Group

Co-operative shares may only be held by a shareholder supplying milk to the Company (farmer shareholder), by former farmer shareholders for up to three seasons after cessation of milk supply, or by Fonterra Farmer Custodian Limited (the Custodian).

Voting rights in the Company are dependent on milk supply supported by Co-operative shares.¹

	CO-OPERATIVE SHARES (THOUSANDS)
Balance at 1 August 2018	1,611,923
Shares issued under the Farm Source Rewards scheme	69
Balance at 31 July 2019	1,611,992
Balance at 1 August 2017	1,606,933
Shares issued under the dividend reinvestment plan ²	4,990
Balance at 31 July 2018	1,611,923

¹ These rights are also attached to vouchers when backed by milk supply (subject to limits).

² Total value of \$29 million.

The rights attaching to Co-operative shares are set out in Fonterra's Constitution, available in the 'About/Governance and Management' section of Fonterra's website.

Units in the Fonterra Shareholders' Fund

The Custodian holds legal title of Co-operative shares of which the Economic Rights have been sold to the Fund on trust for the benefit of the Fund. At 31 July 2019, 102,934,582 Co-operative shares (31 July 2018: 111,423,603) were legally owned by the Custodian, on trust for the benefit of the Fund.

	UNITS (THOUSANDS)
Balance at 1 August 2018	111,424
Units issued	17,769
Units surrendered	(26,258)
Balance at 31 July 2019	102,935
Balance at 1 August 2017	126,047
Units issued	20,946
Units surrendered	(35,569)
Balance at 31 July 2018	111,424

The rights attaching to units are set out in the Fonterra Shareholders' Fund 2019 Annual Report, available in the 'Investors/Fonterra Shareholder's Fund' section of Fonterra's website.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

Capital management and structure

The Board's objective is to maximise equity holder returns over time by maintaining an optimal capital structure. Trading Among Farmers (TAF) allows shares in Fonterra to be traded between shareholders, on the Fonterra Shareholders' Market (a private market operated by NZX Limited). The Fund supports this by allowing investors, including farmers, to trade in units backed by Economic Rights in Fonterra. The Fund also allows farmer shareholders to acquire units and exchange them for shares in Fonterra, and to exchange shares for units and dispose of those units on the NZX or ASX.

The Group provides returns to farmer shareholders through a milk price, and to equity holders through dividends and changes in the Company's share price.

The Fund is subject to the issue and redemption of units at the discretion of Fonterra and Fonterra's farmer shareholders. Fonterra has an interest in ensuring the stability of the Fund and has established a Fund Size Risk Management Policy which requires that the number of units on issue remain within specified limits and that, within these limits, the number of units is managed appropriately. Fonterra may use a range of measures to ensure the Fund size remains within the specified limits, including: introducing or cancelling a dividend reinvestment plan, operating a unit/or share repurchase programme and issuing new shares.

Post balance date equity instrument prices

After balance date, Fonterra's share and unit prices fell below the book value of Fonterra's consolidated net assets. Fonterra determined that this share and unit price movement did not require further impairment testing for all, or for further components of, Fonterra's business. This is because it was not, in itself, an indicator of further impairment. This determination considered Fonterra's view that the share and unit price does not fully reflect the fair value of Fonterra's business. Key contributors are: the lower liquidity in Fonterra shares and units combined with prospective investor requirements for Fonterra to deliver on communicated targets; and broader movements in NZX indices. Further, Fonterra shares and units trade without a full control premium.

6 DIVIDENDS PAID

No dividend was paid during the year ended 31 July 2019.

The Dividend Reinvestment Plan applied to all dividends paid during the year ended 31 July 2018 in the table below.

DIVIDENDS	\$ MILLION	
	YEAR ENDED 31 JULY 2019	YEAR ENDED 31 JULY 2018
2018 Interim dividend – 10 cents per share ¹	–	161
2017 Final dividend – 20 cents per share ²	–	321

1 Declared on 20 March 2018 and paid on 20 April 2018 to all Co-operative shares on issue at 6 April 2018.

2 Declared on 23 September 2017 and paid on 20 October 2017 to all Co-operative shares on issue at 9 October 2017.

7 BORROWINGS

Economic net interest-bearing debt

Economic net interest-bearing debt reflects the effect of debt hedging in place at balance date.

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Net interest-bearing debt position		
Total borrowings	6,536	6,738
Cash and cash equivalents	(550)	(446)
Interest-bearing advances ¹	(142)	(332)
Bank overdraft	34	161
Net interest-bearing debt	5,878	6,121
Value of derivatives used to manage changes in hedged risks on debt instruments	(148)	78
Economic net interest-bearing debt	5,730	6,199

1 The balance as at 31 July 2018 included \$177 million of Fonterra Co-operative Support Loan receivables (31 July 2019: nil) which were netted against amounts owing to suppliers.

OUR FINANCIAL SUMMARY

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

7 BORROWINGS CONTINUED

Total borrowings in the table above are represented by:

GROUP \$ MILLION							
	BALANCE AS AT 1 AUGUST 2018	PROCEEDS	REPAYMENTS	FOREIGN EXCHANGE MOVEMENT	CHANGES IN FAIR VALUES	OTHER	BALANCE AS AT 31 JULY 2019
Commercial paper	304	1,219	(1,271)	–	–	7	259
Bank loans	1,128	2,034	(2,547)	4	–	–	619
Finance leases ¹	131	–	(60)	–	–	–	71
Capital notes ²	35	–	–	–	–	–	35
NZX-listed bonds	500	100	–	–	–	–	600
Medium-term notes	4,640	393	(271)	(27)	214	3	4,952
Total borrowings³	6,738	3,746	(4,149)	(23)	214	10	6,536

GROUP \$ MILLION							
	BALANCE AS AT 1 AUGUST 2017	PROCEEDS	REPAYMENTS	FOREIGN EXCHANGE MOVEMENT	CHANGES IN FAIR VALUES	OTHER	BALANCE AS AT 31 JULY 2018
Commercial paper	164	1,054	(919)	–	–	5	304
Bank loans	854	2,849	(2,551)	(24)	–	–	1,128
Finance leases ¹	137	–	(7)	1	–	–	131
Capital notes ²	35	–	–	–	–	–	35
NZX-listed bonds	500	–	–	–	–	–	500
Medium-term notes	4,573	431	(600)	293	(61)	4	4,640
Total borrowings³	6,263	4,334	(4,077)	270	(61)	9	6,738

1 Finance leases are secured over the related item of property, plant and equipment.

2 Capital notes are unsecured subordinated borrowings.

3 All other borrowings are unsecured and unsubordinated.

Leverage ratios

The Board closely monitors the Group's leverage ratios. The primary ratios monitored by the Board are:

- Debt payback. The main debt payback ratio is adjusted for the impact of operating leases and it is calculated as economic net interest-bearing debt divided by earnings before interest, tax, depreciation and amortisation (EBITDA). This is a key ratio considered by the credit rating agencies when determining Fonterra's credit rating.
- Gearing. The gearing ratio is calculated as economic net interest-bearing debt, divided by equity plus economic net interest-bearing debt. Equity is as presented in the statement of financial position, excluding hedge reserves. The gearing ratio as at 31 July 2019 was 48.2 per cent (31 July 2018: 48.4 per cent).

The Group is not subject to externally imposed capital requirements.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure that it will always have sufficient funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group has a policy in place to ensure that it has sufficient cash or facilities on demand to meet expected operational expenses for a period of at least 80 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In such situations back-up funding lines are maintained and as set out in the Company's constitution, the Company can defer payments to farmer shareholders if necessary.

The Group manages its liquidity by retaining cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Fonterra's funding facilities are reviewed at least annually, which is one of the key financial risk management activities undertaken by the Group to ensure an appropriate maturity profile given the nature of the Group's business. At balance date the Group had undrawn lines of committed credit totalling \$3,149 million (31 July 2018: \$3,732 million).

Liquidity and refinancing risks are also managed by ensuring that Fonterra can maintain access to funding markets throughout the world. To that end, Fonterra maintains debt issuance programmes in a number of key markets and manages relationships with international investors.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

WORKING CAPITAL

8 OWING TO SUPPLIERS

The Board uses its discretion in establishing the rate at which Fonterra will pay suppliers for the milk supplied over the season. This is referred to as the advance rate. The following table provides a breakdown of the advance payments made to suppliers:

	GROUP	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Owing to suppliers (\$ million)	1,534	1,579
Farmgate Milk Price ¹ (per kgMS)	\$6.35	\$6.69
Of this amount:		
– Total advance payments made during the year	\$5.40	\$5.55
– Total owing as at 31 July	\$0.95	\$1.14
Amount advanced during the year as a percentage of the milk price for the season ended 31 May	85%	83%

¹ Represents the average price for milk supplied on standard terms of supply. The Fonterra Farmgate Milk Price Statement sets out information about the Farmgate Milk Price as calculated in accordance with the Farmgate Milk Price Manual. It can be found in the 'Investors/Farmgate Milk Prices' section of the Fonterra website.

LONG TERM ASSETS

9 PROPERTY, PLANT AND EQUIPMENT

	GROUP \$ MILLION				TOTAL
	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	PLANT, VEHICLES AND EQUIPMENT	CAPITAL WORK IN PROGRESS	
As at 31 July 2019					
Cost	354	2,965	8,553	295	12,167
Accumulated depreciation and impairment	–	(1,200)	(4,455)	–	(5,655)
Net book value at 31 July 2019	354	1,765	4,098	295	6,512
As at 31 July 2018					
Cost	354	2,787	8,210	721	12,072
Accumulated depreciation and impairment	–	(1,042)	(4,220)	–	(5,262)
Net book value at 31 July 2018	354	1,745	3,990	721	6,810

New Zealand Ingredients manufacturing assets

Fonterra considers there are no indicators of impairment for Fonterra's New Zealand Ingredients manufacturing sites. Fonterra's New Zealand Ingredients manufacturing sites are considered to be, with limited exceptions, a single CGU, because these manufacturing plants are utilised as a single network for processing raw milk supply, including meeting peak milk processing requirements.

OUR FINANCIAL SUMMARY

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

10 LIVESTOCK

The quantity of livestock owned by the Group is presented below:

	HEADCOUNT	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Young dairy cows	28,702	32,630
Mature dairy cows	37,997	34,561
Other livestock	444	3,054
Total livestock headcount	67,143	70,245

During the year the Group collected 292 million litres of milk (31 July 2018: 312 million litres) from its dairy cows.

The value of livestock at 31 July is as follows:

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Opening balance	288	319
Rearing costs of young livestock	38	45
<i>Changes in fair value recognised in the income statement</i>		
– Change in fair value – birth and growth	11	–
– Change in fair value – price changes	4	6
Subtotal changes in fair value	15	6
Disposal of livestock	(51)	(107)
Effect of movements in exchange rates	5	25
Closing balance	295	288
Represented by:		
Young dairy cows	109	134
Mature dairy cows	186	153
Other livestock	–	1
Total livestock at 31 July	295	288

The changes in the fair values of livestock are reflected in the Group's income statement as follows:

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Cost of goods sold	(22)	(34)
Other operating income	37	40
Total changes in fair value	15	6

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

10 LIVESTOCK CONTINUED

Valuation techniques and significant unobservable inputs

The following table shows the relationship between the significant unobservable inputs and fair value measurement for mature and young dairy cows:

TYPE	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	RELATIONSHIP BETWEEN KEY UNOBSERVABLE INPUTS AND FAIR VALUE MEASUREMENT
Mature dairy cows	Discounted cash flows	Raw milk yield	A three per cent increase/(decrease) in the raw milk yield from a base of 31.0 kg per cow per day would result in a \$7 million (31 July 2018: \$6 million) increase/(decrease) in fair value.
		Milk price	A RMB 0.10 increase/(decrease) in the selling price of milk from a base price of RMB 3.78 per kg would result in a \$13 million (31 July 2018: \$12 million) increase/(decrease) in fair value.
		Feed costs	A RMB 0.10 increase/(decrease) in feed costs from a base cost of RMB 2.06 per kg would result in a \$13 million (31 July 2018: \$12 million) (decrease)/increase in fair value.
Young dairy cows	Market price	Average market price of a 14-month-old heifer	The average market price of a 14-month-old heifer for the year ended 31 July 2019 was RMB 19,154 (31 July 2018: RMB 21,154). A five per cent increase/(decrease) in the average market price of a 14-month-old heifer would result in a \$6 million (31 July 2018: \$7 million) increase/(decrease) in fair value.

INVESTMENTS

11 EQUITY ACCOUNTED INVESTMENTS

The Group's significant equity accounted investments are listed below. The ownership interest in these entities is 51 per cent or less and the Group is not considered to exercise a controlling interest.

Equity accounted investees with different balance dates from that of the Group are due to legislative requirements in the country the entities are domiciled or are aligned with their other investors' balance dates or to align with the milk season.

EQUITY ACCOUNTED INVESTEE NAME	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	OWNERSHIP INTERESTS (%)	
		AS AT 31 JULY 2019	AS AT 31 JULY 2018
DMV Fonterra Excipients GmbH & Co. KG ¹	Germany	–	50
Beingmate Baby & Child Food Co., Ltd ²	China	–	18.8
Falcon Dairy Holdings Limited	Hong Kong	51	51

All investees have balance dates of 31 December.

1 Fonterra's investment in DMV Fonterra Excipients GmbH & Co. KG has been reclassified from an equity accounted investee to a held for sale asset (refer to Note 2 for details).

2 During the year Fonterra's significant influence in Beingmate ceased, and Fonterra subsequently accounts for its investment in Beingmate shares at their fair value, with movements recorded in the income statement (Note 2 explains this). Consequently, Beingmate also ceased being a related party of Fonterra.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

FINANCIAL RISK MANAGEMENT

12 FINANCIAL RISK MANAGEMENT

Overview

The Group's overall financial risk management programme focuses primarily on maintaining a prudent financial risk profile that provides flexibility to implement the Group's strategies, while ensuring optimisation of the return on assets. Financial risk management is centralised, which supports compliance with the financial risk management policies and procedures set by the Board.

KEY FINANCIAL RISK MANAGEMENT ACTIVITIES

Market risks

The Group uses various derivative financial instruments to manage its exposure to changes in foreign currency exchange rates, interest rates and commodity prices.

Liquidity risk

The Group actively manages its minimum on-hand cash facilities, access to committed funds and lines of credit and the maturity profile of its financial obligations. For further detail refer to Note 7.

Capital management

The Group actively manages its capital structure through leverage and coverage ratios. The Fonterra Shareholders' Fund removes the redemption risk associated with Co-operative shares. For further detail refer to Note 5.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

OTHER

13 TAXATION

Taxation – income statement

The total taxation expense in the income statement is summarised as follows:

	NOTES	GROUP \$ MILLION	
		31 JULY 2019	31 JULY 2018
Current tax expense		83	81
Prior period adjustments to current tax		4	(5)
Deferred tax movements:			
– Origination and reversal of temporary differences		(20)	(34)
– Derecognition of DPA Brazil's deferred tax asset	2	110	–
Tax expense		177	42

The taxation charge that would arise at the standard rate of corporation tax in New Zealand is reconciled to the tax expense as follows:

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
Loss before tax	(428)	(154)
Prima facie tax expense at 28%	(120)	(43)
Add/(deduct) tax effect of:		
– Effect of tax rates in foreign jurisdictions	(6)	(27)
– Non-deductible expenses/additional assessable income	249	168
– Non-assessable income/additional deductible expenses	(18)	(24)
– Prior year under provision	4	(5)
Tax expense before distributions and deferred tax	109	69
Effective tax rate before distributions and deferred tax¹	NA	NA
Tax effect of distributions to farmer shareholders	–	(27)
Tax expense before deferred tax	109	42
Effective tax rate before deferred tax¹	NA	NA
Add/(deduct) tax effect of:		
– Origination and reversal of other temporary differences	(20)	(2)
– Losses of overseas Group entities not recognised	88	2
Tax expense	177	42
Effective tax rate¹	NA	NA
Imputation credits		
Imputation credits available for use in subsequent reporting periods	20	20
Tax losses		
Gross tax losses available for which no deferred tax asset has been recognised	356	54

¹ The effective tax rate is the tax charge on the face of the income statement expressed as a percentage of the profit before tax. The Group recorded a net loss before tax, so the calculation of an effective tax rate is not applicable.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

13 TAXATION CONTINUED

New Zealand tax losses

The New Zealand tax consolidated group generated a taxable income in the current year. The deferred tax asset relating to New Zealand tax losses of \$522 million (31 July 2018: \$554 million) has been recognised on the basis that taxable income will be generated in the future against which the tax losses can be utilised.

The key assumptions in the assessment of future taxable income are New Zealand earnings, and the tax-deductible dividend. The estimate of New Zealand earnings is based on performance of the New Zealand tax consolidated group relative to the overall Group. This ratio has been applied to the profit before tax forecast in the Group's three-year business plan. The tax-deductible dividend assumption is based on the Group's dividend policy and is set at the midpoint of the current policy which is 65 per cent to 75 per cent of normalised net profit after tax. Fonterra determines its dividend policy and therefore has the ability to influence utilisation of the losses.

Changes in the key assumptions used could impact the expected time horizon for utilisation of the tax losses, for example higher dividends could extend the utilisation horizon but would not impact the carrying amount of deferred tax assets available to be utilised against future taxable profits. Any future reduction in offshore income resulting from the strategic review could reduce the timing of utilisation of the tax losses, however, again this will not impact the carrying amount of the deferred tax asset available to be utilised. Therefore, a reasonably possible change in the key assumptions does not change the carrying value of the deferred tax asset recognised.

Offshore tax losses

Deferred tax assets relating to tax losses carried forward of \$131 million (31 July 2018: \$253 million) are recognised by offshore entities in the current year. DPA Brazil's deferred tax asset which included tax losses has been derecognised in the current year, see Note 2c) for further details.

\$114 million of offshore tax losses recognised relate to tax losses in Australia and are recognised on the basis of utilisation through future expected taxable income.

Gross tax losses of \$356 million reflecting a deferred tax asset of \$118 million (31 July 2018: \$54 million gross, deferred tax asset of \$17 million) relating to offshore entities have not been recognised as they may not be utilised.

Deferred tax liabilities

Fonterra has made a key judgement to not recognise deferred tax liabilities in respect of unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries. As at 31 July 2019, these earnings amount to \$1,085 million (31 July 2018: \$1,089 million). These could be subject to withholding and other taxes on remittance. Any offshore divestments made because of the strategic review do not change this judgement on the basis there are a number of exit structures available that do not result in a payment of a dividend.

Fonterra's intention regarding any future possible exit strategies is a key assumption. A reasonably possible change in this assumption is not expected to change the conclusion that a deferred tax liability should not be recognised. This is because Fonterra management has control of the subsidiaries, there are no plans to pay a dividend in the foreseeable future.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

14 CONTINGENT LIABILITIES

Contingent liabilities

In the normal course of business, Fonterra, its subsidiaries and equity accounted investees, are exposed to claims and legal proceedings that may in some cases result in costs to the Group.

In January 2014, Danone initiated legal proceedings against Fonterra in the High Court of New Zealand and separate Singapore arbitration proceedings against Fonterra in relation to Fonterra's Whey Protein Concentrate 80 (WPC80) precautionary recall in August 2013. The New Zealand High Court proceedings have been stayed pending completion of the Singapore arbitration.

The Singapore arbitration panel issued its award (judgement), finding in favour of Danone and ordered Fonterra to pay to Danone €105 million (\$183 million) in recall costs. In addition, Fonterra also paid Danone €29 million (\$49 million) representing interest on the award amount and Danone's costs in connection with the arbitration proceedings. Fonterra paid these amounts during the financial year ended 31 July 2018.

It is unclear whether Danone will continue to pursue the New Zealand High Court proceedings that were stayed pending the decision in the Singapore arbitration. Due to the uncertainty regarding whether Danone will seek to re-initiate these proceedings, and the nature and scope of these potential proceedings in light of the arbitration findings and award, no amount has been recognised in relation to these proceedings.

There are no additional claims or legal proceedings in respect of this matter that require provision or disclosure in these financial statements.

The Group has no other contingent liabilities as at 31 July 2019 (31 July 2018: nil).

15 NET TANGIBLE ASSETS PER SECURITY

	GROUP	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Net tangible assets per security¹		
\$ per listed debt security on issue	4.67	5.18
\$ per equity instrument on issue	2.04	1.94
Listed debt securities on issue (million)	703	603
Equity instruments on issue (million)	1,612	1,612

¹ Net tangible assets represents total assets less total liabilities less intangible assets.

OUR FINANCIAL SUMMARY

Independent Auditor's Report

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS



TO THE SHAREHOLDERS OF FONTERRA CO-OPERATIVE GROUP LIMITED

The summary financial statements comprise:

- the statement of financial position as at 31 July 2019;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the summary financial statements.

OUR OPINION

The summary financial statements are derived from the audited financial statements of Fonterra Co-Operative Group Limited (the Company), including its controlled entities (the Group) for the year ended 31 July 2019.

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with FRS-43: *Summary Financial Statements* issued by the New Zealand Accounting Standards Board.

SUMMARY FINANCIAL STATEMENTS

The summary financial statements do not contain all the disclosures required by New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon. The summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.

THE AUDITED FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the audited financial statements in our report dated 25 September 2019.

That report also includes the communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year.

RESPONSIBILITIES OF THE DIRECTORS FOR THE SUMMARY FINANCIAL STATEMENTS

The Directors are responsible, on behalf of the Company, for the preparation of the summary financial statements in accordance with FRS-43: *Summary Financial Statements*.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (New Zealand) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

Independent Auditor's Report CONTINUED

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

AUDITOR INDEPENDENCE

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Bruce Hassall was appointed as an Independent Director and Chair of the Audit and Finance Committee (AFC) of the Company on 2 November 2017. Bruce Hassall was Chief Executive Officer of PricewaterhouseCoopers to 30 September 2016 when he retired from the firm. At the time of his appointment, the Board of the Company (the Board) made the decision that Bruce Hassall would not be involved in the appointment of the Group's auditor or the setting of audit fees for three years from the date of his appointment. Scott St John, Independent Director and member of the AFC, has continued to act as Chair of the AFC in relation to these matters and the Chair of the Board has joined the AFC for deliberation. In addition, the engagement partner on the audit has direct access to the Chair of the Board, John Monaghan, to address any actual or perceived auditor independence threats.

Brent Goldsack was appointed as a Farmer-elected Director of the Company on 2 November 2017. Brent Goldsack retired as a partner of PricewaterhouseCoopers on 22 September 2017. Brent Goldsack was not involved in the provision of any audit services to the Group during his time as a partner of PricewaterhouseCoopers.

Bruce Hassall and Brent Goldsack had no financial relationship with PricewaterhouseCoopers upon their appointment to the Board.

During the year, our firm provided services to the Group as described in note 6 to the audited financial statements, including; assistance with collation of information for a vendor due diligence process; advice on a sale and purchase agreement; facilitation and administration support for the Fonterra Strategic review including board strategy workshops and programme management support; corporate tax advice to an equity accounted investee; access to generic training and technical accounting websites; as well as other assurance and attestation services provided in our capacity as auditors. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group.

These matters have not impaired our independence as auditor of the Group.

WHO WE REPORT TO

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.



Chartered Accountants

Auckland

25 September 2019

OUR FINANCIAL SUMMARY

Statutory Information

FOR THE YEAR ENDED 31 JULY 2019

CURRENT CREDIT RATING STATUS

Standard & Poor's long-term rating for Fonterra is A- with a rating outlook of stable. Fitch's long- and short-term default rating is A with a rating outlook of negative. Retail Bonds have been rated the same as the Company's long-term rating by both Standard & Poor's and Fitch. Capital Notes which are subordinate to other Fonterra debt issued are rated BBB+ by Standard & Poor's and A- by Fitch.

EXCHANGE RULINGS AND WAIVERS

NZX Limited (NZX) has ruled that Capital Notes do not constitute 'equity securities' under the NZX Main Board/Debt Market Listing Rules (Listing Rules). This means that where Capital Notes are quoted on NZX's Debt Market, Fonterra Co-operative Group Limited (Fonterra) is not required to comply with certain Listing Rules which apply to an issuer of quoted equity securities.

Fonterra was issued with a ruling in respect of Rule 1.7.1(d) of the Fonterra Shareholders' Market Rules (FSM Rules) on 27 June 2017 by NZX Regulation (NZXR). The effect of this ruling was to not preclude the appointment of Mr Bruce Hassall to the position of an independent director of Fonterra by virtue of a child of Mr Hassall being employed in a non-decision making and non-senior role at Fonterra.

Fonterra was issued with a ruling in respect of FSM Rule 5.1.2(c) on 22 November 2016 by NZXR. The effect of this ruling is that Fonterra's internal governance resolutions are considered to be matters that do not require the NZXR to approve a notice of meeting under FSM Rule 5.1.1.

Fonterra was issued with a waiver of Listing Rule 5.2.3 on 5 November 2018 by NZXR for a period of six months from 15 November 2018. This was in respect of fixed rate bonds (FCG050s) quoted on the NZX Debt Market and was to the extent that this Listing Rule would otherwise require the FCG050s to be held by at least 100 Members of the Public holding at least 25 per cent of the FCG050s on issue.

NZX TRADING HALTS

On 9 August 2018 NZX Regulation (NZXR), at the request of Fonterra Co-operative Group Limited (Fonterra) and Fonterra Shareholders' Fund (FSF), placed a trading halt on Fonterra and its debt securities (FCG030, FCG040, & FCGHA), and FSF. Fonterra was preparing its annual financial statements for the financial year ended 31 July 2018 and as a result there was potential for a variation from the earnings guidance previously given by Fonterra to the market. The trading halt had been requested to allow Fonterra to determine this and to make any required announcement to the market. On 10 August 2018 Fonterra shared a revision to its forecast 2017/18 Farmgate Milk Price and updated its normalised earnings per share and dividend guidance. The trading halt was lifted on 10 August 2018 following this announcement.

Non-GAAP Measures

Fonterra uses several non-GAAP measures when discussing financial performance. For further details and definitions of non-GAAP measures used by Fonterra, refer to the glossary on page 115. These are non-GAAP measures and are not prepared in accordance with NZ IFRS.

Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They may be used internally to evaluate the underlying performance of business units and to analyse trends. These measures are not uniformly defined or utilised by all companies. Accordingly, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS.

Reconciliations for the NZ IFRS measures to certain non-GAAP measures referred to by Fonterra are detailed below.

Reconciliation from the NZ IFRS measure of profit for the period to Fonterra's normalised EBITDA

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
Loss for the period	(605)	(196)
Add: Depreciation	458	446
Add: Amortisation	103	98
Add: Net finance costs	418	416
Add: Taxation expense	177	42
Total EBITDA	551	806
Add: New Zealand consumer and foodservice business	204	–
Add: Disposal of Tip Top	40	–
Add: China Farms impairment	203	–
Add: Brazil consumer and foodservice business impairments	149	–
Add: Disposal of Venezuelan operations	134	–
Add: Australia strategic reset	68	–
Add: Other strategic reset costs	19	–
Add: Beingmate	12	–
Add: Time value of options	–	5
Add: Reduction in the carrying value of investment in Beingmate	–	439
Add: WPC80 recall costs	–	196
Total normalisation adjustments	829	640
Normalised EBITDA	1,380	1,446

Reconciliation from the NZ IFRS measure of profit for the period to Fonterra's normalised EBIT

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
Loss for the period	(605)	(196)
Add: Net finance costs	418	416
Add: Taxation expense	177	42
Total EBIT	(10)	262
Add: Normalisation adjustments (as detailed above)	829	640
Total normalised EBIT	819	902

OUR FINANCIAL SUMMARY

Non-GAAP Measures CONTINUED

Reconciliation from the NZ IFRS measure of profit for the period to Fonterra's normalised earnings per share

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
Loss for the period	(605)	(196)
Add: Normalisation adjustments (as detailed above)	829	640
Add: Normalisation adjustment to net finance costs	–	26
Add/(Less): Tax on normalisation adjustments	56	(63)
Total normalised earnings	280	407
Add/(Less): Share attributable to non-controlling interests	48	(25)
Less: Normalisation adjustments to non-controlling interests	(59)	–
Net normalised earnings attributable to equity holders of the Parent	269	382
Weighted average number of shares (thousands of shares)	1,611,980	1,610,005
Normalised earnings per share (\$)	0.17	0.24

Glossary

NON-GAAP MEASURES

Fonterra refers to non-GAAP financial measures throughout the Annual Review, and these measures are not prepared in accordance with NZ IFRS. The definitions below explain how Fonterra calculates the non-GAAP measures referred to throughout the Annual Review.

EBIT	means earnings before interest and tax and is calculated as profit for the period before net finance costs and tax.
EBITDA	means earnings before interest, tax, depreciation and amortisation and is calculated as profit for the period before net finance costs, tax, depreciation and amortisation.
Economic net interest bearing debt	means net interest bearing debt including the effect of debt hedging.
Farmgate Milk Price	means the base price that Fonterra pays for milk supplied to it in New Zealand for a season. The season refers to the 12-month milk season of 1 June to 31 May.
Gearing ratio	is calculated as economic net interest bearing debt divided by total capital. Total capital is equity excluding the hedge reserves, plus economic net interest bearing debt.
Grade free	Farmers who consistently exceed our highest milk quality standards.
Normalisation adjustments	means transactions that are unusual by nature and size. Excluding these transactions can assist users with forming a view of the underlying performance of the business. Unusual transactions by nature are the result of specific events or circumstances that are outside the control of the business, or relate to major acquisitions, disposals or divestments, or are not expected to occur frequently. It also includes fair value movements if they are non-cash and have no impact on profit over time. Unusual transactions by size are those that are unusually large in a particular accounting period.
Normalised EBIT	means profit for the period before net finance costs and tax, and after normalisation adjustments.
Normalised earnings per share (EPS)	means normalised profit after tax attributable to equity holders divided by the weighted average number of shares for the period.
Normalised profit after tax	means net profit after tax after normalisation adjustments, and the interest and tax impacts of those normalisation adjustments.
Normalised segment earnings	means segmental profit for the period before net finance costs and tax, and after normalisation adjustments.
Pay-out	means the total cash payment to farmer shareholders. It is the sum of the Farmgate Milk Price per kgMS and the dividend per share. Both of these components have established policies and procedures in place on how they are determined.
Retentions	means net profit after tax attributable to farmer shareholders divided by the number of shares at 31 May, less dividend per share.
Return on capital	is calculated as normalised EBIT less equity accounted investees' earnings divided by capital employed. Capital employed is calculated as the average for the period of: net assets excluding net interest-bearing debt, deferred tax balances and brands, goodwill and equity accounted investments.
Segment earnings	means segmental profit for the period before net finance costs and tax.
Working capital	is calculated as current trade receivables plus inventories, less current trade payables and accruals. It excludes amounts owing to suppliers and employee entitlements.
Working capital days	is calculated as average period to date working capital divided by external revenue, multiplied by the number of days in the period.

OUR DIRECTORY

Directory

FONTERRA BOARD OF DIRECTORS

John Monaghan
Clinton Dines
Brent Goldsack
Leonie Guiney
Bruce Hassall
Simon Israel
Andrew Macfarlane
Peter McBride
John Nicholls
Donna Smit
Scott St John

FONTERRA MANAGEMENT TEAM

Miles Hurrell
Marc Rivers
Robert Spurway
Judith Swales
Kelvin Wickham
Mike Cronin
Deborah Capill

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Annual Financial Results

FOR THE YEAR ENDED 31 JULY 2019

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Directors' Statement

FOR THE YEAR ENDED 31 JULY 2019

The Directors of Fonterra Co-operative Group Limited (Fonterra) present to Shareholders the Annual Report¹ and financial statements for Fonterra and its subsidiaries (together the Group) and the Group's interest in its equity accounted investments for the year ended 31 July 2019.

The Directors present financial statements for each financial year which fairly present the financial position of the Group and its financial performance and cash flows for that period.

The Directors consider the financial statements of the Group have been prepared using accounting policies which have been consistently applied and supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

The Directors consider that they have taken adequate steps to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities.

The Directors hereby approve and authorise for issue the Annual Report for the year ended 31 July 2019.

For and on behalf of the Board:



John Monaghan
Chairman
25 September 2019



Bruce Hassall
Director
25 September 2019

¹ This document, in conjunction with the Fonterra Annual Review 2019, constitutes the 2019 Annual Report to Shareholders of Fonterra Co-operative Group Limited.

Income Statement

FOR THE YEAR ENDED 31 JULY 2019

		GROUP \$ MILLION	
	NOTES	31 JULY 2019	31 JULY 2018
Revenue from sale of goods	3	20,114	20,438
Cost of goods sold	4	(17,099)	(17,279)
<i>Impact of strategy review:</i>			
– China Farms impairment	2	(203)	–
– Australian strategic reset	2	(23)	–
– New Zealand consumer and foodservice business	2	(7)	–
– Other strategic reset costs	2	(2)	–
Gross profit		2,780	3,159
Other operating income		91	192
Selling and marketing expenses		(590)	(651)
Distribution expenses		(561)	(572)
Administrative expenses		(773)	(873)
Other operating expenses		(387)	(400)
Net foreign exchange losses		(1)	(12)
Share of profit of equity accounted investees	18	25	20
WPC80 recall costs		–	(196)
Impairment of Beingmate	18	–	(405)
<i>Impact of strategy review:</i>			
– New Zealand consumer and foodservice business and Tip Top disposal	2	(237)	–
– Brazil consumer and foodservice business impairments	2	(149)	–
– Disposal of Venezuelan operations	2	(134)	–
– Australian strategic reset	2	(45)	–
– Other strategic reset costs	2	(17)	–
– Beingmate	2	(12)	–
(Loss)/profit before net finance costs and tax	6	(10)	262
Finance income	10	16	23
Finance costs	10	(434)	(439)
Net finance costs		(418)	(416)
Loss before tax		(428)	(154)
Tax expense	20	(177)	(42)
Loss after tax		(605)	(196)
Loss after tax is attributable to:			
(Loss)/profit attributable to non-controlling interests		(48)	25
Loss attributable to equity holders of the Co-operative		(557)	(221)
Loss after tax		(605)	(196)
		GROUP \$	
		31 JULY 2019	31 JULY 2018
Earnings per share:			
Basic and diluted earnings per share	5	(0.35)	(0.14)

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 JULY 2019

	NOTES	GROUP \$ MILLION	
		31 JULY 2019	31 JULY 2018
Loss after tax		(605)	(196)
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges and other costs of hedging, net of tax		(1)	(459)
Net investment hedges and translation of foreign operations, net of tax		(12)	188
Hyperinflation (losses)/gains attributable to equity holders		(10)	17
Foreign currency translation reserve losses transferred to the income statement	2	193	–
Hyperinflation reserve gains transferred to the income statement	2	(12)	–
Other reserve movements		–	(1)
Total items that may be reclassified subsequently to profit or loss		158	(255)
Items that will not be reclassified subsequently to profit or loss:			
Net fair value (losses)/gains on investments in shares		(1)	8
Foreign currency translation gains/(losses) attributable to non-controlling interests		1	(2)
Hyperinflation movements attributable to non-controlling interests		–	12
Total items that will not be reclassified subsequently to profit or loss		–	18
Total other comprehensive income/(expense) recognised directly in equity		158	(237)
Total comprehensive expense		(447)	(433)
Total comprehensive (expense)/income is attributable to:			
Equity holders of the Co-operative		(415)	(468)
Non-controlling interests		(32)	35
Total comprehensive expense		(447)	(433)

Statement of Financial Position

AS AT 31 JULY 2019

		GROUP \$ MILLION	
	NOTES	31 JULY 2019	31 JULY 2018
ASSETS			
Current assets			
Cash and cash equivalents		550	446
Trade and other receivables	11	1,900	2,355
Inventories	12	2,944	2,917
Tax receivable		45	47
Derivative financial instruments		48	59
Assets held for sale	2	229	–
Other current assets		116	141
Total current assets		5,832	5,965
Non-current assets			
Property, plant and equipment	15	6,512	6,810
Equity accounted investments	18	202	615
Livestock	16	295	288
Intangible assets	17	2,597	3,227
Deferred tax assets	20	592	667
Derivative financial instruments		440	204
Other non-current assets		604	323
Total non-current assets		11,242	12,134
Total assets		17,074	18,099
LIABILITIES			
Current liabilities			
Bank overdraft		34	161
Borrowings	9	1,175	831
Trade and other payables	13	1,869	2,116
Owing to suppliers	14	1,534	1,579
Tax payable		37	35
Derivative financial instruments		215	296
Provisions	21	63	14
Other current liabilities		71	101
Total current liabilities		4,998	5,133
Non-current liabilities			
Borrowings	9	5,361	5,907
Derivative financial instruments		537	480
Provisions	21	141	130
Deferred tax liabilities	20	99	89
Other non-current liabilities		57	11
Total non-current liabilities		6,195	6,617
Total liabilities		11,193	11,750
Net assets		5,881	6,349
EQUITY			
Subscribed equity		5,887	5,887
Retained earnings		360	934
Foreign currency translation reserve	19	(183)	(364)
Hedge reserves	19	(268)	(267)
Other reserves		8	29
Total equity attributable to equity holders of the Co-operative		5,804	6,219
Non-controlling interests		77	130
Total equity		5,881	6,349

Statement of Changes in Equity

FOR THE YEAR ENDED 31 JULY 2019

GROUP \$ MILLION	ATTRIBUTABLE TO EQUITY HOLDERS OF THE CO-OPERATIVE							NON-CONTROLLING INTERESTS	TOTAL EQUITY
	SUBSCRIBED EQUITY	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION RESERVE	HEDGE RESERVES	OTHER RESERVES	TOTAL			
As at 1 August 2018	5,887	934	(364)	(267)	29	6,219	130	6,349	
Loss after tax	–	(557)	–	–	–	(557)	(48)	(605)	
Other comprehensive (expense)/income	–	(17)	181	(1)	(21)	142	16	158	
Total comprehensive (expense)/income	–	(574)	181	(1)	(21)	(415)	(32)	(447)	
Transactions with equity holders in their capacity as equity holders:									
Equity instruments issued	–	–	–	–	–	–	1	1	
Dividend paid to non-controlling interests	–	–	–	–	–	–	(22)	(22)	
As at 31 July 2019	5,887	360	(183)	(268)	8	5,804	77	5,881	
As at 1 August 2017	5,858	1,637	(552)	192	5	7,140	108	7,248	
(Loss)/profit after tax	–	(221)	–	–	–	(221)	25	(196)	
Other comprehensive (expense)/income	–	–	188	(459)	24	(247)	10	(237)	
Total comprehensive (expense)/income	–	(221)	188	(459)	24	(468)	35	(433)	
Transactions with equity holders in their capacity as equity holders:									
Dividend paid to equity holders of the Co-operative	–	(482)	–	–	–	(482)	–	(482)	
Equity instruments issued	29	–	–	–	–	29	15	44	
Dividend paid to non-controlling interests	–	–	–	–	–	–	(28)	(28)	
As at 31 July 2018	5,887	934	(364)	(267)	29	6,219	130	6,349	

Cash Flow Statement

FOR THE YEAR ENDED 31 JULY 2019

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
Cash flows from operating activities		
(Loss)/profit before net finance costs and tax	(10)	262
Adjustments for:		
– Foreign exchange (gains)/losses	(29)	239
– Depreciation and amortisation	561	544
– China Farms impairment	203	–
– New Zealand consumer and foodservice business and Tip Top disposal	214	–
– Brazil consumer and foodservice business impairments	149	–
– Disposal of Venezuelan operations	134	–
– Australian strategic reset	32	–
– Beingmate	12	–
– Impairment of equity accounted investees	–	405
– Other	35	5
	1,311	1,193
Decrease/(increase) in working capital:		
Inventories	(52)	(313)
Trade and other receivables	388	75
Amounts owing to suppliers	(222)	277
Payables and accruals	(124)	98
Other movements	(112)	42
Total	(122)	179
Cash generated from operations	1,179	1,634
Net taxes paid	(56)	(86)
Net cash flows from operating activities	1,123	1,548
Cash flows from investing activities		
Cash was provided from:		
– Proceeds from sale of businesses	396	–
– Proceeds from disposal of property, plant and equipment	32	26
– Proceeds from sale of livestock	28	79
– Proceeds from sale of investments	7	7
– Co-operative support loan repayments	177	149
– Other cash inflows	25	6
Cash was applied to:		
– Acquisition of property, plant and equipment	(541)	(858)
– Acquisition of livestock (including rearing costs)	(37)	(45)
– Acquisition of intangible assets	(82)	(147)
– Acquisition of investments	(10)	(14)
– Advances to and investments in equity accounted investees	(6)	(151)
– Other cash outflows	(17)	–
Net cash flows from investing activities	(28)	(948)
Cash flows from financing activities		
Cash was provided from:		
– Proceeds from borrowings	3,746	4,334
– Interest received	14	18
Cash was applied to:		
– Interest paid	(427)	(446)
– Repayment of borrowings	(4,149)	(4,077)
– Dividends paid to non-controlling interests	(22)	(27)
– Dividends paid to equity holders of the Co-operative	–	(453)
– Other cash outflows	(12)	(74)
Net cash flows from financing activities	(850)	(725)
Net increase/(decrease) in cash	245	(125)
Opening cash	285	382
Effect of exchange rate changes	(14)	28
Closing cash	516	285
Reconciliation of closing cash balances to the statement of financial position:		
Cash and cash equivalents	550	446
Bank overdraft	(34)	(161)
Closing cash	516	285

Basis of Preparation

FOR THE YEAR ENDED 31 JULY 2019

A) GENERAL INFORMATION

Fonterra Co-operative Group Limited (Fonterra, the Company or the Co-operative) is a co-operative company incorporated and domiciled in New Zealand. Fonterra is registered under the Companies Act 1993 and the Co-operative Companies Act 1996, and is an FMC Reporting Entity under the Financial Markets Conduct Act 2013. Fonterra is also required to comply with the Dairy Industry Restructuring Act 2001.

These financial statements comprise Fonterra and its subsidiaries (together referred to as the Group) and the Group's interest in its equity accounted investees after adjustments to align to the accounting policies of the Group.

The Group operates predominantly in the international dairy industry. The Group is primarily involved in the collection, manufacture and sale of milk and milk-derived products and in fast-moving consumer goods and foodservice businesses.

B) BASIS OF PREPARATION

These financial statements comply with International Financial Reporting Standards (IFRS). These financial statements also comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and have been prepared in accordance with NZ Generally Accepted Accounting Practice applicable to for-profit entities.

These financial statements are prepared on a historical cost basis, except for derivative financial instruments, livestock and the hedged risks on certain debt instruments, which are recognised at their fair values.

These financial statements are presented in New Zealand dollars (\$ or NZD), which is Fonterra's functional currency, and rounded to the nearest million, except where otherwise stated.

Significant accounting policies which are relevant to an understanding of the financial statements and summarise the measurement basis used are provided throughout the notes in green shading.

In the process of applying the Group's accounting policies, Fonterra make a number of judgements, estimates of future events, and assumptions. These are all believed to be reasonable based on the most current set of circumstances available to the Group. Judgements and estimates that have the most significant effect on the amounts recognised in the financial statements are described below and in the following notes:

China Farms assets (Notes 2 and 15)

The recoverable amount of the assets held by the China Farms operating segment is assessed at least annually, if indicators of impairment are identified. Performing this assessment requires Fonterra to estimate the future cash flows that will be earned by China Farms, an asset specific pre-tax discount rate and the terminal growth rate.

Investment in Beingmate Baby & Child Co Ltd. (Beingmate) (Note 2)

At 31 July 2019 Fonterra's investment in Beingmate is recorded at fair value. During the year ended 31 July 2019, Fonterra ceased equity accounting for its investment in Beingmate because Fonterra has assessed that it no longer had significant influence in Beingmate. Fonterra's judgement in determining the nature of Fonterra's ownership interest is explained in Note 2.

Recoverable amount assessments (Notes 2, 15 and 17)

The recoverability of the carrying value of goodwill and indefinite life brands is assessed at least annually to ensure they are not impaired. Performing this assessment requires Fonterra to estimate future cash flows, pre-tax discount rates and terminal growth rates. For other assets Fonterra assesses whether indicators of impairment are present, and if they are present, performs an impairment test.

If an impairment test indicates that an asset (or group of assets) may be impaired, Fonterra is also required to estimate the fair value less costs of disposal of the asset. This is because the recoverable amount of an asset is the higher of its value in use and its fair value less costs of disposal.

Provisions and contingent liabilities (Note 21)

Legal counsel or other experts are consulted on matters that may give rise to a provision or a contingent liability. Estimates and assumptions are made in determining the likelihood, amount and timing of cash outflows when the outcome is uncertain.

Deferred tax (Note 20)

Deferred tax assets relating to tax losses carried forward can only be recognised if it is probable that they can be used. In assessing the amount of tax losses that can be recognised Fonterra has estimated the forecast future taxable profits against which the tax losses carried forward can be utilised.

Deferred tax liabilities related to investments in subsidiaries are not recognised when the Group can control the timing of reversal of the temporary difference and it is probable the temporary difference will not reverse in the foreseeable future. In determining the probability of reversal, consideration is taken of whether the related assets are held for sale, future expectations of exiting, and, if applicable, the impact any exit would have on the crystallisation of the deferred tax.

C) BASIS OF CONSOLIDATION

In preparing these financial statements, subsidiaries are consolidated from the date the Group gains control until the date on which control ceases. The Group's share of results of equity accounted investments is included in the consolidated financial statements from the date that significant influence or joint control commences, until the date that significant influence or joint control ceases. All intercompany transactions are eliminated.

Translation of the financial statements into NZD

The assets and liabilities of Group companies whose functional currency is not NZD are translated into NZD at the year-end exchange rate. The revenue and expenses of these companies are translated into NZD at rates approximating those at the dates of the transactions. Exchange differences arising on this translation are recognised in the foreign currency translation reserve. On disposal or partial disposal of an entity, the related exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale. The financial statements of a subsidiary in a hyperinflationary economy are translated into NZD at the year-end exchange rate. For consolidation, Fonterra translates its operations in Venezuela using the year end exchange rate that is most representative of the entity's economic circumstances.

Basis of Preparation CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

D) NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Impact of adopting NZ IFRS 15 Revenue from Contracts with Customers

Fonterra adopted NZ IFRS 15 from 1 August 2018.

Fonterra is not materially impacted by the adoption of NZ IFRS 15 because:

- Fonterra has historically recognised revenue at the time the risks and rewards of ownership of the products pass to the customer. Fonterra determined that customers obtain control of the products at the same time as risks and rewards of ownership pass to the customer. The timing of revenue recognition is therefore unchanged by the adoption of NZ IFRS 15.
- In relation to the contract price, Fonterra has not identified any material changes to the accounting for trade spend, rebates, or other items of variable consideration.

Fonterra has elected to utilise the cumulative effect transition approach and to apply NZ IFRS 15 to contracts that were not completely fulfilled at 1 August 2018. No transition adjustment is recognised as the impact of the adoption of NZ IFRS 15 and use of the practical expedient has not had a material impact on the timing of revenue recognition or on the measurement of revenue.

The Group's revenue accounting policy is disclosed in Note 3.

Accounting standards issued but not yet effective

NZ IFRS 16 Leases

NZ IFRS 16 Leases replaces the current guidance on lease accounting. It requires a lease liability reflecting future lease payments, and a 'right-of-use-asset', to be recognised for most lease contracts where Fonterra is a lessee. This includes many of the leases currently classified as operating leases for which no asset or liability is reflected on the statement of financial position under existing accounting rules.

Fonterra has elected to utilise the modified retrospective approach. This will require an adjustment to equity as at 1 August 2019, and prior year comparatives will not be restated. Fonterra has also elected to retain the current accounting treatment for short term leases and low-value assets.

Management has assessed the effect of applying NZ IFRS 16 through a project that included collecting and validating Fonterra's portfolio of leases, assessing the lease term and discount rate assumptions, implementing an IT system solution for lease accounting under NZ IFRS 16, and implementing changes to internal processes and controls. Management is in the final stages of completing the validation of the portfolio of leases through a review of historic supply arrangements. In addition, the long-term supply arrangement with A-Ware disclosed in Note 21 is currently being assessed to determine if it meets the definition of a lease under NZ IFRS 16. Any lease accounting implications would be recognised during FY20 when the A-Ware plant supporting the agreement is commissioned.

On transition to NZ IFRS 16 at 1 August 2019, based on management's current expectation of the portfolio of leases, Fonterra expects to recognise a right-of-use asset of \$465 million and a lease liability of \$487 million.

The adoption of NZ IFRS 16 does not have a significant impact on Fonterra's net profit after tax. However, there will be an increase in profit before net finance costs and tax, because a portion of the lease costs currently reported in cost of goods sold or operating expenses will be recorded as finance costs. Following adoption of NZ IFRS 16, the presentation of lease payments in the cash flow statement will change from operating activities to financing activities.

Based on Fonterra's current expectation of the portfolio of leases held by Fonterra at 31 July 2019, the impact of adopting NZ IFRS 16 on the financial results for the year ending 31 July 2020 is estimated to be a reduction in operating lease expenses of \$98 million, an increase in interest expense of \$16 million, and additional depreciation of \$86 million. This results in an overall decrease in net profit of \$5 million. Any change in the portfolio of leases following completion of the validation and review process will change the estimated impact on Fonterra's financial results. Fonterra's lease population is likely to change during the year ending 31 July 2020, so the actual impact is likely to vary from these estimates. At the date of these financial statements Fonterra had not yet determined any deferred tax accounting impact of adopting NZ IFRS 16.

Fonterra's operating lease commitments at 31 July 2019 are disclosed in Note 21.

There are no other new or amended standards that are issued but not yet effective that are expected to have a material impact on the Group.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2019

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Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

PERFORMANCE

This section focuses on Fonterra's financial performance and the returns provided to equity holders.

This section includes the following Notes:

- Note 1: Segment reporting
- Note 2: Strategy review
- Note 3: Revenue from sale of goods
- Note 4: Cost of goods sold
- Note 5: Earnings per share
- Note 6: Loss before net finance costs and tax

1 SEGMENT REPORTING

a) Operating segments

Operating segments reflect the way financial information is regularly reviewed by the Fonterra Management Team (FMT). The measure of profit or loss used by the FMT to evaluate the underlying performance of operating segments is normalised segment earnings before net finance costs and tax.

Transactions between segments are based on estimated market prices, except for the sale of milk from China Farms to Ingredients. The transfer price used for these transactions is RMB 4.00 per kg.

Unallocated costs represent corporate costs including Corporate Affairs and Group services.

REPORTABLE SEGMENT	DESCRIPTION
Ingredients	Represents the collection, processing and distribution of the ingredients business in New Zealand, global sales and marketing of New Zealand and non-New Zealand ingredients products, Fonterra Farm Source™ stores, and the Australian and South American ingredients businesses.
Consumer and foodservice	
– Oceania	Represents the fast-moving consumer goods (FMCG) and foodservice businesses in New Zealand and Australia (including export to the Pacific Islands).
– Asia	Represents FMCG and foodservice businesses in Asia (excluding Greater China), Africa and the Middle East.
– Greater China	Represents FMCG and foodservice businesses in Greater China.
– Latin America	Represents FMCG and foodservice businesses in South America and the Caribbean.
China Farms	Represents farming operations in China.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) Operating segments CONTINUED

GROUP \$ MILLION									
31 JULY 2019									
	INGREDIENTS	CONSUMER AND FOODSERVICE					CHINA FARMS	UNALLOCATED COSTS AND ELIMINATIONS	TOTAL
NOTES	OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL				
Normalised segment income statement									
External revenue	13,328	1,989	1,814	1,481	1,502	6,786	–	–	20,114
Inter-segment revenue ¹	3,707	170	48	2	5	225	249	(4,181)	–
Revenue from sale of goods	17,035	2,159	1,862	1,483	1,507	7,011	249	(4,181)	20,114
Cost of goods sold	(15,608)	(1,737)	(1,411)	(1,134)	(1,108)	(5,390)	(244)	4,143	(17,099)
Segment gross profit	1,427	422	451	349	399	1,621	5	(38)	3,015
Operating expenses	(735)	(333)	(284)	(190)	(366)	(1,173)	(21)	(382)	(2,311)
Net other operating income	61	3	1	4	4	12	22	(4)	91
Net foreign exchange gains/(losses)	16	–	(8)	(2)	(1)	(11)	(1)	(5)	(1)
Share of profit/(loss) of equity accounted investees	42	–	(2)	(1)	4	1	(19)	1	25
Normalised segment earnings before net finance costs and tax	811	92	158	160	40	450	(14)	(428)	819
Normalisation adjustments:									
New Zealand consumer and foodservice business	2	–	(204)	–	–	(204)	–	–	(204)
Disposal of Tip Top	2	–	(25)	–	–	(25)	–	(15)	(40)
China Farms impairment	2	–	–	–	–	–	(203)	–	(203)
Brazil consumer and foodservice business impairments	2	(6)	–	–	(143)	(143)	–	–	(149)
Disposal of Venezuelan operations	2	(22)	–	–	(112)	(112)	–	–	(134)
Australia strategic reset	2	(68)	–	–	–	–	–	–	(68)
Other strategic reset costs	2	–	(2)	–	(5)	(7)	–	(12)	(19)
Beingmate	2	–	–	(12)	–	(12)	–	–	(12)
Segment earnings before net finance costs and tax	715	(139)	158	148	(220)	(53)	(217)	(455)	(10)
Finance income									16
Finance costs									(434)
Loss before tax									(428)
Other segment information:									
Volume ² (liquid milk equivalents, billion)	21.42	1.69	1.45	1.21	0.78	5.13	0.26	(4.96)	21.85
Volume ² (metric tonnes, thousand)	3,171	627	297	299	559	1,782	20	(834)	4,139
Depreciation and amortisation (\$ million)	(408)	(27)	(12)	(2)	(33)	(74)	(26)	(53)	(561)
Capital expenditure ³	445	43	10	1	30	84	23	48	600
Equity accounted investments	112	–	–	–	12	12	69	9	202
Capital employed ⁴ (\$ million)	9,272	509	180	(42)	362	1,009	735	(1,348)	9,668

Reconciliation of reported to segment gross profit for the year ended 31 July 2019:

GROUP \$ MILLION	
Segment gross profit	3,015
Normalisation adjustments	
– China Farms impairment	(203)
– Australian strategic reset	(23)
– New Zealand consumer and foodservice business strategic review impact	(7)
– Other strategic reset costs	(2)
Reported gross profit	2,780

1 Ingredients inter-segment revenue includes sales to Foodservice businesses across the Group, this is a change from the way in which those sales were reported for the year ended 31 July 2018 where they were reflected as an adjustment to the cost of goods sold. The change increased sales revenue by \$901 million for the year ended 31 July 2019, there was no impact on the gross profit or earnings of the Ingredients business or the Group.

2 Includes sales to other strategic platforms. Total column represents total external sales.

3 Capital expenditure comprises purchases of property, plant and equipment and intangible assets, and net purchases of livestock.

4 Capital employed is calculated as the average for the period of: net assets excluding net-interest bearing debt, deferred tax balances and brands, goodwill and equity accounted investments. These balances incorporate intersegment net working capital and funding arrangements.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) Operating segments CONTINUED

GROUP \$ MILLION									
31 JULY 2018									
	INGREDIENTS	CONSUMER AND FOODSERVICE				TOTAL	CHINA FARMS	UNALLOCATED COSTS AND ELIMINATIONS	TOTAL
		OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA				
Normalised segment income statement									
External revenue ¹	13,485	2,001	1,849	1,564	1,532	6,946	–	–	20,431
Inter-segment revenue	2,821	158	16	–	2	176	262	(3,259)	–
Revenue from sale of goods	16,306	2,159	1,865	1,564	1,534	7,122	262	(3,259)	20,431
Cost of goods sold	(14,834)	(1,726)	(1,409)	(1,229)	(1,075)	(5,439)	(257)	3,251	(17,279)
Segment gross profit	1,472	433	456	335	459	1,683	5	(8)	3,152
Operating expenses	(808)	(373)	(289)	(183)	(368)	(1,213)	(31)	(444)	(2,496)
Net other operating income	111	8	18	14	24	64	22	(5)	192
Net foreign exchange gains/(losses)	50	(1)	(9)	(1)	(2)	(13)	–	(37)	–
Share of profit/(loss) of equity accounted investees	54	–	–	–	4	4	(5)	1	54
Normalised segment earnings before net finance costs and tax	879	67	176	165	117	525	(9)	(493)	902
Normalisation adjustments:									
Reduction in the carrying value of investment in Beingmate ²	–	–	–	(439)	–	(439)	–	–	(439)
WPC80 recall costs ³	(196)	–	–	–	–	–	–	–	(196)
Time value of options ⁴	(5)	–	–	–	–	–	–	–	(5)
Segment earnings before net finance costs and tax	678	67	176	(274)	117	86	(9)	(493)	262
Finance income									23
Finance costs									(439)
Loss before tax									(154)
Other segment information:									
Volume ⁵ (liquid milk equivalents, billion)	20.52	1.66	1.55	1.41	0.75	5.37	0.27	(3.96)	22.20
Volume ⁵ (metric tonnes, thousand)	2,986	623	298	266	578	1,765	22	(650)	4,123
Depreciation and amortisation (\$ million)	(389)	(26)	(13)	(2)	(29)	(70)	(26)	(59)	(544)
Capital expenditure ⁶	644	62	17	2	61	142	(25)	100	861
Equity accounted investments	308	–	–	204	10	214	85	8	615
Capital employed ⁷ (\$ million)	9,156	515	95	(65)	332	877	788	(1,269)	9,552

1 Total Group revenue from the sale of goods is \$20,438 million. The difference of \$7 million relates to the normalisation of time value of options.

2 Of the \$439 million normalisation adjustment, \$405 million relates to impairment of equity accounted investees and \$34 million relates to Fonterra's equity accounted share of Beingmate's losses.

3 The \$196 million normalisation adjustment relates to operating expenses.

4 Of the \$5 million normalisation adjustment, \$7 million relates to revenue offset by \$12 million of net foreign exchange losses.

5 Includes sales to other strategic platforms. Total column represents total external sales. LMEs for FY18 have been restated to better reflect internal sales between business segments.

6 Capital expenditure comprises purchases of property, plant and equipment and intangible assets, and net purchases of livestock.

7 Capital employed is calculated as the average for the period of: net assets excluding net-interest bearing debt, deferred tax balances and brands, goodwill and equity accounted investments. These balances incorporate intersegment net working capital and funding arrangements.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

b) Geographical revenue

	GROUP \$ MILLION								
	CHINA	REST OF ASIA	AUSTRALIA	NEW ZEALAND	UNITED STATES	EUROPE	LATIN AMERICA	REST OF WORLD	TOTAL
<i>Geographical segment external revenue:</i>									
Year ended 31 July 2019	4,294	5,590	1,776	2,182	931	851	2,126	2,364	20,114
Year ended 31 July 2018	3,980	5,684	1,836	2,076	793	681	2,272	3,116	20,438

Revenue is allocated to geographical segments on the basis of the destination of the goods sold.

c) Non-current assets

	GROUP \$ MILLION							
	INGREDIENTS		OCEANIA		ASIA	GREATER CHINA	LATIN AMERICA	TOTAL GROUP
	NEW ZEALAND	REST OF WORLD	NEW ZEALAND	AUSTRALIA				
<i>Geographical segment non-current assets:</i>								
As at 31 July 2019	5,467	305	756	1,007	840	944	891	10,210
As at 31 July 2018	5,538	467	1,324	928	827	1,127	1,052	11,263

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
<i>Reconciliation of geographical segment's non-current assets to total non-current assets:</i>		
Geographical segment non-current assets	10,210	11,263
Deferred tax assets	592	667
Derivative financial instruments	440	204
Total non-current assets	11,242	12,134

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

2 STRATEGY REVIEW

During the year the Fonterra Board conducted a review of the business with the goal to align the business strategy, priorities, resources and asset base with its long-term sustainable value drivers.

The Strategy Review had three dimensions:

- Strategic – to ensure alignment of focus and resources on our sources of differentiation and value creation to ensure we can continue to create goodness for generations.
- Asset portfolio – to provide clarity on the assets that were aligned with the more focused strategy and those that were now non-strategic or have been consistently underperforming, with a view to confirming an approach of hold, invest or divest.
- Operational – to review our operational performance, specifically in underperforming areas and where appropriate implement the necessary improvement initiatives.

Many of the under-performing areas had previously implemented performance improvement plans that didn't deliver sufficient improvement.

Fonterra has reviewed the forecast earnings, incorporating the changed strategic direction and priorities, as well as the level of success of current performance improvement activities.

The operational and asset portfolio reviews were commenced and announced in September 2018. In December 2018 it was announced that as part of the asset portfolio review, Fonterra had reached an agreement with Beingmate to return to full ownership of the Darnum plant in Australia and that Fonterra was looking at its ongoing ownership of Tip Top and considering a range of options in relation to this asset.

In February 2019 it was announced that a full review of strategy was underway. In March 2019 Fonterra announced its interim result and that it was commencing a sales process for its 50% share of DFE Pharma. It was also announced that Fonterra was considering its options for its shareholding in Beingmate, that strong interest in Tip Top had been received and that Fonterra's share of the Venezuelan consumer joint venture, Corporacion Inlaca had been sold.

In May 2019 Fonterra announced that Tip Top had been sold, that a strategic review of the two Fonterra-owned farm-hubs in China had commenced, the closure of the Dennington site in Australia and that Fonterra had agreed options for the future ownership of the DPA Brazil joint venture, which included a potential sale of respective stakes.

In August 2019 Fonterra announced it intends to sell a portion of its stake in Beingmate and also announced a number of one-off accounting adjustments related to non-cash impairment charges on four specific assets and the divestments made during the financial year.

Throughout the year Fonterra has provided updates on the progress made in the operational review, which included reducing debt, capital expenditure and operating expenses.

This note explains the accounting impact of the Strategy Review on the financial statements.

Summary Table: Net profit before tax impact of Strategy Review.

	GROUP \$ MILLION						TOTAL
	NOTE	IMPAIRMENT INTANGIBLE	IMPAIRMENT PP&E	TOTAL IMPAIRMENT	OTHER	LOSS ON DISPOSAL	
New Zealand consumer and foodservice business	a)	(189)	(7)	(196)	(8)		(204)
Disposal of Tip Top	a)					(40)	(40)
Sub-total Fonterra New Zealand		(189)	(7)	(196)	(8)	(40)	(244)
China Farms impairment	b)		(203)	(203)			(203)
Brazil consumer and foodservice business impairments	c)	(133)		(133)	(16)		(149)
Disposal of Venezuelan operations	d)					(134)	(134)
Australia strategic reset	e)	(9)	(23)	(32)	(36)		(68)
Other strategic reset costs	f)				(19) ¹		(19)
Beingmate	g)				(12)		(12)
Total net loss before tax impact		(331)	(233)²	(564)	(91)	(174)	(829)

¹ \$2 million of the \$19 million relates to costs separately disclosed above gross margin in the income statement.

² The \$233 million of production related asset impairments are separately disclosed above gross margin in the income statement.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

2 STRATEGY REVIEW CONTINUED

Impairments

An impairment test is completed when there are indicators of impairment for an asset or a cash-generating unit (CGU). An impairment test is also completed on an annual basis when a CGU has goodwill or indefinite-life intangibles allocated to it. To determine if an asset or CGU is impaired, the carrying amount of the asset or CGU is compared to its recoverable amount, being the higher of its value in use and fair value less costs to dispose. If the carrying amount is higher than recoverable amount the CGU is impaired to its recoverable amount.

Value in use is determined as the present value of the future cash flows expected to be derived from the CGU. Fair value less costs to dispose reflects the price that would be received to sell the CGU in an orderly transaction between market participants at the measurement date less the costs of disposal.

Disposals

On disposal of an investment or a CGU (or portion of a CGU) the related assets are derecognised. A gain or loss is recognised as the difference between the carrying value of the assets at the date of disposal and the net disposal proceeds. Any related exchange differences recorded in equity are recognised in the income statement as part of the gain or loss on sale.

a) New Zealand consumer and foodservice business and Tip Top disposal

The New Zealand consumer and foodservice business, including Tip Top, is reported in the Oceania consumer and foodservice segment.

Fonterra's New Zealand consumer and foodservice business has historically had strong market shares and delivered significant returns. Goodwill was recognised on the acquisition of New Zealand Dairy Foods and the lower North Island consumer business, as shown in the goodwill table later in this note, and the historic returns supported these balances.

In more recent times, Fonterra's New Zealand consumer and foodservice business has experienced a decline in performance due to market conditions and operational challenges in FY18. During FY19 Fonterra has delivered improved year-on-year operational performance, but margin compression has continued to be a challenge reflecting the increased level of competition in the New Zealand market.

While the core dairy business remains a strategic priority, the Tip Top ice cream business was identified as non-strategic and was divested in May 2019, supporting Fonterra's objective to reduce debt levels.

As part of the strategic review, several options were considered to drive margin recovery and overall earnings growth. After balancing the impact of ongoing competition, the level of capital investment required, the likelihood of successful delivery and the reality of the current level of performance, a revised strategic plan was agreed. The outcome of the Strategy Review results in a lower level of forecast earnings growth, resulting in an impairment as discussed below.

Consumer and Foodservice New Zealand goodwill and brand impairment

	\$ MILLION
Impairment of Red Cow brand ¹	4
Goodwill impairment	185
Fonterra New Zealand goodwill and brand impairment	189

¹ Brand carrying amounts have been reviewed. The carrying amount of the Red Cow brand was not supported by future cash flows therefore the full carrying amount of \$4 million has been impaired.

The recoverable amount of the New Zealand consumer and foodservice business was assessed at \$730 million. This was lower than the carrying value of the business, resulting in an impairment of the goodwill attributed to the business of \$185 million.

The revised business forecast reflects a recovery in business performance that will generate sufficient earnings to support goodwill of \$250 million and brands of \$283 million.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) New Zealand consumer and foodservice business and Tip Top disposal CONTINUED

A summary of the initial recognition of goodwill and the movements in the FY19 year is shown below.

	\$ MILLION
Acquisition of Tip Top on Fonterra formation	31
Acquisition of New Zealand Dairy Foods in 2005	365
Acquisition of lower North Island consumer business in 2006	124
Goodwill on other FBNZ acquisitions	91
Goodwill balance as at 1 August 2018	611
Goodwill balance allocated to Tip Top at divestment ¹	(176)
Impairment	(185)
Goodwill balance as at 31 July 2019	250

¹ The entire goodwill balance in the table above is associated with the New Zealand consumer and foodservice business CGU, and is therefore tested for impairment as part of that CGU. That CGU included Tip Top, up until Tip Top was sold. This means that goodwill was required to be attributed to the accounting impact on disposal of the Tip Top business based on the fair value of Tip Top relative to the New Zealand consumer and foodservice business at the date of disposal. That allocation resulted in attribution of \$176 million of goodwill to Tip Top at the date of Tip Top's disposal.

Assumptions used in the impairment assessment

The recoverable amount of the business was determined on a value in use basis using a discounted cash flow methodology. The assumptions used in the value in use calculation are based on management approved forecasts. The actual outcome is not certain and any change to the assumptions could potentially lead to an additional impairment.

The forecast cash flows used in the impairment model are based on a five-year business plan and have been prepared considering past performance as well as future expected performance aligned with the Board's Strategy Review.

The forecast resulted in a reduction in expected volume growth and market shares, as well as margin improvement driven from initiatives in trade spend management, manufacturing and supply chain efficiencies and reduced expenses.

Initiatives driving rationalisation of trade spend management and cost out, both through improved productivity in our manufacturing and supply chain and through reduced operating expenditure, are the largest drivers of forecast earnings improvement.

The long-term growth rate applied to the future cash flows at year five of the forecast is 2.7 per cent (31 July 2018: 2.4 per cent). This reflects the weighted average inflation rate of New Zealand and this business's export markets.

The post-tax discount rate is 8.1 per cent (31 July 2018: 8.1 per cent). The pre-tax discount rate is 10.2 per cent.

The impact of changes in these key assumptions on the recoverable amount are shown in the table below. The sensitivities shown assume the specific assumption changes in isolation, while all other assumptions are held constant.

KEY ASSUMPTIONS	VALUE ATTRIBUTED	IMPACT ON THE RECOVERABLE AMOUNT
Annual trade spend management savings (by year 5)	\$31 million	An increase/(decrease) in trade spend management savings of \$20 million from year three would result in an increase/(decrease) in the recoverable amount of \$225 million.
Annual productivity savings (manufacturing and supply chain efficiencies) (by year 5)	\$19 million	An increase/(decrease) in productivity savings of \$3 million from year three would result in an increase/(decrease) in the recoverable amount of \$34 million.
Annual operating expense savings (by year 5)	\$14 million	An increase/(decrease) in operating expense savings of \$4 million from year three would result in an increase/(decrease) in the recoverable amount of \$45 million.
Terminal growth rate	2.7 per cent	An increase/(decrease) in the terminal growth rate of 10 basis points would result in an increase/(decrease) in the recoverable amount of \$11 million.
Discount rate (post-tax)	8.1 per cent	An increase/(decrease) in the discount rate of 50 basis points would result in a decrease/(increase) in the recoverable amount of \$67 million.

The fair value less cost to dispose was also considered when determining the recoverable amount to ensure the higher of fair value less cost to dispose and value in use was applied.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) New Zealand consumer and foodservice business and Tip Top disposal CONTINUED

Sale of Tip Top

In May 2019, Fonterra sold its New Zealand ice cream business, Tip Top, to Froneri for \$380 million. The transaction resulted in a post-tax loss on sale of \$11 million. The assets disposed of include: the net assets of Tip Top, the Tip Top brand, the carrying amount of the Kapiti ice cream brand as a perpetual license was granted to Froneri, and an allocation of \$176 million goodwill from the New Zealand consumer and foodservice CGU.

	\$ MILLION
Sales proceeds¹	380
Net assets disposed excluding goodwill	(200)
Transaction costs	(15)
	165
Goodwill balance allocated to Tip Top at divestment	(176)
Loss on sale²	(11)

1 Cash received of \$376 million, net of working capital adjustments.

2 Of the net loss on sale of \$11 million: a loss of \$40 million is recognised in net loss on divestment; and \$29 million is recognised as a tax benefit relating to the reversal of deferred tax liabilities.

The net assets allocated to the sale transaction were:

	\$ MILLION
Trade and other receivables	17
Inventories	26
Property, plant and equipment	99
Brands	106
Trade and other payables	(19)
Deferred tax liability	(29)
Goodwill	176
Net assets disposed	376

Tip Top is presented in the Oceania consumer and foodservice reportable segment. Excluding the loss on disposal, the profit after tax attributable to Fonterra's equity holders generated by Tip Top is \$11 million in the 10 months to 31 May 2019 (year ended 31 July 2018: \$12 million).

PP&E impairment and other costs

\$7 million of plant, property and equipment (PP&E) impairment has been recognised relating to assets that have been written off. There are also \$8 million of redundancy costs, consulting costs to support the review and other transition costs incurred.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

b) China Farms impairment

Fonterra has announced it is assessing a wide range of options for its investment in its Fonterra-owned China Farms assets. This reflects the reduced focus on off shore milk pools, the current losses being generated, and the intention to focus on Fonterra's strategic priorities.

As at 31 July 2018, the recoverable amount of the China Farm assets was equivalent to the carrying amount, which meant that any adverse change in the supporting assumptions would result in an impairment.

The FY19 performance for the Fonterra-owned China Farms assets (including the amount recorded within the Ingredients business) was a loss of \$13 million compared to a \$32 million loss in FY18. This improvement reflects an increase in average pricing and a reduction in operating expenditure however this result was still behind the plan to break-even in FY19.

There have been several events over the years, highlighting a higher level of risk in operating the farms than previously anticipated. Consequently, the current expectation of long-term sustainable milk production has reduced by seven per cent. This reduction across the FY19 five-year plan and through the terminal value has been the most significant factor in the reduction in the recoverable amount of the China Farms assets compared to prior year.

While the average milk price increased in FY19 to RMB 3.64, it remains short of the targeted RMB 4.00 per kg assumed in the FY18 recoverable amount assessment. Fonterra has revised the future milk price forecast to reflect a phased increase in pricing, driven by the growth of premium customers and reduced volume being sold through traders. The lag in achieving this price point is the other major contributor to the reduction in the recoverable amount relative to the FY18 recoverable amount.

The recoverable amount of the China Farms assets is \$546 million. This was lower than the carrying value of the assets, resulting in an impairment of property, plant and equipment of \$203 million.

Assumptions used in the impairment assessment

The recoverable amount of the assets are determined on a value in use basis using a discounted cash flow methodology. The assumptions used in the value in use calculation are based on management approved forecasts. The actual outcome is not certain and any change to the assumptions could potentially lead to an additional impairment.

The forecast cash flows used in the impairment model are based on a five-year business plan and have been prepared considering past performance as well as future expected performance aligned with the Board's Strategy Review.

The long-term growth rate applied to the future cash flows at year five of the forecast is 2.6 per cent (31 July 2018: 3.0 per cent). The post-tax discount rate applied is 9.1 per cent (31 July 2018: 9.1 per cent).

The impact of changes in these assumptions on the recoverable amount are shown in the table below. The sensitivities shown assume the specific assumption changes in isolation, while all other assumptions are held constant.

KEY ASSUMPTIONS	VALUE ATTRIBUTED	IMPACT ON THE RECOVERABLE AMOUNT
Future milk price (year five) ¹	RMB 4.16 per kg	An increase/(decrease) in the milk price of RMB 0.10 per kg would result in an increase/(decrease) in the recoverable amount of \$82 million.
Milk production for sale (year five) ¹	350 million kg	An increase/(decrease) in the milk production of three per cent would result in an increase/(decrease) in the recoverable amount of \$47 million.
Feed costs per kg of milk sold (year five) ¹	RMB 1.99 per kg	An increase/(decrease) in feed costs of RMB 0.10 per kg would result in an increase/(decrease) in the recoverable amount of \$82 million.
Effluent costs per kg of milk sold (year five) ¹	RMB 0.14 per kg	An increase/(decrease) in effluent costs of RMB 0.02 per kg would result in an increase/(decrease) in the recoverable amount of \$16 million.
Terminal growth rate	2.6 per cent	An increase/(decrease) in the terminal growth rate of 10 basis points would result in an increase/(decrease) in the recoverable amount of \$7 million.
Discount rate (post-tax)	9.1 per cent	An increase/(decrease) in the discount rate of 50 basis points would result in a decrease/(increase) in the recoverable amount of \$47 million.

¹ Year five has been chosen as it reflects the estimated long-term sustainable position.

The fair value less cost to dispose was also considered when determining the recoverable amount to ensure the higher of fair value less cost to dispose and value in use was applied.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

c) Brazil consumer and foodservice business impairments

The Brazil consumer and foodservice business is reported in the Latin America consumer and foodservice segment.

At 31 July 2019, Fonterra is in the process of investigating a range of options for the Brazil consumer and foodservice business. No decision has been made on the option to be formally progressed.

Consumer and foodservice Brazil goodwill impairment

The goodwill attributable to the consumer and foodservice business in Brazil of \$133 million was recognised in 2015 when Fonterra acquired a controlling interest in DPA Brazil.

The economy in Brazil has been challenging and previously expected growth in the chilled dairy category has not eventuated. The chilled dairy category performance is closely aligned with Fonterra's volume and pricing outcomes.

Several improvement initiatives were implemented in the second half of 2019, improving gross margins and reducing operating expenditure. While these have improved business performance they did not meet the level of improvement anticipated in the forecast prepared in FY18.

The current forecast reflects some improvement in aspects of the Brazilian economy that will support the chilled dairy category growth and enable both pricing and volume growth to be realised. However, given the lower level of improvement delivered in FY19 than was expected, future expectations on the key revenue growth and margin assumptions, driven by volume and pricing, have reduced in comparison to the FY18 recoverable amount assumptions. This has driven the bulk of the change in the recoverable amount from prior year with both lower revenue and margin per cent growth now forecast.

The recoverable amount of the Brazil consumer and foodservice business was \$234 million. This was lower than the book value of the business, resulting in an impairment of the goodwill attributed to the business. Fonterra has written off the \$133 million of goodwill.

The reduction in the recoverable amount results from a downward reassessment of forecast earnings. The change in the forecast earnings outlook also impacts the forecast future taxable profits which are used to support the carrying amount of the deferred tax asset in Brazil. The reduction in forecast future taxable profits means that the deferred tax asset in Brazil is now not expected to be utilised in the foreseeable future. The deferred tax asset of \$110 million has been derecognised through tax expense (refer Note 20). Fonterra's 51 per cent share is \$55 million.

Assumptions used in the impairment assessment

The recoverable amount of the business was determined on a value in use basis using a discounted cash flow methodology. The assumptions used in the value in use calculation are based on management approved forecasts. The actual outcome is not certain and any change to the assumptions could potentially lead to an additional impairment.

The forecast cash flows used in the impairment model are based on a three-year business plan and have been prepared considering past performance as well as future expected performance aligned with the Board's Strategy Review.

The assumption used for revenue growth is 9.8 per cent (compared to 9.6 per cent in FY18). Actual revenue growth was four per cent in FY19. The revenue growth assumption is dependent on the recovery in the Brazilian economy and successful execution of initiated and planned performance improvement activities. Gross margin assumptions have reduced compared to those forecast in FY18, with a lower starting point and reduced margin improvements (2.7 per cent in FY19 compared to 4.8 per cent in FY18). These assumptions include the impacts of inflation, volume growth and the annualised impact of the pricing initiatives delivered in FY19.

An annual growth rate of 6.86 per cent (2018: 8.3 per cent) has been applied to the year three cash flows to derive years four to 10. This growth rate includes volume growth plus inflation. The terminal growth rate of 3.75 per cent (2018: 4.5 per cent) has been applied to the cash flows from year 10.

The post-tax discount rate is 11.0 per cent (31 July 2018: 10.9 per cent). The pre-tax discount rate was 13.8 per cent.

The impact of changes in these assumptions on the recoverable amount are shown in the table below. The sensitivities shown assume the specific assumption changes in isolation, while all other assumptions are held constant.

KEY ASSUMPTIONS	VALUE ATTRIBUTED	IMPACT ON THE RECOVERABLE AMOUNT
Revenue growth (first three-year CAGR)	9.8 per cent	An increase/(decrease) in revenue growth of 200 basis points would result in an increase/(decrease) in the recoverable amount of \$24 million.
Gross margin improvement (first 3 years)	2.7 per cent	An increase/(decrease) in the gross margin percentage of 50 basis points would result in an increase/(decrease) in the recoverable amount of \$25 million.
Year 4-10 growth rate	6.86 per cent	An increase/(decrease) in the growth rate percentage of 100 basis points would result in an increase/(decrease) in the recoverable amount of \$15 million.
Terminal growth rate	3.75 per cent	An increase/(decrease) in the terminal growth rate of 10 basis points would result in an increase/(decrease) in the recoverable amount of \$2 million.
Discount rate (post-tax)	11.0 per cent	An increase/(decrease) in the discount rate of 50 basis points would result in a decrease/(increase) in the recoverable amount of \$16 million.

The fair value less cost to dispose was also considered when determining the recoverable amount to ensure the higher of fair value less cost to dispose and value in use was applied.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

c) Brazil consumer and foodservice business impairments CONTINUED

Provision for utilisation of indirect taxes

Fonterra has assessed its ability to recover Brazilian indirect tax credits and has concluded that a provision of \$16 million is appropriate given challenges in utilising and recovering certain tax credits.

Future divestment considerations

In combination with Nestlé, Fonterra's joint venture partner, Fonterra is considering strategic options for the Brazil consumer and foodservice business including potential divestment options. If a divestment was to occur this would trigger the release of the foreign currency translation reserve balance associated with the Brazil consumer and foodservice business to profit or loss. This balance is \$68 million debit at 31 July 2019. Given the range of options being considered, the business does not meet the held for sale criteria.

The business also has an asset relating to the indirect business tax credits of \$142 million. Fonterra's 51 per cent share being \$72 million, the value of which to a potential purchaser may be dependent on the nature of their business.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

d) Disposal of Venezuelan operations

Due to the continued economic and political instability, Fonterra has divested its operations in Venezuela.

The impact of the divestment of the businesses in Venezuela on these financial statements is shown below:

	\$ MILLION
Loss on sale of the Venezuelan consumer business	(112)
Closure of the Venezuelan ingredients operation	(22)
Impact on loss before tax	(134)

Venezuelan consumer business

The Venezuelan consumer business was identified as a non-strategic asset in the Strategic Review and given the impact of current economic conditions on business performance was flagged as an asset for potential divestment.

In March 2019, Fonterra sold its Venezuela consumer business to Mirona Foods Ltd. for \$16 million (€9.7 million). The transaction resulted in a loss on sale of \$112 million, primarily due to the foreign currency translation reserve balance of \$124 million attributable to the Venezuelan business recognised in profit or loss on disposal of the business.

The loss on disposal is shown below.

	\$ MILLION
Sales proceeds (cash) received	16
Net assets disposed	(16)
Gain before reclassification of reserves	-
Reclassification of foreign currency translation reserve	(124)
Reclassification of hyperinflation reserve	12
Loss on sale	(112)

The net assets disposed of were:

	\$ MILLION
Trade and other receivables	9
Property, plant and equipment	20
Brands	1
Trade and other payables	(14)
Net assets disposed	16

The Venezuelan consumer business is presented in the Latin America consumer and foodservice reportable segment. Excluding the loss on disposal, the loss after tax attributable to Fonterra's equity holders generated by the Venezuelan consumer business was \$3 million for the eight months to 31 March 2019 (year ended 31 July 2018: profit \$9 million).

Venezuelan ingredients business

No material ingredient sales have been made into Venezuela since 2016, responding to Fonterra's credit risk management expectations, and reduced demand. Accordingly, in July 2019, Fonterra formally closed its ingredients sales office in Venezuela in line with the operational review. This sales office had been supporting sales across the Latin America region in recent years and these sales will now be supported out of Mexico.

This resulted in a loss of \$22 million relating to the reclassification to profit or loss of the foreign currency translation reserve balance attributable to the business.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

e) Australian strategic reset

The Australian ingredients business is reported within the Ingredients segment.

As part of the Strategy Review, the Board was presented with several options for the future of the Australian ingredients business. The Strategy Review incorporated the material decline in the performance of the Australian ingredients business during FY19. The key drivers of this were the reduced milk volumes due to drought conditions and the increased competition for milk reducing Fonterra's share of collected volumes, the under-utilisation of Fonterra's nutritional assets, including low demand through the joint venture with Beingmate and the additional costs associated with Fonterra's investment in new cheese capacity.

Impairment assessment

The Strategic Review and reduced performance are indicators of impairment and require an impairment assessment.

The Australian ingredients assets are considered a single CGU for the goodwill and asset impairment assessments because milk is optimised across Fonterra's Victorian and Tasmanian sites. These are considered separate from the Australian consumer and foodservice business, which has delivered continued earnings growth in FY19.

The recoverable amount, which was determined using fair value less costs of disposal (FVLCD) of the Australian Ingredients business is higher than the \$942 million carrying amount and therefore, no impairment was required.

The FVLCD was determined using recent observable transactions which provided evidence of relevant multiples such as Enterprise Value (EV) to revenue, EV to tangible assets and EV to milk supply. Fonterra considered these three multiples as the most relevant multiples. All three of these multiples supported a similar FVLCD mid-point.

Assumptions used in the impairment assessment

Key assumptions used in determining the FVLCD are milk supply and revenue.

The milk supply outlook in the short-term is uncertain, however Fonterra expects it to normalise in the medium-term.

In the current year, the recoverable amount was determined using a FVLCD as it is higher than value in use. The reason for this is the carrying value of the Australian Ingredient business increased with the completion of Stanhope's expansion and the acquisition of the Darnum site from Beingmate and the reduction in forecast milk supply reduced the CGU's value in use.

The fair value measurement is in Level 3 of the fair value hierarchy. A reasonably possible change in assumptions would not cause the CGU's carrying amount to be impaired.

The value in use was also considered when determining the recoverable amount to ensure the higher of fair value less cost to dispose and value in use was applied.

Strategic Review implications

The Strategy Review identified several initiatives, with an emphasis on sustainable milk supply, improved asset utilisation, productivity improvements and operating expense reduction.

As a result, several actions were taken, including unwinding the joint arrangement with Beingmate to regain full control of the Darnum site, shutting the Dennington site and reductions in operating expenditure. Fonterra is also pursuing several initiatives to improve utilisation of the remaining assets.

The impact of these drivers and the responses on these financial statements is shown below:

	\$ MILLION
Closure of the Dennington site	(54)
Other restructuring costs	(14)
Loss before tax	(68)

The closure of the Dennington site was announced in May 2019, resulting in recognition of a loss of \$54 million comprising of an impairment of property, plant and equipment of \$23 million, and additional costs of \$31 million primarily relating to redundancy costs and site restoration.

f) Other strategic reset costs

During the year ended 31 July 2019, Fonterra incurred other costs in relation to the Strategy Review of \$17 million which are not allocated to items addressed elsewhere in Note 2. \$10 million of these relate to advisors supporting the asset review process where the review and divestment process has not yet completed. Driven from the operational review, there are \$7 million of redundancy costs in segments of our business not addressed elsewhere in this note.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

g) Changes to arrangements with Beingmate Baby & Child Food Co., Ltd (Beingmate)

Acquisition of Darnum manufacturing plant

In January 2019 Fonterra regained full ownership of the Darnum manufacturing plant in Australia, unwinding the joint arrangement with Beingmate, and renegotiating commercial terms for product purchases by Beingmate.

The transaction price of \$126 million (AU\$120 million) represents the 51 per cent share of the Darnum manufacturing plant and associated working capital balances. This has been treated as an asset purchase as no processes were acquired. Fonterra had been providing these services to the joint venture under the terminated management agreement.

Amounts owed to Fonterra by Beingmate of \$64 million (AU\$61 million) have been settled against the transaction price, resulting in a net amount owed to Beingmate of \$62 million (AU\$59 million). As at 31 July 2019 Fonterra has an amount payable to Beingmate of \$62 million (AU\$59 million) in relation to this transaction. The amount payable is unsecured and accrues interest at a market interest rate. It is repayable in four equal annual instalments. The arrangement with Beingmate also includes an offsetting supply agreement of the same timeframe that commits Beingmate to purchase minimum volumes of product from the Darnum plant.

Classification of the investment in Beingmate

In September 2018, Fonterra announced the strategic review of its investment in Beingmate. This review resulted in the termination of several commercial arrangements with Beingmate, including the joint venture arrangement relating to the Darnum manufacturing plant discussed above.

A further consequence of the review is that Fonterra has determined the Co-operative no longer has significant influence over its Beingmate investment. This loss of significant influence means that Fonterra ceased equity accounting for its Beingmate investment, and is recording the investment at fair value. Movements in fair value following the cessation of equity accounting are recorded in profit or loss.

This determination that significant influence has been lost required judgement. Fonterra's judgement referenced a combination of factors:

- Fonterra has the right under a shareholders' agreement to require the current controlling shareholder of Beingmate to support Fonterra's appointment of two directors to the Beingmate board. At the time Fonterra acquired its shareholding in Beingmate, it nominated two individuals for appointment to the Beingmate board. These nominees were appointed to the Beingmate board with the support of the Beingmate controlling shareholder.
- One of the Fonterra-nominated directors on Beingmate's board resigned in March 2019. As a result, Fonterra has one remaining director on Beingmate's nine-person board. At this time, there are practical restrictions on Fonterra's ability to appoint a further director onto the Beingmate board. This means that Fonterra has less than 20 per cent voting rights on the Beingmate board and less than 20 per cent ownership interest. NZ IFRS requires that with this level of interest, in order for Fonterra to assert significant influence over Beingmate, Fonterra must rebut a presumption of no significant influence.
- Fonterra's investment in Beingmate was originally accompanied by a broader strategic relationship. The nature of this relationship has materially reduced. During FY19, Fonterra regained full ownership of the Darnum manufacturing plant in Australia, following the unwind of its Darnum joint venture with Beingmate as described above. Fonterra also terminated Beingmate's rights to distribute Annum in China in FY19.
- Fonterra has now also implemented a heightened information barrier between the Co-operative and its remaining director on the Beingmate board. This has been put in place because of Fonterra's intention to sell a portion of its Beingmate shareholding.

After assessing all relevant facts and circumstances and given the overall uncertainty as to Fonterra's role and level of influence, Fonterra considers there is no longer sufficient evidence to be able to clearly demonstrate the Co-operative continues to have significant influence. As a result, Fonterra ceased equity accounting during FY19.

On cessation of equity accounting, Fonterra's investment in Beingmate is classified as "held for trading" in accordance with NZ IFRS 9 because it is held principally for the purpose of sale. This means the investment is recorded at fair value, with changes in fair value recorded in profit or loss. Fonterra has determined that, in accordance with NZ IFRS 13, the quoted share price is the appropriate price to use to determine fair value. Fair value is therefore calculated as the quoted share price, multiplied by the number of shares held.

The cessation of equity accounting resulted in a \$41 million gain. This \$41 million is represented by a \$71 million upwards revaluation to fair value, less \$30 million of foreign currency translation reserve losses recycled to profit or loss. Between the date of cessation of equity accounting and 31 July 2019, the fair value of Fonterra's investment in Beingmate reduced by a further \$52 million and Fonterra recorded \$1 million of its share of losses before ceasing equity accounting. The total income statement impact is a \$12 million loss.

The investment in Beingmate is presented in the Greater China consumer and foodservice reportable segment. Fonterra's share of losses from Beingmate as an equity accounted investment in the year ended 31 July 2019 was \$1 million prior to the cessation of equity accounting (31 July 2018: loss \$34 million).

At 31 July 2019, the carrying value of Fonterra's investment in Beingmate was \$234 million. This is represented by 192 million shares, at RMB 5.54 per share.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

g) Changes to arrangements with Beingmate Baby & Child Food Co., Ltd (Beingmate) CONTINUED

Intention to reduce the shareholding in Beingmate

In August 2019, Fonterra announced its intention to sell down, over time, its 18.8 per cent equity shareholding in Beingmate. Restrictions on the percentage of shares that can be sold down in individual transactions and uncertainty in the level of demand mean that the timing and pricing of the sell-down is uncertain.

Fonterra can sell up to a maximum of one per cent on-market in each 90-day period. Applying the closing share price as at 31 July 2019, a one per cent shareholding in Beingmate has a value of \$12 million.

Given the level of uncertainty in the disposal plan and the small shareholding that could be disposed within 12 months using block trade and/or on-market sales, classification as held for sale, which would recognise the entire investment as a current asset is not considered appropriate.

Any future sales of Fonterra's Beingmate shares will be transacted at the selling price achieved at the disposal date. This is likely to differ from the 31 July 2019 fair value.

h) Assets held for sale

As at 31 July 2019 the following investments, valued at \$229 million, were classified as 'held for sale'. No investments met the held for sale classification criterion as at 31 July 2018.

Goodminton AG (Goodminton)

In June 2019, Fonterra entered into an agreement to sell its investment in Goodminton. The sale is subject to regulatory approvals and is expected to complete within one year of balance date. Accordingly, the investment in Goodminton was reclassified from equity accounted investments to assets held for sale on 30 June 2019. The transaction was completed on 3 September 2019.

The investment in Goodminton is presented in the Ingredients reportable segment. Fonterra's share of earnings relating to the investment in Goodminton was \$nil million for the 11 months to 30 June 2019 (year ended 31 July 2018: \$nil million).

DMV Fonterra Excipients GmbH & Co.KG (DFE Pharma)

In March 2019, Fonterra announced that it had commenced a sales process for its 50 per cent shareholding in DFE Pharma. As at 31 July 2019 this process was well advanced and it was reasonable to believe that a transaction would be highly probable.

The investment in DFE Pharma is presented in the Ingredients reportable segment. Fonterra's share of earnings relating to the investment in DFE Pharma was \$44 million for the year ended 31 July 2019 (31 July 2018: \$47 million).

DFE Pharma Post Balance Sheet Event

On 24 September 2019, Fonterra approved the sale of its 50 per cent shareholding in DFE Pharma. The sales price of €363 million (\$633 million at the 24 September foreign exchange conversion rate) is made up of cash of €308 million (\$537 million) and an interest bearing loan of €55 million (\$96 million). The sale and purchase agreement also contains earnout clauses in relation to earnings before interest, tax, depreciation and amortisation for the 2019 and 2020 financial year, and specifies completion adjustments, which are not included in the sales price above. Given the proximity to the date of authorising the financial statements, being 25 September 2019, an estimate of the financial effect of the sale and any earnout clauses has not yet been determined.

i) Foreign Currency Translation Reserve

A summary of the amounts transferred to the income statement from the foreign currency translation reserve, including amounts triggered by items identified in this note are summarised below.

	NOTE	\$ MILLION
Disposal of Venezuelan consumer business	d)	124
Closure of Venezuelan ingredients operations	d)	22
Change in classification of investment in Beingmate	g)	30
Other		17
Foreign currency translation reserve losses transferred to the income statement		193

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

3 REVENUE FROM SALE OF GOODS

The Group recognises revenue from the sale of goods when control of the goods transfers to the customer, which typically occurs at the following times:

- Ingredients businesses (export sales) – once the products are loaded onto the ship.
- Ingredients businesses (domestic sales), and consumer and foodservice businesses – on delivery of the products to the customer's designated location.
- China Farms – on dispatch of raw milk from the farm.

Revenue is measured as the sales price specified in the contract adjusted for trade spend and rebates. Trade spend and rebates are recognised as a deduction from revenue at the time that the related sale is recognised. The estimated amount of the deduction from revenue is based on historical experience and the specific terms of the contracts with customers.

The Group offers credit terms which are typically short-term in nature. In addition, as part of its normal trade terms, the Group receives payments in advance from certain customers. Contracts with customers do not contain significant financing components.

a) Ingredients revenue

Revenue from the Ingredients business is disaggregated in the table below:

	INGREDIENTS \$ MILLION	
	31 JULY 2019	31 JULY 2018
Reference products ¹	8,833	8,703
Non-reference products ²	4,202	3,495
Other ³	2,358	2,366
Global Ingredients and Operations	15,393	14,564
Fonterra Ingredients Australia	1,760	1,877
Other Ingredients revenue	755	848
Intra-segment eliminations	(873)	(983)
Total Ingredients revenue⁴	17,035	16,306
Less: inter-segment revenue	(3,707)	(2,821)
Total Ingredients external revenue	13,328	13,485

1 Revenue from all sales of the five ingredient products that inform the Farmgate Milk Price, and that are manufactured using New Zealand sourced milk. Currently these five products are whole milk powder, skim milk powder, butter milk powder, butter and anhydrous milk fat (otherwise known as 'reference products').

2 Revenue from the sale of all ingredient products, except reference products, that are manufactured using New Zealand sourced milk.

3 Primarily consists of Global Sourcing revenue, which is revenue from the sale of ingredient products manufactured using non-New Zealand sourced milk.

4 Includes inter-segment sales.

b) Consumer and Foodservice revenue

Revenue earned by the consumer and foodservice businesses is disaggregated in the table below.

	CONSUMER AND FOODSERVICE \$ MILLION	
	31 JULY 2019	31 JULY 2018
Oceania	2,159	2,159
Asia	1,862	1,865
Greater China	1,483	1,564
Latin America	1,507	1,534
Total Consumer and Foodservice revenue¹	7,011	7,122
Less: inter-segment revenue	(225)	(176)
Total Consumer and Foodservice external revenue	6,786	6,946

1 Includes inter-segment sales.

c) China Farms revenue

Revenue from China Farms, a reportable segment, arises from the sale of raw milk to the Ingredients business. As China Farms has only one internal customer and one product, disaggregation of the revenue of \$249 million (31 July 2018: \$262 million) is not applicable. No external revenue is earned by China Farms.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

4 COST OF GOODS SOLD

Cost of goods sold is primarily made up of New Zealand sourced cost of milk.

New Zealand sourced cost of milk includes the cost of milk supplied by farmer shareholders, supplier premiums paid, and the cost of milk purchased from contract milk suppliers during the financial year.

New Zealand sourced cost of milk supplied by farmer shareholders comprises the volume of milk solids supplied at the Farmgate Milk Price as determined by the Board for the relevant season. In making that determination the Board takes into account the Farmgate Milk Price calculated in accordance with the Farmgate Milk Price Manual, which is independently audited. The Fonterra Farmgate Milk Price Statement sets out information about the Farmgate Milk Price, and how it is calculated by Fonterra. It can be found in the 'Investors/Farmgate Milk Prices' section of the Fonterra website.

Other costs include those costs directly incurred to bring the inventory to its final point of sale location, and additional ancillary costs invoiced to the customer.

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
Opening inventory	2,917	2,593
Cost of milk:		
– New Zealand sourced	9,748	10,115
– Non-New Zealand sourced	966	1,245
Other costs	6,412	6,243
Impairment of production related assets ¹	235	–
Closing inventory	(2,944)	(2,917)
Total cost of goods sold	17,334	17,279

1 Impairments of production related assets in New Zealand, China and Australia are included with cost of goods sold (refer to Note 2).

5 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Co-operative by the weighted average number of Co-operative shares outstanding during the period.

Diluted earnings per share is determined by adjusting the profit or loss attributable to equity holders of the Co-operative and the weighted average number of Co-operative shares outstanding for the effects of all Co-operative shares with dilutive potential. There were no Co-operative shares with dilutive potential for either of the years presented.

	GROUP	
	31 JULY 2019	31 JULY 2018
Basic and diluted earnings per share attributable to equity holders of the Co-operative (\$)	(0.35)	(0.14)
Earnings attributable to equity holders of the Co-operative (\$ million)	(557)	(221)
Weighted average number of shares (thousands of shares)	1,611,980	1,610,005

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

6 LOSS BEFORE NET FINANCE COSTS AND TAX

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
The following items have been included in profit before net finance costs and tax:		
Auditors' remuneration:		
– Fees paid for the audit and review of the financial statements and milk price ¹	9.3	6.6
– Fees paid for other services ²	1.1	0.7
Operating lease expense	107	98
Research and development costs	98	95
Research and development grants received from government	–	(5)
Total employee benefits expense	2,050	2,116
Contributions to defined contribution plans included in employee benefits expense	81	76

1 The fee paid to PricewaterhouseCoopers for the audit and review of the Group's financial statements, and milk price, is split across the jurisdictions where there are subsidiary entities that require an audit or are a significant component of the Group. \$7.3 million (31 July 2018: \$4.9 million) relates to PricewaterhouseCoopers New Zealand, and \$2.0 million (31 July 2018: \$1.7 million) to PricewaterhouseCoopers network firms in other jurisdictions, being China (\$0.45 million), Brazil (\$0.36 million), Chile (\$0.27 million), Japan (\$0.11 million), Singapore (\$0.11 million), Australia, Bahrain, Barbados, Dubai, Egypt, France, Hong Kong, India, Indonesia, Malaysia, Mexico, Nigeria, Philippines, Saudi Arabia, Sri Lanka, Taiwan, Thailand, United Kingdom, United States and Vietnam.

2 The Group uses the services of PricewaterhouseCoopers on assignments additional to their statutory audit and review duties where their expertise and experience with the Group are important and auditor independence is not impaired. Other services provided during the year include assistance with collation of information for a vendor due diligence process and advice on a sale and purchase agreement of \$629,000 (31 July 2018: nil); facilitation and administration support for the Fonterra Strategic review including board strategy workshops of \$210,000 (31 July 2018: nil); Fonterra's Strategy programme management support of \$150,000 (31 July 2018: nil); corporate tax advice to an equity accounted investee - Fonterra Europe (India) of \$39,000 (31 July 2018: nil); access to generic training and technical accounting websites of \$2,000 (31 July 2018: \$1,000); other assurance and attestation services provided in their capacity as auditors of the Group of \$70,000 (31 July 2019: \$237,000). Other advisory services were nil in the current year (31 July 2018: \$450,000). The Board has overseen the compliance of PricewaterhouseCoopers with Fonterra's Group Audit Independence Policy.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

DEBT AND EQUITY

This section outlines Fonterra's capital structure and the related financing costs. It also provides details on how the funds that finance current and future activities are raised and on how the Group manages liquidity risk and interest rate risk.

This section includes the following Notes:

Note 7: Subscribed equity instruments

Note 8: Dividends

Note 9: Borrowings

Note 10: Net finance costs

7 SUBSCRIBED EQUITY INSTRUMENTS

Subscribed equity instruments comprise Co-operative shares and units in the Fonterra Shareholders' Fund (the Fund). Incremental costs directly attributable to equity transactions are recognised as a deduction from subscribed equity.

Co-operative shares, including shares held within the Group

Co-operative shares may only be held by a shareholder supplying milk to the Company (farmer shareholder), by former farmer shareholders for up to three seasons after cessation of milk supply, or by Fonterra Farmer Custodian Limited (the Custodian). Voting rights in the Company are dependent on milk supply supported by Co-operative shares.¹

	CO-OPERATIVE SHARES (THOUSANDS)
Balance at 1 August 2018	1,611,923
Shares issued under the Farm Source Rewards scheme	69
Balance at 31 July 2019	1,611,992
Balance at 1 August 2017	1,606,933
Shares issued under the dividend reinvestment plan ²	4,990
Balance at 31 July 2018	1,611,923

1 These rights are also attached to vouchers when backed by milk supply (subject to limits).

2 Total value of \$29 million.

The rights attaching to Co-operative shares are set out in Fonterra's Constitution, available in the 'About/Governance and Management' section of Fonterra's website.

Units in the Fonterra Shareholders' Fund

The Custodian holds legal title of Co-operative shares of which the Economic Rights have been sold to the Fund on trust for the benefit of the Fund. At 31 July 2019, 102,934,582 Co-operative shares (31 July 2018: 111,423,603) were legally owned by the Custodian, on trust for the benefit of the Fund.

	UNITS (THOUSANDS)
Balance at 1 August 2018	111,424
Units issued	17,769
Units surrendered	(26,258)
Balance at 31 July 2019	102,935
Balance at 1 August 2017	126,047
Units issued	20,946
Units surrendered	(35,569)
Balance at 31 July 2018	111,424

The rights attaching to units are set out in the Fonterra Shareholders' Fund 2019 Annual Report, available in the 'Investors/Fonterra Shareholder's Fund' section of Fonterra's website.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

7 SUBSCRIBED EQUITY INSTRUMENTS CONTINUED

Capital management and structure

The Board's objective is to maximise equity holder returns over time by maintaining an optimal capital structure. Trading Among Farmers (TAF) allows shares in Fonterra to be traded between shareholders, on the Fonterra Shareholders' Market (a private market operated by NZX Limited). The Fund supports this by allowing investors, including farmers, to trade in units backed by Economic Rights in Fonterra. The Fund also allows farmer shareholders to acquire units and exchange them for shares in Fonterra, and to exchange shares for units and dispose of those units on the NZX or ASX.

The Group provides returns to farmer shareholders through a milk price, and to equity holders through dividends and changes in the Company's share price.

The Fund is subject to the issue and redemption of units at the discretion of Fonterra and Fonterra's farmer shareholders. Fonterra has an interest in ensuring the stability of the Fund and has established a Fund Size Risk Management Policy which requires that the number of units on issue remain within specified limits and that, within these limits, the number of units is managed appropriately. Fonterra may use a range of measures to ensure the Fund size remains within the specified limits, including: introducing or cancelling a dividend reinvestment plan, operating a unit/or share repurchase programme and issuing new shares.

Post balance date equity instrument prices

After balance date, Fonterra's share and unit prices fell below the book value of Fonterra's consolidated net assets. Fonterra determined that this share and unit price movement did not require further impairment testing for all, or for further components of, Fonterra's business. This is because it was not, in itself, an indicator of further impairment. This determination considered Fonterra's view that the share and unit price does not fully reflect the fair value of Fonterra's business. Key contributors are: the lower liquidity in Fonterra shares and units combined with prospective investor requirements for Fonterra to deliver on communicated targets; and broader movements in NZX indices. Further, Fonterra shares and units trade without a full control premium.

8 DIVIDENDS

All Co-operative shares, including those held by the Custodian on trust for the benefit of the Fund, are eligible to receive dividends if declared by the Board. Dividends paid to the Custodian are passed on to unit holders by the FSF Management Company Limited (the Manager).

Dividends are recognised as a liability in the Group's financial statements in the period in which they are declared by the Board.

No dividend was paid during the year ended 31 July 2019.

The Dividend Reinvestment Plan applied to all dividends paid during the year ended 31 July 2018 in the table below.

DIVIDENDS	\$ MILLION	
	YEAR ENDED 31 JULY 2019	YEAR ENDED 31 JULY 2018
2018 Interim dividend – 10 cents per share ¹	–	161
2017 Final dividend – 20 cents per share ²	–	321

1 Declared on 20 March 2018 and paid on 20 April 2018 to all Co-operative shares on issue at 6 April 2018.

2 Declared on 23 September 2017 and paid on 20 October 2017 to all Co-operative shares on issue at 9 October 2017.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

9 BORROWINGS

The Group borrows in the form of bonds, bank facilities and other financial instruments. The interest expense incurred on Fonterra's borrowings is shown in Note 10.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method, with the hedged risks on certain debt instruments measured at fair value. Details of the Group's hedge accounting policies are included in Note 19 Financial risk management.

Economic net interest-bearing debt

Economic net interest-bearing debt reflects the effect of debt hedging in place at balance date.

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Net interest-bearing debt position		
Total borrowings	6,536	6,738
Cash and cash equivalents	(550)	(446)
Interest-bearing advances ¹	(142)	(332)
Bank overdraft	34	161
Net interest-bearing debt	5,878	6,121
Value of derivatives used to manage changes in hedged risks on debt instruments	(148)	78
Economic net interest-bearing debt	5,730	6,199

1 The balance as at 31 July 2018 included \$177 million of Fonterra Co-operative Support Loan receivables (31 July 2019: nil) which were netted against amounts owing to suppliers.

Total borrowings in the table above are represented by:

	GROUP \$ MILLION						BALANCE AS AT 31 JULY 2019
	BALANCE AS AT 1 AUGUST 2018	PROCEEDS	REPAYMENTS	FOREIGN EXCHANGE MOVEMENT	CHANGES IN FAIR VALUES	OTHER	
Commercial paper	304	1,219	(1,271)	–	–	7	259
Bank loans	1,128	2,034	(2,547)	4	–	–	619
Finance leases ¹	131	–	(60)	–	–	–	71
Capital notes ²	35	–	–	–	–	–	35
NZX-listed bonds	500	100	–	–	–	–	600
Medium-term notes	4,640	393	(271)	(27)	214	3	4,952
Total borrowings³	6,738	3,746	(4,149)	(23)	214	10	6,536

	GROUP \$ MILLION						BALANCE AS AT 31 JULY 2018
	BALANCE AS AT 1 AUGUST 2017	PROCEEDS	REPAYMENTS	FOREIGN EXCHANGE MOVEMENT	CHANGES IN FAIR VALUES	OTHER	
Commercial paper	164	1,054	(919)	–	–	5	304
Bank loans	854	2,849	(2,551)	(24)	–	–	1,128
Finance leases ¹	137	–	(7)	1	–	–	131
Capital notes ²	35	–	–	–	–	–	35
NZX-listed bonds	500	–	–	–	–	–	500
Medium-term notes	4,573	431	(600)	293	(61)	4	4,640
Total borrowings³	6,263	4,334	(4,077)	270	(61)	9	6,738

1 Finance leases are secured over the related item of property, plant and equipment (Note 15).

2 Capital notes are unsecured subordinated borrowings.

3 All other borrowings are unsecured and unsubordinated.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

9 BORROWINGS CONTINUED

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Included within the statement of financial position as follows:		
Total current borrowings	1,175	831
Total non-current borrowings	5,361	5,907
Total borrowings	6,536	6,738

Leverage ratios

The Board closely monitors the Group's leverage ratios. The primary ratios monitored by the Board are:

- Debt payback. The main debt payback ratio is adjusted for the impact of operating leases and it is calculated as economic net interest-bearing debt divided by earnings before interest, tax, depreciation and amortisation (EBITDA). This is a key ratio considered by the credit rating agencies when determining Fonterra's credit rating.
- Gearing. The gearing ratio is calculated as economic net interest-bearing debt, divided by equity plus economic net interest-bearing debt. Equity is as presented in the statement of financial position, excluding hedge reserves. The gearing ratio as at 31 July 2019 was 48.2 per cent (31 July 2018: 48.4 per cent).

The Group is not subject to externally imposed capital requirements.

Fonterra's has determined its target gearing ratio is 40-45 per cent. Fonterra's plans to comply with this target range include a combination of financial discipline and asset divestments.

Finance leases included in total borrowings are represented by:

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Finance leases – minimum lease payments		
Not later than one year	69	16
Later than one year and not later than five years	6	131
Later than five years	3	4
	78	151
Future finance charges on finance leases	(7)	(20)
Present value of finance leases	71	131
The present value of finance leases is as follows:		
Not later than one year	64	7
Later than one year and not later than five years	5	121
Later than five years	2	3
Total present value of finance leases	71	131

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure that it will always have sufficient funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group has a policy in place to ensure that it has sufficient cash or facilities on demand to meet expected operational expenses for a period of at least 80 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In such situations back-up funding lines are maintained and as set out in the Company's constitution, the Company can defer payments to farmer shareholders if necessary.

The Group manages its liquidity by retaining cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Fonterra's funding facilities are reviewed at least annually, which is one of the key financial risk management activities undertaken by the Group to ensure an appropriate maturity profile given the nature of the Group's business. At balance date the Group had undrawn lines of committed credit totalling \$3,149 million (31 July 2018: \$3,732 million).

Liquidity and refinancing risks are also managed by ensuring that Fonterra can maintain access to funding markets throughout the world. To that end, Fonterra maintains debt issuance programmes in a number of key markets and manages relationships with international investors.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

9 BORROWINGS CONTINUED

Exposure to liquidity risk

The following tables show the timing of the gross contractual cash flows of the Group's financial instruments.

	GROUP \$ MILLION					
	AS AT 31 JULY 2019					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	3 MONTHS OR LESS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS
Non-derivative financial liabilities						
Borrowings						
– Commercial paper	(259)	(260)	(260)	–	–	–
– Bank loans	(619)	(649)	(92)	(321)	(236)	–
– Finance leases	(71)	(78)	(2)	(67)	(6)	(3)
– Capital notes	(35)	(41)	–	(1)	(5)	(35)
– NZX-listed bonds	(600)	(691)	(11)	(15)	(559)	(106)
– Medium-term notes	(4,952)	(7,984)	(51)	(710)	(2,652)	(4,571)
Bank overdraft	(34)	(34)	(34)	–	–	–
Owing to suppliers	(1,534)	(1,534)	(1,534)	–	–	–
Trade and other payables (excluding employee entitlements)	(1,676)	(1,676)	(1,676)	–	–	–
Other financial liabilities	(81)	(82)	(10)	(15)	(57)	–
Financial guarantees issued ¹	–	(1)	(1)	–	–	–
Total non-derivative financial liabilities	(9,861)	(13,030)	(3,671)	(1,129)	(3,515)	(4,715)
Derivative financial instruments						
Gross settled derivatives						
– Inflow		16,585	6,182	6,322	2,085	1,996
– Outflow		(16,807)	(6,244)	(6,468)	(2,379)	(1,716)
Total gross settled derivative financial instruments	(139)	(222)	(62)	(146)	(294)	280
Net settled derivatives	(125)	(87)	(35)	(11)	(61)	20
Total financial instruments	(10,125)	(13,339)	(3,768)	(1,286)	(3,870)	(4,415)

	GROUP \$ MILLION					
	AS AT 31 JULY 2018					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	3 MONTHS OR LESS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS
Non-derivative financial liabilities						
Borrowings						
– Commercial paper	(304)	(305)	(305)	–	–	–
– Bank loans	(1,128)	(1,698)	(147)	(314)	(1,237)	–
– Finance leases	(131)	(151)	(4)	(12)	(131)	(4)
– Capital notes	(35)	(42)	–	(1)	(6)	(35)
– NZX-listed bonds	(500)	(586)	(11)	(11)	(564)	–
– Medium-term notes	(4,640)	(5,949)	(31)	(435)	(2,107)	(3,376)
Bank overdraft	(161)	(161)	(161)	–	–	–
Owing to suppliers	(1,579)	(1,579)	(1,579)	–	–	–
Trade and other payables (excluding employee entitlements)	(1,840)	(1,840)	(1,840)	–	–	–
Other financial liabilities	(21)	(21)	(10)	–	(11)	–
Financial guarantees issued ¹	–	(1)	(1)	–	–	–
Total non-derivative financial liabilities	(10,339)	(12,333)	(4,089)	(773)	(4,056)	(3,415)
Derivative financial instruments						
Gross settled derivatives						
– Inflow		20,637	10,568	6,644	1,331	2,094
– Outflow		(21,083)	(10,642)	(6,856)	(1,493)	(2,092)
Total gross settled derivative financial instruments	(397)	(446)	(74)	(212)	(162)	2
Net settled derivatives	(116)	(107)	(21)	(6)	(103)	23
Total financial instruments	(10,852)	(12,886)	(4,184)	(991)	(4,321)	(3,390)

¹ Maximum cash flows under guarantees provided by the Group.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

10 NET FINANCE COSTS

Interest income and expense is recognised on an accrual basis in profit or loss, using the effective interest method.

Finance costs also include the changes in fair value relating to derivatives used to manage interest rate risk, and the associated changes in fair value of the borrowings designated in a hedge relationship attributable to the hedged risk. Details of the Group's hedge accounting policies are included in Note 19 Financial risk management.

Fonterra Co-operative Support Loans

The Fonterra Co-operative Support Loans were fully repaid in October 2018. These loans were initially recorded at fair value. As the loans had interest rates that were below market rates, there was a difference between the cash advanced and the loans' fair value. This difference was recorded within finance costs at the date Fonterra was contractually committed to advance the funds. Finance income was recognised using the notional interest rate implicit in the loans, over the periods until the loans were repaid.

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
Finance income¹	16	23
Total interest expense at amortised cost²	(415)	(462)
Changes in fair value relating to:		
– Borrowings designated in a hedge relationship	(201)	61
– Derivatives designated in a hedge relationship	194	(42)
– Derivatives where hedge accounting has not been applied	(12)	4
Total interest (expense)/income from fair value movements	(19)	23
Finance costs	(434)	(439)
Net finance costs	(418)	(416)

1 Finance income includes \$1 million (31 July 2018: \$9 million) relating to the Fonterra Co-operative Support Loans.

2 Includes interest expense of \$9 million (31 July 2018: \$23 million) relating to derivatives where hedge accounting has not been applied and cash flow hedge effectiveness reclassified to profit or loss.

Interest rate risk

Details of how the Group manages interest rate risk is included in Note 19 Financial risk management.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

WORKING CAPITAL

This section provides information about the primary elements of Fonterra's working capital. Working capital represents the short-term operating assets and liabilities generated by Fonterra. Movements in these items have a direct impact on the net cash flows generated from operating activities.

This section includes the following Notes:

Note 11: Trade and other receivables

Note 12: Inventories

Note 13: Trade and other payables

Note 14: Owing to suppliers

11 TRADE AND OTHER RECEIVABLES

Trade receivables are amounts due from customers for goods sold. Trade receivables are recognised initially at their fair value, which is represented by their face value, and subsequently measured at the amount expected to be collected.

Estimates are used in determining the level of receivables that may not be collected. The Group has applied the simplified approach to calculating expected credit losses on trade receivables and recognises a loss allowance based on the lifetime expected credit loss at each reporting date.

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Trade receivables ¹	1,759	1,987
Less: provision for impairment of trade receivables	(24)	(22)
Trade receivables net of provision for impairment	1,735	1,965
Receivables from related parties ²	25	52
Other receivables	93	216
Total receivables	1,853	2,233
Prepayments	47	122
Total trade and other receivables	1,900	2,355

1 Amounts received in advance from customers of \$28 million (31 July 2018: \$39 million) have been recognised in trade and other payables.

2 There were no provisions for impairment of receivables from related parties.

Credit risk

Details of how the Group manages credit risk are included in Note 19 Financial risk management.

The ageing profile of the Group's trade and other receivables (excluding prepayments) is as follows:

GROUP \$ MILLION	CURRENT	LESS THAN 1 MONTH PAST DUE	MORE THAN 1 MONTH BUT LESS THAN 3 MONTHS PAST DUE	MORE THAN 3 MONTHS PAST DUE	TOTAL
As at 31 July 2019	1,582	145	85	41	1,853
As at 31 July 2018	1,946	147	67	73	2,233

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

12 INVENTORIES

Inventories are stated at the lower of cost or net realisable value on a first-in-first-out basis.

In the case of manufactured inventories, cost includes all direct costs plus the portion of fixed and variable production overheads incurred in bringing inventories to their present location and condition.

Net realisable value is the estimated selling price, less the costs of completion and selling expenses.

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Raw materials	678	711
Finished goods	2,301	2,239
Impairment of finished goods	(35)	(33)
Total inventories	2,944	2,917

13 TRADE AND OTHER PAYABLES

Trade and other payables, excluding amounts owing to farmer shareholders and New Zealand contract milk suppliers, are recognised at the amount invoiced by the supplier. Due to their short-term nature, they are not discounted.

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Trade payables	1,515	1,677
Amounts due to related parties	31	32
Other payables	130	131
Total trade and other payables (excluding employee entitlements)	1,676	1,840
Employee entitlements	193	276
Total trade and other payables	1,869	2,116

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

14 OWING TO SUPPLIERS

Amounts owing to suppliers are amounts Fonterra owes to farmer shareholders and New Zealand contract milk suppliers for the collection of milk, which includes end of season adjustments, offset by amounts owing from farmer shareholders for goods and services provided to them by Fonterra.

These amounts are recognised at the amount due to the supplier for the milk provided. Due to their short-term nature, they are not discounted.

The Board uses its discretion in establishing the rate at which Fonterra will pay suppliers for the milk supplied over the season. This is referred to as the advance rate. The following table provides a breakdown of the advance payments made to suppliers:

	GROUP	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Owing to suppliers (\$ million)	1,534	1,579
Farmgate Milk Price ¹ (per kgMS)	\$6.35	\$6.69
Of this amount:		
– Total advance payments made during the year	\$5.40	\$5.55
– Total owing as at 31 July	\$0.95	\$1.14
Amount advanced during the year as a percentage of the milk price for the season ended 31 May	85%	83%

¹ Represents the average price for milk supplied on standard terms of supply. The Fonterra Farmgate Milk Price Statement sets out information about the Farmgate Milk Price as calculated in accordance with the Farmgate Milk Price Manual. It can be found in the 'Investors/Farmgate Milk Prices' section of the Fonterra website.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

LONG-TERM ASSETS

This section provides information about the investments Fonterra has made in long-term assets to operate the business and generate returns to equity holders. These assets include physical assets such as land and buildings and livestock, and non-physical assets such as brands and goodwill. This section also explains the estimates and judgements applied in the measurement of these assets.

This section includes the following Notes:

Note 15: Property, plant and equipment

Note 16: Livestock

Note 17: Intangible assets

15 PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the purchase consideration and those costs directly attributable to bringing the asset to the location and condition necessary for its intended use. It also includes financing costs directly attributable to the acquisition, production or construction of the asset. Subsequent costs are capitalised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed and adjusted, where required, each financial year.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount, and are recognised in the income statement.

Depreciation

Depreciation is calculated on a straight-line basis to allocate the cost of the asset, less any residual value, over its estimated useful life.

The range of estimated useful lives for each class of property, plant and equipment is as follows:

– Land	Indefinite
– Buildings and leasehold improvements	15–60 years
– Plant, vehicles and equipment	3–55 years

	GROUP \$ MILLION				TOTAL
	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	PLANT, VEHICLES AND EQUIPMENT	CAPITAL WORK IN PROGRESS	
As at 31 July 2019					
Cost	354	2,965	8,553	295	12,167
Accumulated depreciation and impairment	–	(1,200)	(4,455)	–	(5,655)
Net book value at 31 July 2019	354	1,765	4,098	295	6,512
As at 31 July 2018					
Cost	354	2,787	8,210	721	12,072
Accumulated depreciation and impairment	–	(1,042)	(4,220)	–	(5,262)
Net book value at 31 July 2018	354	1,745	3,990	721	6,810

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

15 PROPERTY, PLANT AND EQUIPMENT CONTINUED

	GROUP \$ MILLION					
	NOTES	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	PLANT, VEHICLES AND EQUIPMENT	CAPITAL WORK IN PROGRESS	TOTAL
<i>Net book value</i>						
As at 1 August 2018		354	1,745	3,990	721	6,810
Additions ¹		5	20	75	483	583
Transfer from capital work in progress		30	236	603	(869)	–
Depreciation charge		–	(97)	(361)	–	(458)
Impairment	2	–	(99)	(134)	–	(233)
Disposals		(31)	(27)	(59)	(29)	(146)
Foreign currency translation		(4)	(13)	(16)	(11)	(44)
As at 31 July 2019		354	1,765	4,098	295	6,512
<i>Net book value</i>						
As at 1 August 2017		348	1,691	3,817	535	6,391
Additions ¹		–	5	20	756	781
Transfer from capital work in progress		12	103	467	(582)	–
Hyperinflationary movements		8	15	6	7	36
Depreciation charge		–	(93)	(351)	–	(444)
Impairment reversal		–	4	1	–	5
Disposals		(14)	(9)	(9)	–	(32)
Foreign currency translation		–	29	39	5	73
As at 31 July 2018		354	1,745	3,990	721	6,810

1 Additions include borrowing costs of \$6 million (2018: \$8 million) capitalised using a weighted average interest rate of 5.21 per cent (2018: 5.52 per cent).

New Zealand Ingredients manufacturing assets

Fonterra considers there are no indicators of impairment for Fonterra's New Zealand Ingredients manufacturing sites. Fonterra's New Zealand Ingredients manufacturing sites are considered to be, with limited exceptions, a single CGU, because these manufacturing plants are utilised as a single network for processing raw milk supply, including meeting peak milk processing requirements.

Leased assets

Leases of property, plant and equipment where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

Assets under finance leases are recognised as property, plant and equipment in the statement of financial position. They are recognised initially at their fair value or, if lower, at the present value of the minimum lease payments. A corresponding liability is established and each lease payment allocated between the liability and interest expense using the effective interest method. The assets recognised are depreciated on the same basis as equivalent property, plant and equipment.

Leases that are not finance leases are classified as operating leases and the leased assets are not recognised on the Group's statement of financial position. Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

The net book value of property, plant and equipment subject to finance leases is as follows:

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Land	5	5
Building and leasehold improvements	40	89
Plant and equipment	10	20
Net book value of property, plant and equipment subject to finance leases	55	114

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

16 LIVESTOCK

The Group's livestock balance primarily comprises dairy cows.

Livestock is measured at fair value less costs to sell, with any change in fair value recognised in the income statement. The Group's dairy cow herd comprises both young and mature livestock. The change in fair value relating to the ageing of mature livestock is recognised within cost of goods sold. All other changes in fair value are recognised within other operating income.

Young livestock comprises dairy cows that are intended to be reared to maturity. These cows are held to produce milk or offspring, but have not yet produced their first calf and begun milk production. Costs incurred in rearing young livestock are capitalised to the statement of financial position. The fair value of young livestock is determined using a market approach, adjusted to reflect the age of the herd.

Mature livestock includes dairy cows that have produced their first calf and begun milk production. Costs incurred in relation to mature livestock are recognised in the income statement. The fair value of mature dairy cows is determined using a discounted cash flow methodology.

The quantity of livestock owned by the Group is presented below:

	HEADCOUNT	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Young dairy cows	28,702	32,630
Mature dairy cows	37,997	34,561
Other livestock	444	3,054
Total livestock headcount	67,143	70,245

During the year the Group collected 292 million litres of milk (31 July 2018: 312 million litres) from its dairy cows.

The value of livestock at 31 July is as follows:

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Opening balance	288	319
Rearing costs of young livestock	38	45
<i>Changes in fair value recognised in the income statement</i>		
– Change in fair value – birth and growth	11	–
– Change in fair value – price changes	4	6
Subtotal changes in fair value	15	6
Disposal of livestock	(51)	(107)
Effect of movements in exchange rates	5	25
Closing balance	295	288
Represented by:		
Young dairy cows	109	134
Mature dairy cows	186	153
Other livestock	–	1
Total livestock at 31 July	295	288

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

16 LIVESTOCK CONTINUED

The changes in the fair values of livestock are reflected in the Group's income statement as follows:

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Cost of goods sold	(22)	(34)
Other operating income	37	40
Total changes in fair value	15	6

Valuation techniques and significant unobservable inputs

The following table shows the relationship between the significant unobservable inputs and fair value measurement for mature and young dairy cows:

TYPE	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	RELATIONSHIP BETWEEN KEY UNOBSERVABLE INPUTS AND FAIR VALUE MEASUREMENT
Mature dairy cows	Discounted cash flows	Raw milk yield	A three per cent increase/(decrease) in the raw milk yield from a base of 31.0 kg per cow per day would result in a \$7 million (31 July 2018: \$6 million) increase/(decrease) in fair value.
		Milk price	A RMB 0.10 increase/(decrease) in the selling price of milk from a base price of RMB 3.78 per kg would result in a \$13 million (31 July 2018: \$12 million) increase/(decrease) in fair value.
		Feed costs	A RMB 0.10 increase/(decrease) in feed costs from a base cost of RMB 2.06 per kg would result in a \$13 million (31 July 2018: \$12 million) (decrease)/increase in fair value.
Young dairy cows	Market price	Average market price of a 14-month-old heifer	The average market price of a 14-month-old heifer for the year ended 31 July 2019 was RMB 19,154 (31 July 2018: RMB 21,154). A five per cent increase/(decrease) in the average market price of a 14-month-old heifer would result in a \$6 million (31 July 2018: \$7 million) increase/(decrease) in fair value.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

17 INTANGIBLE ASSETS

The significant intangible assets recognised by the Group are goodwill, brands and software assets.

Goodwill

Goodwill represents the premium paid by the Group over the fair value of the Group's share of the net identifiable assets of an acquired subsidiary at the date of acquisition. It is initially recognised at cost and subsequently measured at cost less accumulated impairment losses.

Goodwill is not amortised. It is tested for impairment annually, or more frequently if there is an indicator of impairment.

Brands and other identifiable intangible assets

Brands that are purchased by the Group are initially recognised at cost, or at their fair value if acquired as part of a business combination. They are subsequently measured at cost less amortisation, if they are finite life brands, and accumulated impairment losses.

Indefinite life brands are not amortised. They are tested for impairment annually, or more frequently if there is an indicator of impairment. A brand is determined to have an indefinite life where there is an intention to maintain and support the brand for an indefinite period.

Indefinite life brands that have been impaired are reviewed for possible reversal of impairment annually. A reversal of an impairment loss shall not exceed the carrying amount that would have been recognised had no impairment loss occurred in prior years.

Software assets

Software assets, both purchased and internally developed, are capitalised provided there is an identifiable asset that will generate future economic benefits through cost savings or supporting revenue generation. Subsequent costs are capitalised if they extend the useful life or enhance the functionality of the asset.

Software assets amortised on a straight-line basis over their estimated useful lives, being three to 14 years. They are tested for impairment when an indicator of impairment exists.

	GROUP \$ MILLION					TOTAL INTANGIBLES
	GOODWILL	BRANDS	SOFTWARE	SOFTWARE WIP	OTHER	
As at 31 July 2019						
Cost	892	1,641	1,492	36	70	4,131
Accumulated amortisation and impairment	(331)	(97)	(1,090)	–	(16)	(1,534)
Net book value at 31 July 2019	561	1,544	402	36	54	2,597
As at 31 July 2018						
Cost	1,084	1,733	1,403	96	75	4,391
Accumulated amortisation and impairment	(3)	(95)	(1,007)	–	(59)	(1,164)
Net book value at 31 July 2018	1,081	1,638	396	96	16	3,227

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

17 INTANGIBLE ASSETS CONTINUED

	GROUP \$ MILLION						
	NOTES	GOODWILL	BRANDS	SOFTWARE	SOFTWARE WIP	OTHER	TOTAL INTANGIBLES
<i>Net book value</i>							
As at 1 August 2018		1,081	1,638	396	96	16	3,227
Additions		–	–	2	78	40	120
Transfer from work in progress		–	–	138	(138)	–	–
Amortisation		–	–	(101)	–	(2)	(103)
Goodwill and brand impairment	2	(327)	(4)	–	–	–	(331)
Software impairment		–	–	(29)	–	–	(29)
Disposals		(176)	(107)	(2)	–	–	(285)
Foreign currency translation		(17)	17	(2)	–	–	(2)
As at 31 July 2019		561	1,544	402	36	54	2,597
<i>Net book value</i>							
As at 1 August 2017		1,073	1,576	313	134	19	3,115
Additions		1	2	7	130	3	143
Transfer from work in progress		–	–	167	(167)	–	–
Amortisation		–	(2)	(92)	–	(1)	(95)
Impairment		–	–	–	–	(5)	(5)
Impairment reversal		–	22	–	–	–	22
Disposals		–	–	(2)	(1)	–	(3)
Foreign currency translation		7	40	3	–	–	50
As at 31 July 2018		1,081	1,638	396	96	16	3,227

Impairments for the year ended 31 July 2019 include the following:

- \$189 million comprising goodwill (\$185 million) and brand (\$4 million) impairment in the New Zealand consumer and foodservice business.
- \$133 million of goodwill impairment in the Brazil consumer and foodservice business.

Refer to Note 2 for further details.

Amortisation is recognised in other operating expenses in the income statement.

Impairment reversals are recognised in other operating income in the income statement.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

17 INTANGIBLE ASSETS CONTINUED

Impairment testing of goodwill and indefinite life brands

The following table shows the allocation of goodwill and brands across the Group's cash generating units (CGUs).

	GROUP \$ MILLION					
	AS AT 31 JULY 2019			AS AT 31 JULY 2018		
	GOODWILL	BRANDS ¹	TOTAL	GOODWILL	BRANDS ¹	TOTAL
Ingredients CGUs	67	120	187	78	120	198
Consumer and Foodservice CGUs						
– Australia	128	148	276	138	148	286
– New Zealand	250	283	533	611	393	1,004
– Asia	5	718	723	4	703	707
– Brazil	–	250	250	132	246	378
– Chile	111	25	136	118	27	145
– Other CGUs	–	–	–	–	1	1
Total	561	1,544	2,105	1,081	1,638	2,719

1 Of the total brands held, 100 per cent of the value of brands have indefinite useful lives (31 July 2018: 98 per cent).

Impairment testing is performed annually at the same time each year.

Where appropriate, based on the market dynamics and go to market strategies, impairment testing is performed at a CGU level for both goodwill and indefinite life brands attributed to the CGU.

The long term growth rate is based on the long term inflation rate of the jurisdictions where the sales are generated. Other key assumptions are based on external data where possible.

Consumer and Foodservice Asia

For brands held in the Consumer and Foodservice business in Asia the recoverable amount is in excess of the carrying amount and reasonably possible changes in assumptions would not result in erosion of the headroom. The average long-term growth rate applied to the future cash flows is 2.8 per cent (31 July 2018: 2.9 per cent) and the average discount rate applied is 9.4 per cent (31 July 2018: 9.2 per cent).

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

INVESTMENTS

This section provides information about Fonterra's interest in equity accounted investments.

This section includes the following Note:

Note 18: Equity accounted investments

18 EQUITY ACCOUNTED INVESTMENTS

Associates and joint ventures

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Joint ventures are those arrangements in which the Group has contractually agreed to share control and where the Group has rights to the net assets rather than rights to the assets and obligations for the liabilities.

For joint ventures and associates the Group applies the equity method of accounting. Under the equity method, the Group recognises its initial investment at cost (including any goodwill identified on acquisition) and subsequently adjusts this for its share of the entities' profits or losses. The Group's share of profits and losses are recognised in the income statement and its share of movements in other comprehensive income is recognised in other comprehensive income. Dividends received from equity accounted investees reduce the carrying amount of the investment.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and no further losses are recognised except to the extent the Group has an obligation or has made payments on behalf of the investee.

The Group determines at each reporting date whether there is any objective evidence that its investments in equity accounted investees are impaired. If this is the case, the Group recognises any impairment in the income statement.

The Group's significant equity accounted investments are listed below. The ownership interest in these entities is 51 per cent or less and the Group is not considered to exercise a controlling interest.

Equity accounted investees with different balance dates from that of the Group are due to legislative requirements in the country the entities are domiciled or are aligned with their other investors' balance dates or to align with the milk season.

EQUITY ACCOUNTED INVESTEE NAME	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	OWNERSHIP INTERESTS (%)	
		AS AT 31 JULY 2019	AS AT 31 JULY 2018
DMV Fonterra Excipients GmbH & Co. KG ¹	Germany	–	50
Beingmate Baby & Child Food Co., Ltd ²	China	–	18.8
Falcon Dairy Holdings Limited	Hong Kong	51	51

All investees have balance dates of 31 December.

- 1 Fonterra's investment in DMV Fonterra Excipients GmbH & Co. KG has been reclassified from an equity accounted investee to a held for sale asset (refer to Note 2 for details).
- 2 During the year Fonterra's significant influence in Beingmate ceased, and Fonterra subsequently accounts for its investment in Beingmate shares at their fair value, with movements recorded in the income statement (Note 2 explains this). Consequently, Beingmate also ceased being a related party of Fonterra.

Carrying amounts

The Group holds investments in a number of joint ventures and associates. The aggregate amount of the Group's share of these equity accounted investments is included in the table below:

	GROUP \$ MILLION					
	ASSOCIATES		JOINT VENTURES		TOTAL	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018	AS AT 31 JULY 2019	AS AT 31 JULY 2018	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Carrying amount of investment	1	241	201	374	202	615
Profit/(loss) from continuing operations	(4)	(35)	29	55	25	20
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income	(4)	(35)	29	55	25	20

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

18 EQUITY ACCOUNTED INVESTMENTS CONTINUED

Carrying value of Beingmate at 31 July 2018

At 31 July 2018, Beingmate was an equity accounted investee. During the year ended 31 July 2019, the nature of Fonterra's interest in Beingmate changed. Note 2 explains these changes, and Fonterra's accounting treatment for its investment in Beingmate at 31 July 2019.

At 31 July 2018, Fonterra's carrying value of its investment in Beingmate was \$204 million. This reflected \$405 million of cumulative impairment losses. The carrying value was supported by the investment's recoverable amount, calculated using a fair value less costs to sell methodology.

The valuation methodology required judgement, and was Level 3 in the fair value hierarchy because it was not based on market observable inputs. The underlying assumptions were:

- Weighted average base share price for the 30 trading days before year end: RMB 4.91 per share
- Net premium (including costs to sell): RMB 0.48 per share. This was determined by considering recent transaction data and the characteristics of the investment, to estimate a premium that would be paid for a long-term strategic investment of a similar size.

Using these assumptions, the implied value per share as at 31 July 2018 was RMB 5.39.

The Group has provided financial guarantees and committed to providing further funding contributions, to certain equity accounted investees as set out in Note 22.

There are no contingent liabilities relating to the Group's interests in joint ventures or equity accounted investees.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

FINANCIAL RISK MANAGEMENT

This section outlines the key risk management activities undertaken to manage the Group's exposure to financial risk.

This section includes the following Note:

Note 19: Financial risk management

19 FINANCIAL RISK MANAGEMENT

Financial risks faced by the Group

The Group's overall financial risk management programme focuses primarily on maintaining a prudent financial risk profile that provides flexibility to implement the Group's strategies, while ensuring optimisation of the return on assets. Financial risk management is centralised, which supports compliance with the financial risk management policies and procedures set by the Board.

A summary of the financial risks that impact the Group, how these risks are managed, and other disclosures included in the financial risk management note is presented below.

FINANCIAL RISK/DISCLOSURE ITEM	DESCRIPTION	MANAGEMENT OF RISK
Market risks		
Foreign exchange risk (Section a)	Impact from changes in foreign exchange rates	<i>Foreign currency transactions</i> For foreign currency transactions, the Group uses foreign currency forward contracts and foreign currency options to manage foreign exchange risk. <i>Foreign operations</i> For investments in foreign operations, the Group uses foreign currency denominated borrowings and foreign currency swaps to manage foreign exchange risk. <i>Foreign currency denominated borrowings</i> For foreign currency denominated borrowings, the Group uses cross-currency interest rate swaps to manage foreign exchange and interest rate risk combined.
Interest rate risk (Section b)	Impact from changes in interest rates	The Group uses interest rate swaps to achieve a target ratio of fixed and floating rate exposure on its borrowings.
Commodity price risk (Section c)	Impact from changes in commodity prices	The Group uses commodity derivatives to manage its exposure to commodity price risk. The Group also uses its product mix and sales contract terms to manage the impact of changes in dairy commodity prices on its earnings.
Impact to reserves in equity (Section d)	Movements in the Group's hedge reserves and foreign currency translation reserve	
Other risks		
Credit risk (Section e)	Risk of loss to the Group due to customer or counterparty default	The Group sets minimum credit quality requirements, credit limits and uses other credit mitigation tools to manage its credit risk.
Liquidity risk (Note 9)	Risk that the Group will be unable to meet its financial obligations as they fall due	The Group actively manages its minimum on-hand cash facilities, access to committed funds and lines of credit and the maturity profile of its financial obligations.
Capital management and structure (Note 7)	The Group's capital structure	The Group actively manages its capital structure through leverage and coverage ratios. The Fonterra Shareholders' Fund removes the redemption risk associated with Co-operative shares.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

19 FINANCIAL RISK MANAGEMENT CONTINUED

Derivative financial instruments and hedge accounting

Derivatives are measured at fair value. Refer to Note 24 for details on how fair value is determined.

The resulting gain or loss on re-measurement is recognised in the income statement immediately, unless the derivative is designated into an effective hedge relationship as a hedging instrument, in which case the timing of recognition in the income statement depends on the nature of the designated hedge relationship.

The Group may designate derivatives as:

- Fair value hedges (where the derivative is used to manage the variability in the fair value of recognised assets and liabilities);
- Cash flow hedges (where the derivative is used to manage the variability in cash flows relating to recognised liabilities or forecast transactions); or
- Net investment hedges (where borrowings or derivatives are used to manage the risk of fluctuation in the translated value of its foreign operations).

Hedge accounting is discontinued when the hedging instrument expires, is terminated, is exercised, or no longer qualifies for hedge accounting.

Fair value hedges

For fair value hedges the following are recognised in the income statement:

- the change in fair value of the hedging instruments; and
- the change in the fair value of the underlying hedged item attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued. The fair value adjustment to the carrying amount of the hedged item upon discontinuance is amortised and recognised in the income statement over the remaining term of the original hedge. If the hedged item is sold or extinguished any unamortised fair value adjustment is immediately recognised in the income statement.

Cash flow hedges

The effective portion of changes in the fair value of the hedging instruments are recognised in other comprehensive income and accumulated in a separate reserve in equity. Subsequently the cumulative amount is transferred to the income statement when the underlying transactions are recognised in the income statement.

The ineffective portion of changes in the fair value of the hedging instruments are recognised immediately in the income statement.

If the hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued. The cumulative gain or loss previously recognised in other comprehensive income remains there until the forecast transaction occurs, or is immediately recognised in the income statement if the transaction is no longer expected to occur.

Net investment hedges

The effective portion of changes in the fair value of the hedging instruments are recognised in other comprehensive income and transferred to the income statement when the foreign operation is disposed of or sold.

The ineffective portion of changes in the fair value of the hedging instruments are recognised immediately in the income statement.

Costs of hedging

The change in fair value of a hedging instrument relating to the time-value of foreign currency options, and the foreign currency basis component of cross-currency interest rate swaps are recognised in other comprehensive income and accumulated in a separate reserve in equity. Subsequently, the cumulative amount is transferred to the income statement at the same time as the hedged item impacts the income statement.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) Foreign exchange risk

Nature and exposure of foreign exchange risk

Net foreign exchange gains or losses

Foreign currency transactions are translated using the exchange rate at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate at balance date.

Any resulting foreign exchange gains and losses are recognised in the income statement, except when they relate to hedged items or hedging instruments designated in a cash flow hedge or net investment hedge relationship.

The Group is exposed to foreign exchange risk through transactions denominated in foreign currencies and the translation of foreign currency denominated balances. The amounts shown below represent the Group's exposure to foreign currency before applying the risk management strategies:

- The Group's foreign currency transactions are predominantly denominated in United States Dollars.
- The Group has net investments in foreign operations of \$5,011 million (31 July 2018: \$5,679 million). This amount is before considering borrowings held by the Group in the same currency as the investment.
- The Group has borrowings denominated in foreign currency of \$4,925 million (31 July 2018: \$4,682 million).

How foreign exchange risk is managed

Forecast foreign currency transactions

The Group enters into foreign currency forward contracts and foreign currency options for the following items:

- forecast cash receipts from sales for a period of up to 18 months within limits approved by the Board; and
- up to 100 per cent of other forecast foreign currency transactions.

The Group applies cash flow hedge accounting where derivatives are used to manage foreign exchange risk on forecast foreign currency transactions. The amount and maturity of the derivative and the forecast transaction is aligned to ensure that the hedge relationship remains effective, with any undesignated costs of hedging accounted for separately.

The effect of the Group's application of hedge accounting in managing foreign exchange risk related to forecast foreign currency transactions is presented in the table below.

HEDGING INSTRUMENT USED	GROUP \$ MILLION						
	AS AT 31 JULY 2019 ¹					YEAR ENDED 31 JULY 2019 ²	
	CARRYING AMOUNT				CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	HEDGE EFFECTIVENESS IN RESERVES	
	NOMINAL AMOUNT ³	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	ACCUMULATED COST OF HEDGING		RECOGNISED IN OTHER COMPREHENSIVE INCOME	RECLASSIFIED TO THE INCOME STATEMENT ⁴
Cash flow hedging							
Foreign currency forwards and options							
Maturity: 0-18 months							
Weighted average NZD:USD rate: 0.6852	9,267	37	(182)	(14)	(144)	(238)	309
Maturity: 0-11 months							
Weighted average USD:RMB rate: 6.9117	491	4	(1)	(1)	2	(2)	(7)
Maturity: 2-11 months							
Weighted average NZD:EUR rate: 0.5890	97	–	–	–	–	–	–
Total	9,855	41	(183)	(15)	(142)	(240)	302

1 Life-to-date amounts as at balance date.

2 Year-to-date amounts recognised during the year.

3 Nominal amount represents forecast foreign currency transactions in cash flow hedge relationships, translated into New Zealand Dollars using the exchange rate at balance date.

4 Recognised in revenue.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) Foreign exchange risk CONTINUED

HEDGING INSTRUMENT USED	GROUP \$ MILLION						
	AS AT 31 JULY 2018 ¹					YEAR ENDED 31 JULY 2018 ²	
	CARRYING AMOUNT				CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	HEDGE EFFECTIVENESS IN RESERVES	
	NOMINAL AMOUNT ³	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	ACCUMULATED COST OF HEDGING		RECOGNISED IN OTHER COMPREHENSIVE INCOME	RECLASSIFIED TO THE INCOME STATEMENT ⁴
Cash flow hedging							
<i>Foreign currency forwards and options</i>							
Maturity: 0-18 months							
Weighted average NZD:USD rate: 0.7119	9,381	10	(224)	(17)	(215)	(615)	11
Maturity: 0-11 months							
Weighted average USD:RMB rate: 6.6460	404	12	–	(1)	13	(8)	20
Total	9,785	22	(224)	(18)	(202)	(623)	31

1 Life-to-date amounts as at balance date.

2 Year-to-date amounts recognised during the year.

3 Nominal amount represents forecast foreign currency transactions in cash flow hedge relationships, translated into New Zealand Dollars using the exchange rate at balance date.

4 Recognised in revenue.

Net investments in foreign operations

The Group's net investments are designated in hedge relationships to the extent of:

- borrowings denominated in the same foreign currency; and
- foreign currency swaps directly attributed to the net investment.

Hedge ineffectiveness arises if the carrying amount of the net investment falls below the amount of the designated hedging instruments.

The effect of the Group's hedge accounting policy in managing foreign exchange risk related to the Group's net investments in foreign operations is presented in the table below:

HEDGED NET INVESTMENTS AND HEDGING INSTRUMENTS USED	GROUP \$ MILLION				
	AS AT 31 JULY 2019			YEAR ENDED 31 JULY 2019	
	CARRYING AMOUNT		NOMINAL AMOUNT ³	HEDGE EFFECTIVENESS	
	AMOUNT OF NET INVESTMENT HEDGED ¹	FOREIGN CURRENCY BORROWINGS	FOREIGN CURRENCY SWAPS ²	NET INVESTMENT GAIN/ (LOSS) RECOGNISED IN OTHER COMPREHENSIVE INCOME	BORROWING/SWAPS GAIN/ (LOSS) RECOGNISED IN OTHER COMPREHENSIVE INCOME
United States Dollar-denominated					
Maturity of borrowings: 10-23 months	140	(140)	–	3	(3)
Australian Dollar-denominated					
Maturity of borrowings: 23-100 months	499	(499)	–	(22)	22
Euro-denominated					
Maturity of borrowings: 64 months	163	(163)	–	(3)	3
Chinese Renminbi-denominated					
Maturity of borrowings: 8-72 months					
Maturity of swaps: 4-5 months	588	(527)	(61)	14	(14)
Total	1,390	(1,329)	(61)	(8)	8

1 The carrying amount of the net investment designated into a net investment hedge relationship.

2 The carrying amount of foreign currency swaps at balance date is \$1 million, and is presented within derivative assets.

3 Nominal amount is the face value, converted into New Zealand Dollars using the exchange rate at balance date, of foreign currency swaps designated in net investment hedge relationships.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) Foreign exchange risk CONTINUED

HEDGED NET INVESTMENTS AND HEDGING INSTRUMENTS USED	GROUP \$ MILLION				
	AS AT 31 JULY 2018			YEAR ENDED 31 JULY 2018	
	CARRYING AMOUNT		NOMINAL AMOUNT ³	HEDGE EFFECTIVENESS	
	AMOUNT OF NET INVESTMENT HEDGED ¹	FOREIGN CURRENCY BORROWINGS	FOREIGN CURRENCY SWAPS ²	NET INVESTMENT GAIN/ (LOSS) RECOGNISED IN OTHER COMPREHENSIVE INCOME	BORROWING/SWAPS GAIN/ (LOSS) RECOGNISED IN OTHER COMPREHENSIVE INCOME
Net investment hedging					
United States Dollar-denominated					
Maturity of borrowings: 22-35 months	136	(136)	–	12	(12)
Australian Dollar-denominated					
Maturity of borrowings: 35-112 months	521	(521)	–	7	(7)
Euro-denominated					
Maturity of borrowings: 76 months	166	(166)	–	14	(14)
Chinese Renminbi-denominated					
Maturity of borrowings: 6-84 months					
Maturity of swaps: 0-2 months	758	(656)	(102)	13	(13)
Total	1,581	(1,479)	(102)	46	(46)

1 The carrying amount of the net investment designated into a net investment hedge relationship.

2 The carrying amount of foreign currency swaps at balance date is \$1 million, and is presented within derivative assets.

3 Nominal amount is the face value, converted into New Zealand Dollars using the exchange rate at balance date, of foreign currency swaps designated in net investment hedge relationships.

Borrowings denominated in foreign currency

The Group's policy is to maintain its net exposure to a foreign currency within predefined limits.

To the extent the Group has monetary assets in the same foreign currency as the borrowing, the Group has a reduced exposure to foreign exchange risk. The foreign currency gains and losses relating to these balances is off-set in net foreign exchange losses in the income statement.

To manage the net exposure to foreign currency borrowings, the Group enters into cross currency interest rate swaps (CCIRS). CCIRS are used to manage the combined foreign exchange risk and interest rate risk as they swap fixed rate foreign currency borrowings and interest payments into equivalent New Zealand Dollar-denominated amounts of principal with floating interest rates.

The Group applies hedge accounting to foreign currency denominated borrowings that are managed by CCIRS. The hedge relationship may be designated into separate cash flow hedges and fair value hedges to manage the different components of foreign currency and interest rate risk:

- fair value hedge relationship where CCIRS are used to manage the interest rate and foreign currency risk in relation to foreign currency denominated borrowings with fixed interest rates.
- cash flow hedge relationship where CCIRS are used to manage the variability in cash flows arising from interest rate movements on floating interest rate payments and foreign exchange movements on payments of principal and interest.

Hedge ineffectiveness arises predominantly from changes in counterparty credit risk and cross currency basis spreads.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) Foreign exchange risk CONTINUED

The effect of the Group's hedge accounting policies in managing both its foreign exchange risk and interest rate risk related to borrowings denominated in foreign currency is presented in the table below.

HEDGING INSTRUMENTS USED	GROUP \$ MILLION								
	AS AT 31 JULY 2019 ¹					YEAR ENDED 31 JULY 2019 ²			
	CARRYING AMOUNT			ACCUMULATED COST OF HEDGING	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	HEDGE EFFECTIVENESS IN RESERVES	HEDGE EFFECTIVENESS	HEDGE INEFFECTIVENESS	RECOGNISED IN INCOME STATEMENT GAIN/(LOSS) ⁴
	NOMINAL AMOUNT ³	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES			CASH FLOW HEDGE RECLASSIFIED TO INCOME STATEMENT ⁴	FAIR VALUE HEDGE (INCOME STATEMENT) GAIN/(LOSS) ⁴		
Cash flow hedging and fair value hedging									
Cross-currency interest rate swaps									
USD	1,184	252	–	(2)	263	3	6	150	(2)
Maturity: 86-133 months									
Weighted average interest rate: floating									
Weighted average NZD:USD rate: 0.7604									
GBP	623	63	(278)	–	(225)	(13)	16	(15)	(4)
Maturity: 53 months									
Weighted average interest rate: floating									
Weighted average NZD:GBP rate: 0.3610									
EUR	386	39	–	(7)	50	(15)	18	19	–
Maturity: 64 months									
Weighted average interest rate: floating									
Weighted average NZD:EUR rate: 0.6560									
Fair value hedging	31	8	–	–	8	NA	NA	2	–
Maturity: 23 months									
Weighted average interest rate: floating									
Weighted average NZD:USD rate: 0.8160									
Total		362	(278)	(9)	96	(25)	40	156	(6)

1 Life-to-date amounts as at balance date.

2 Year-to-date amounts recognised during the year.

3 Nominal amount is the face value, converted using the weighted average foreign exchange rate, of foreign denominated borrowings in hedge relationships. For those borrowings in fair value hedges, the carrying amount includes the life-to-date fair value hedge adjustment which increases borrowings by \$160 million.

4 Recognised in net finance costs and net foreign exchange losses.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) Foreign exchange risk CONTINUED

HEDGING INSTRUMENTS USED	GROUP \$ MILLION								
	AS AT 31 JULY 2018 ¹					YEAR ENDED 31 JULY 2018 ²			
	CARRYING AMOUNT			ACCUMULATED COST OF HEDGING	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	HEDGE EFFECTIVENESS IN RESERVES	HEDGE EFFECTIVENESS	HEDGE INEFFECTIVENESS	
	NOMINAL AMOUNT ³	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES			CASH FLOW HEDGE (OCI)	CASH FLOW HEDGE RECLASSIFIED TO INCOME STATEMENT ⁴	FAIR VALUE HEDGE (INCOME STATEMENT) GAIN/(LOSS) ⁴	RECOGNISED IN INCOME STATEMENT GAIN/(LOSS) ⁴
Cash flow hedging and fair value hedging									
<i>Cross-currency interest rate swaps</i>									
USD	893	105	(7)	–	76	(4)	3	27	9
Maturity: 98-145 months Weighted average interest rate: floating Weighted average NZD:USD rate: 0.7841									
GBP	623	64	(261)	–	(213)	20	–	27	(4)
Maturity: 65 months Weighted average interest rate: floating Weighted average NZD:GBP rate: 0.3610									
EUR	386	25	–	(7)	31	36	(38)	3	–
Maturity: 76 months Weighted average interest rate: floating Weighted average NZD:EUR rate: 0.6560									
Fair value hedging	31	6	–	–	6	NA	NA	2	20
Maturity: 35 months Weighted average interest rate: floating Weighted average NZD:USD rate: 0.8160									
Total		200	(268)	(7)	(100)	52	(35)	59	25

1 Life-to-date amounts as at balance date.

2 Year-to-date amounts recognised during the year.

3 Nominal amount is the face value, converted using the weighted average foreign exchange rate, of foreign denominated borrowings in hedge relationships. For those borrowings in fair value hedges, the carrying amount includes the life-to-date fair value hedge adjustment which increases borrowings by \$18 million.

4 Recognised in net finance costs and net foreign exchange losses.

Receivables and payables denominated in foreign currency

The Group enters into foreign currency forward contracts and foreign currency options for 100 per cent of the net foreign currency receivables and payables.

Derivatives used to hedge the changes in the value of foreign currency receivables and payables are not hedge accounted. Changes in the fair value of these derivatives provide an off-set to the changes in the value of foreign currency receivables and payables recognised in the income statement. These are recognised within net foreign exchange gains and losses in the income statement.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) Foreign exchange risk CONTINUED

Net foreign exchange gains and losses in the income statement

The table below provides a breakdown of the net foreign exchange gains and losses recognised in the income statement.

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
<i>Relationships where hedge accounting has been applied</i>		
Net foreign exchange (losses)/gains attributable to:		
– Foreign currency-denominated borrowings	(17)	(200)
– Derivatives	18	203
<i>Relationships where hedge accounting has not been applied</i>		
Net foreign exchange (losses)/gains attributable to:		
– Foreign currency denominated receivables	119	423
– Foreign currency denominated payables and borrowings	(81)	(302)
– Derivatives	(40)	(135)
– Other net foreign exchange losses	–	(1)
Net foreign exchange losses	(1)	(12)

Sensitivity analysis of changes in foreign currency rates

The table below presents the effect on profit or loss for the year and equity at reporting date if foreign currency rates had been higher, or lower, with all other variables held constant.

	GROUP \$ MILLION			
	31 JULY 2019		31 JULY 2018	
	EQUITY	PROFIT	EQUITY	PROFIT
10% strengthening of the NZD	194	–	140	(8)
10% weakening of the NZD	(225)	4	(153)	2

b) Interest rate risk

Nature and exposure of interest rate risk to the Group

The Group is exposed to interest rate risk on its interest-bearing borrowings, included within economic net interest-bearing debt (refer Note 9).

Changes in market interest rates expose the Group to:

- changes in the fair value of borrowings subject to fixed interest rates (fair value risk); and
- changes in future interest payments on borrowings subject to floating interest rates (cash flow risk).

How the Group manages its exposure to interest rate risk

The Group's policy is to maintain a target ratio of fixed and floating interest rate exposure. To achieve this the Group considers its forecast debt over a specified time horizon and manages the interest rate exposure by:

- issuing fixed rate debt; and
- entering into interest rate swaps (IRS).

The Group applies hedge accounting to the borrowings and the associated IRS, for movements in benchmark market interest rates (i.e. excluding any margin component).

Hedge ineffectiveness arises in relation to IRS that have been designated to hedge relationships after their initial recognition. The ineffectiveness of these hedges will continue until maturity.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

b) Interest rate risk CONTINUED

In specific situations, where changes in the fair value of fixed-to-floating IRS provide an off-set to the changes in the fair value of other associated floating-to-fixed IRS, hedge accounting is not applied. The changes in fair values of these IRS off-set each other and are recognised within net finance costs in the income statement.

The effect of the Group's hedge accounting policies in managing interest rate risk is presented in the table below.

HEDGING INSTRUMENTS USED	GROUP \$ MILLION							
	AS AT 31 JULY 2019 ¹				YEAR ENDED 31 JULY 2019 ²			
	CARRYING AMOUNT			CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	HEDGE EFFECTIVENESS IN RESERVES	HEDGE EFFECTIVENESS	HEDGE INEFFECTIVENESS	RECOGNISED IN THE INCOME STATEMENT GAIN/(LOSS) ⁴
	NOMINAL AMOUNT ³	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES		CASH FLOW HEDGE (OCI)	CASH FLOW HEDGE RECLASSIFIED TO THE INCOME STATEMENT ⁴	FAIR VALUE HEDGE (INCOME STATEMENT) GAIN/(LOSS) ⁴	
Cash flow hedging								
<i>Interest rate swaps</i>								
Maturity: 8-62 months								
Weighted average interest rate: 4.19%	3,441	–	(240)	(65)	(101)	20	NA	(7)
Fair value hedging								
<i>Interest rate swaps on NZD borrowings</i>								
Maturity: 10-76 months								
Weighted average interest rate: floating	325	18	–	8	NA	NA	13	1
<i>Interest rate swaps on AUD borrowings</i>								
Maturity: 83-100 months								
Weighted average interest rate: floating	499	43	–	47	NA	NA	59	–
Total		61	(240)	(10)	(101)	20	72	(6)

HEDGING INSTRUMENTS USED	GROUP \$ MILLION							
	AS AT 31 JULY 2018 ¹				YEAR ENDED 31 JULY 2018 ²			
	CARRYING AMOUNT			CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	HEDGE EFFECTIVENESS IN RESERVES	HEDGE EFFECTIVENESS	HEDGE INEFFECTIVENESS	RECOGNISED IN THE INCOME STATEMENT GAIN/(LOSS) ⁴
	NOMINAL AMOUNT ³	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES		CASH FLOW HEDGE (OCI)	CASH FLOW HEDGE RECLASSIFIED TO THE INCOME STATEMENT ⁴	FAIR VALUE HEDGE (INCOME STATEMENT) GAIN/(LOSS) ⁴	
Cash flow hedging								
<i>Interest rate swaps</i>								
Maturity: 1-74 months								
Weighted average interest rate: 4.22%	3,491	–	(173)	23	(32)	–	NA	17
Fair value hedging								
<i>Interest rate swaps on NZD borrowings</i>								
Maturity: 22-56 months								
Weighted average interest rate: floating	225	4	–	(6)	NA	NA	3	–
<i>Interest rate swaps on AUD borrowings</i>								
Maturity: 95-112 months								
Weighted average interest rate: floating	521	–	(15)	(12)	NA	NA	–	–
Total		4	(188)	5	(32)	–	3	17

1 Life-to-date amounts as at balance date.

2 Year-to-date amounts recognised during the year.

3 The nominal amount represents the principal amount of outstanding or forecast borrowings designated in hedge relationships. For those borrowings in fair value hedges, the carrying amount includes the life-to-date fair value hedge adjustment which increases borrowings by \$61 million (2018: reduces borrowings by \$13 million).

4 Recognised in net finance costs.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

b) Interest rate risk CONTINUED

Sensitivity analysis of changes in interest rates

The table below presents the effect on profit or loss for the year and equity at reporting date if interest rates had been higher, or lower, with all other variables held constant.

	GROUP \$ MILLION			
	31 JULY 2019		31 JULY 2018	
	EQUITY	PROFIT	EQUITY	PROFIT
100 basis point increase	54	22	64	5
100 basis point decrease	(54)	(19)	(59)	(18)

A change in interest rates would also impact floating rate interest payments and receipts on the Group's borrowing and derivatives held at balance date. The impact of a change in interest rates on one-year contracted cash flows is shown below:

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
100 basis point increase in interest rates	(7)	(6)
100 basis point decrease in interest rates	7	6

c) Commodity price risk

Nature and exposure of commodity price risk to the Group

The Group is exposed to dairy commodity price risk through changes in selling prices and the cost of milk purchased from dairy farmers. In addition, the Group is a large purchaser of electricity, diesel and sugar and is exposed to changes in the cost of these commodities.

How the Group manages its exposure to commodity price risk

Dairy commodity price risk

The Group manages its exposure to dairy commodity price risk by:

- determining the most appropriate mix of products to manufacture based on the supply curve and global demand for dairy products;
- governing the length and terms of sales contracts so that sales revenue is reflective of current market prices and is, where possible, linked to Global Dairy Trade (GDT) prices; and
- using dairy commodity derivative contracts to obtain an optimal price for future sales, or the cost of milk, to manage margin risk. The markets for dairy commodity derivatives are relatively limited, which reduces the ability to manage earnings volatility. As markets for these derivatives grow, the use of dairy commodity derivatives to manage dairy commodity price risk may increase.

Other commodity price risk

The Group manages its exposure to other commodity price risk through the use of derivative contracts, which are transacted at Board-approved levels, to hedge the cost of electricity, diesel and sugar.

Changes in the fair value of commodity derivative contracts are recognised within other operating income/(expenses) in the income statement.

Sensitivity analysis of changes in commodity prices

The table below presents the effect on profit or loss for the year and equity at reporting date if commodity prices had been higher, or lower, with all other variables held constant. Commodity price sensitivity arises from the revaluation of derivative assets and liabilities in the statement of financial position at reporting date.

	GROUP \$ MILLION			
	31 JULY 2019		31 JULY 2018	
	EQUITY	PROFIT	EQUITY	PROFIT
10% increase in commodity prices	4	30	–	28
10% decrease in commodity prices	(4)	(30)	–	(28)

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

d) Impact to reserves in equity

The impact of the Group's hedge accounting policies on the reserves in equity is presented in the tables below:

Hedge reserves

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Opening balance	(267)	192
<i>Movements attributable to cash flow hedges</i>		
Change in value of effective derivative hedging instruments	(365)	(603)
Reclassifications to the income statement:		
– As hedged transactions occurred	362	(4)
Net change in the cost of hedging reserve	1	(31)
Tax expense	1	179
Total movement	(1)	(459)
Closing balance¹	(268)	(267)

¹ Included in the closing balance of the hedge reserves is \$21 million (31 July 2018: \$30 million) relating to hedge relationships for which hedge accounting is no longer applied.

Foreign currency translation reserve

	NOTES	GROUP \$ MILLION	
		AS AT 31 JULY 2019	AS AT 31 JULY 2018
Opening balance		(364)	(552)
<i>Movements attributable to net investments in foreign operations and net investment hedges</i>			
Net translation gain/(loss) on:			
– Borrowings and derivative hedging instruments		8	(46)
– Net investments in foreign operations		(25)	227
Reclassifications to the income statement:			
– Upon disposal of the Venezuelan operations	2	146	–
– Upon the reclassification of the investment in Beingmate	2	30	–
– Other disposals of foreign operations		17	2
Tax expense		5	5
Total movement		181	188
Closing balance¹		(183)	(364)

¹ Included in the closing balance of the foreign currency translation reserve is \$4 million (31 July 2018: \$35 million) relating to hedge relationships for which hedge accounting is no longer applied.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

e) Credit risk

Nature and exposure of credit risk to the Group

Credit risk is the risk of loss to the Group due to customer or counterparty default on the Group's receivable balances. The Group's maximum exposure to credit risk is represented by the carrying amounts of cash and cash equivalents, trade and other receivables, derivative assets, and other investments and receivables.

The Group has no undue concentrations of credit risk.

How the Group manages its exposure to credit risk

The Group's policy is to actively manage its exposure to credit risk through the following actions:

Derivative contracts, cash and cash equivalents and other balances

- Use of financial counterparties that have a credit rating of at least 'A-' from Standard & Poor's (or equivalent).
- Use of commodity counterparties that have a credit rating of at least 'BBB-' from Standard & Poor's (or equivalent) for commodity derivative contracts.

Trade and other receivables

- Application of credit limits, and credit mitigation tools, such as letters of credit.

Trade and other receivable balances are included in Note 11 Trade and other receivables.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

OTHER

This section contains additional notes and disclosures that aid in understanding Fonterra's position and performance but do not form part of the primary sections.

This section includes the following Notes:

Note 20: Taxation

Note 21: Contingent liabilities, provisions and commitments

Note 22: Related party transactions

Note 23: Subsidiaries

Note 24: Fair value measurement

Note 25: Offsetting of financial assets and liabilities

Note 26: Net tangible assets per security

20 TAXATION

Tax expense comprises current and deferred tax. Tax expense, including the tax consequences of distributions to farmer shareholders, is recognised in the income statement. The tax consequences of distributions to farmer shareholders are recognised in the year to which the distribution relates. Other than distributions to farmer shareholders, tax consequences of items recognised directly in equity are also recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance date, and any adjustment to tax payable or receivable in respect of previous years.

Deferred tax arises due to certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those for taxation purposes. Deferred tax is measured at the tax rate that is expected to apply to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the balance date.

Deferred tax is not recognised on the following temporary differences:

- the initial recognition of goodwill;
- the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and
- differences relating to investments in subsidiaries and equity accounted investees to the extent that the timing of the reversal is controlled by the Group and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the temporary differences can be utilised.

a) Taxation – income statement

The total taxation expense in the income statement is summarised as follows:

	NOTES	GROUP \$ MILLION	
		31 JULY 2019	31 JULY 2018
Current tax expense		83	81
Prior period adjustments to current tax		4	(5)
Deferred tax movements:			
– Origination and reversal of temporary differences		(20)	(34)
– Derecognition of DPA Brazil's deferred tax asset	2	110	–
Tax expense		177	42

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) Taxation – income statement CONTINUED

The taxation charge that would arise at the standard rate of corporation tax in New Zealand is reconciled to the tax expense as follows:

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
Loss before tax	(428)	(154)
Prima facie tax expense at 28%	(120)	(43)
Add/(deduct) tax effect of:		
– Effect of tax rates in foreign jurisdictions	(6)	(27)
– Non-deductible expenses/additional assessable income	249	168
– Non-assessable income/additional deductible expenses	(18)	(24)
– Prior year under provision	4	(5)
Tax expense before distributions and deferred tax	109	69
Effective tax rate before distributions and deferred tax¹	NA	NA
Tax effect of distributions to farmer shareholders	–	(27)
Tax expense before deferred tax	109	42
Effective tax rate before deferred tax¹	NA	NA
Add/(deduct) tax effect of:		
– Origination and reversal of other temporary differences	(20)	(2)
– Losses of overseas Group entities not recognised	88	2
Tax expense	177	42
Effective tax rate¹	NA	NA
Imputation credits		
Imputation credits available for use in subsequent reporting periods	20	20
Tax losses		
Gross tax losses available for which no deferred tax asset has been recognised	356	54

¹ The effective tax rate is the tax charge on the face of the income statement expressed as a percentage of the profit before tax. The Group recorded a net loss before tax, so the calculation of an effective tax rate is not applicable.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

b) Taxation – statement of financial position

The table below outlines the deferred tax assets and liabilities that are recognised in the statement of financial position, together with movements in the year:

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Deferred tax		
Property, plant and equipment	(63)	(37)
Intangible assets	(498)	(540)
Derivative financial instruments	111	97
Employee entitlements	54	75
Inventories	36	30
Receivables, payables and provisions	55	56
New Zealand tax losses	522	554
Offshore tax losses	236	311
Other	40	32
Total deferred tax	493	578
Movements for the year		
Opening balance	578	354
Recognised in the income statement	(90)	34
Recognised directly in other comprehensive income	6	181
Foreign currency translation	(1)	9
Closing balance	493	578
Included within the statement of financial position as follows:		
Deferred tax assets	592	667
Deferred tax liabilities	(99)	(89)
Total deferred tax¹	493	578

1 As at 31 July 2018 \$80 million of deferred tax liabilities relating to DPA Brazil have been reclassified from deferred tax asset to deferred tax liability. The deferred tax liability relates to the intangible brand assets in Brazil and had previously been netted against the deferred tax assets in DPA Brazil.

New Zealand tax losses

The New Zealand tax consolidated group generated a taxable income in the current year. The deferred tax asset relating to New Zealand tax losses of \$522 million (31 July 2018: \$554 million) has been recognised on the basis that taxable income will be generated in the future against which the tax losses can be utilised.

The key assumptions in the assessment of future taxable income are New Zealand earnings, and the tax-deductible dividend. The estimate of New Zealand earnings is based on performance of the New Zealand tax consolidated group relative to the overall Group. This ratio has been applied to the profit before tax forecast in the Group's three-year business plan. The tax-deductible dividend assumption is based on the Group's dividend policy and is set at the midpoint of the current policy which is 65 per cent to 75 per cent of normalised net profit after tax. Fonterra determines its dividend policy and therefore has the ability to influence utilisation of the losses.

Changes in the key assumptions used could impact the expected time horizon for utilisation of the tax losses, for example higher dividends could extend the utilisation horizon but would not impact the carrying amount of deferred tax assets available to be utilised against future taxable profits. Any future reduction in offshore income resulting from the strategic review could reduce the timing of utilisation of the tax losses, however, again this will not impact the carrying amount of the deferred tax asset available to be utilised. Therefore, a reasonably possible change in the key assumptions does not change the carrying value of the deferred tax asset recognised.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

b) Taxation – statement of financial position CONTINUED

Offshore tax losses

Deferred tax assets relating to tax losses carried forward of \$131 million (31 July 2018: \$253 million) are recognised by offshore entities in the current year. DPA Brazil's deferred tax asset which included tax losses has been derecognised in the current year, see Note 2c) for further details.

\$114 million of offshore tax losses recognised relate to tax losses in Australia and are recognised on the basis of utilisation through future expected taxable income.

Gross tax losses of \$356 million reflecting a deferred tax asset of \$118 million (31 July 2018: \$54 million gross, deferred tax asset of \$17 million) relating to offshore entities have not been recognised as they may not be utilised.

Deferred tax liabilities

Fonterra has made a key judgement to not recognise deferred tax liabilities in respect of unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries. As at 31 July 2019, these earnings amount to \$1,085 million (31 July 2018: \$1,089 million). These could be subject to withholding and other taxes on remittance. Any offshore divestments made because of the strategic review do not change this judgement on the basis there are a number of exit structures available that do not result in a payment of a dividend.

Fonterra's intention regarding any future possible exit strategies is a key assumption. A reasonably possible change in this assumption is not expected to change the conclusion that a deferred tax liability should not be recognised. This is because Fonterra management has control of the subsidiaries, there are no plans to pay a dividend in the foreseeable future.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

21 CONTINGENT LIABILITIES, PROVISIONS AND COMMITMENTS

Contingent liabilities

In the normal course of business, Fonterra, its subsidiaries and equity accounted investees, are exposed to claims and legal proceedings that may in some cases result in costs to the Group.

In January 2014, Danone initiated legal proceedings against Fonterra in the High Court of New Zealand and separate Singapore arbitration proceedings against Fonterra in relation to Fonterra's Whey Protein Concentrate 80 (WPC80) precautionary recall in August 2013. The New Zealand High Court proceedings have been stayed pending completion of the Singapore arbitration.

The Singapore arbitration panel issued its award (judgement), finding in favour of Danone and ordered Fonterra to pay to Danone €105 million (\$183 million) in recall costs. In addition, Fonterra also paid Danone €29 million (\$49 million) representing interest on the award amount and Danone's costs in connection with the arbitration proceedings. Fonterra paid these amounts during the financial year ended 31 July 2018.

It is unclear whether Danone will continue to pursue the New Zealand High Court proceedings that were stayed pending the decision in the Singapore arbitration. Due to the uncertainty regarding whether Danone will seek to re-initiate these proceedings, and the nature and scope of these potential proceedings in light of the arbitration findings and award, no amount has been recognised in relation to these proceedings.

There are no additional claims or legal proceedings in respect of this matter that require provision or disclosure in these financial statements.

The Group has no other contingent liabilities as at 31 July 2019 (31 July 2018: nil).

Provisions

Provisions are recognised in the statement of financial position only where the Group has a present legal or constructive obligation as a result of a past event, when it is probable, being more likely than not, that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

	GROUP \$ MILLION				TOTAL PROVISIONS
	EMPLOYEE RELATED PROVISIONS	LEGAL CLAIMS PROVISIONS	RESTRUCTURING PROVISIONS	OTHER PROVISIONS	
As at 1 August 2018	77	53	1	13	144
Additional provisions	16	10	47	30	103
Unused amounts reversed	(1)	(1)	(1)	(8)	(11)
Charged to income statement	15	9	46	22	92
Charged to equity	(1)	–	–	–	(1)
Utilised during the year	(11)	(4)	(4)	(11)	(30)
Foreign currency translation	–	–	(1)	–	(1)
As at 31 July 2019	80	58	42	24	204
Included within the statement of financial position as follows:					
Current liabilities					63
Non-current liabilities					141
Total provisions					204

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

21 CONTINGENT LIABILITIES, PROVISIONS AND COMMITMENTS CONTINUED

	GROUP \$ MILLION				
	EMPLOYEE RELATED PROVISIONS	LEGAL CLAIMS PROVISIONS	RESTRUCTURING PROVISIONS	OTHER PROVISIONS	TOTAL PROVISIONS
As at 1 August 2017	84	72	2	30	188
Additional provisions	16	231	–	13	260
Unused amounts reversed	(9)	(16)	(1)	(11)	(37)
Charged to income statement	7	215	(1)	2	223
Charged to equity	(2)	–	–	–	(2)
Utilised during the year	(14)	(242)	–	(7)	(263)
Transfer to other class of provision	1	11	–	(12)	–
Foreign currency translation	1	(3)	–	–	(2)
As at 31 July 2018	77	53	1	13	144
Included within the statement of financial position as follows:					
Current liabilities					14
Non-current liabilities					130
Total provisions					144

The nature of the provisions is shown below:

- Employee related provisions include defined benefit scheme obligations, other obligations that fall due on termination of employment, and long-term employee benefits. The timing and amount of settlement is uncertain as it primarily depends on decisions relating to the employment of relevant employees.
- Legal claims provisions include obligations relating to tax, customs and duties and legal matters arising in the normal course of business. The timing and amount of settlement is uncertain as it depends on the outcome of a number of judicial proceedings.
- Restructuring provisions relate to the implementation of initiatives identified through the asset portfolio review and strategy review that have been announced or committed to as at reporting date. The timing and amount of settlement is uncertain; however, the provision is expected to be utilised within 12 months.
- Other provisions relate to product quality claims and other claims arising in the normal course of business. The timing and amount of settlement is uncertain as it depends on the outcome of the commercial negotiations relating to each individual claim.

Commitments

a) Capital commitments

Capital expenditure contracted for at balance date but not recognised in the financial statements are as follows:

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Buildings	5	17
Plant, vehicles and equipment	43	132
Software	1	6
Total commitments	49	155

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

21 CONTINGENT LIABILITIES, PROVISIONS AND COMMITMENTS CONTINUED

b) Operating lease commitments

The Group leases premises, plant and equipment. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Less than one year	124	116
One to five years	268	237
Greater than five years	121	140
Total operating lease commitments	513	493

c) Long-term supply agreement with A-Ware

Fonterra has entered into a long-term supply agreement with A-Ware, a Netherlands-based company. The agreement is for A-Ware to supply, and Fonterra to purchase, mozzarella and UHT cream over a 15-year period with two five-year rights of renewal at Fonterra's election. The A-Ware plant supporting this agreement is due for completion during FY20, at which point the product supply and purchase obligations commence. Key features of the agreement are:

- A-Ware must supply 100 per cent of its plant's mozzarella and UHT cream subject also to minimum volumes (being 45,000 MT of mozzarella, and 22,500 MT of UHT cream), and 100 per cent of the whey produced from the mozzarella production. This is subject to initial ramp-up volumes, and various options held by both parties to vary volumes, along with associated option costs.
- Fonterra has extended a €15 million interest-bearing loan to A-Ware to support A-Ware's initial capital expenditure requirements. This is recognised in other non-current assets in the Group's statement of financial position.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

22 RELATED PARTY TRANSACTIONS

Equity accounted investees and key management personnel are related parties of the Group. Key management personnel comprises the Board and the Fonterra Management Team.

The transactions with related parties that were entered into during the year, and the year end balances that arose from those transactions are shown below:

Key management personnel remuneration

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
Short-term employee benefits	13	12
Long-term employee benefits	3	7
Termination benefits	2	–
Directors' remuneration	2	3
Total key management personnel remuneration	20	22

Transactions with related parties during the year

Transactions with related parties are under normal trade terms.

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
Equity accounted investees¹		
Revenue from the sale of goods ²	120	116
Sale of services ³	9	7
Royalty and other income	2	10
Dividends received	6	56
Interest income from financing arrangements	2	2
Purchases of goods ⁴	(56)	(37)
Purchases of services ⁵	(169)	(143)
Key management personnel		
Purchases of goods ⁶	(118)	(119)
Co-operative support loans	–	4
Dividends paid	–	(6)

1 Beingmate was considered a related party until Fonterra lost significant influence (refer to Note 2).

2 Goods sold are primarily commodity products.

3 Services provided include management fees.

4 Goods purchased are primarily commodity products.

5 Services provided are primarily freight services.

6 Purchases from key management personnel primarily relate to milk supplied by farmer shareholder Directors.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

22 RELATED PARTY TRANSACTIONS CONTINUED

Outstanding balances with related parties

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Equity accounted investees		
Total receivables arising from the sale or purchase of goods or services ¹	25	52
Total receivables arising from financing arrangements ²	65	86
Total payables arising from the sale or purchase of goods or services	(31)	(32)
Total payables arising from financing arrangements	(2)	(1)
Key management personnel		
Total payables arising from the sale or purchase of goods or services ³	(18)	(21)
Total receivables arising from Co-operative support loans	–	2

1 There were no material provisions for impairment on the receivables from related parties.

2 Loans to related parties other than equity accounted investees are unsecured and repayable in cash on demand. Loans to equity accounted investees are unsecured and repayable over varying terms of between four years and eight years.

3 Payables to key management personnel relate to amounts owing for milk supplied by farmer shareholder Directors.

Financial guarantees

The Group provides financial guarantees for equity accounted investees. The aggregate drawn down amount of equity accounted investees' liabilities for which the Group is jointly and severally liable is \$1 million (31 July 2018: nil).

Transactions with related entities

As part of the administration of Trading Among Farmers, Fonterra entered into an Authorised Fund Contract to provide administrative services in relation to the Fund and meet the operating expenses of the Fund. In addition, Fonterra has agreed to provide corporate facilities, support functions and other services at no cost to the Fund.

Commitments

In addition to the transactions disclosed above, the Group has:

- prospective commitments with related parties including contracts with equity accounted investees for the supply of dairy products and energy, and the provision of various management services.
- contractual commitments to provide funding to joint ventures of up to US\$40 million (31 July 2018: US\$40 million).

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

23 SUBSIDIARIES

Subsidiaries are entities controlled by the Group. Subsidiaries are consolidated from the date the Group gains control until the date on which control ceases.

Non-controlling interests are allocated their share of profit after tax in the income statement and are presented within equity in the statement of financial position separately from equity attributable to equity holders. The effect of all transactions with non-controlling interests that change the Group's ownership interest but do not result in a change in control are recorded in equity. Where control is lost, the remaining interest in the investment is remeasured to fair value and any surplus or deficit arising from that remeasurement is recognised in the income statement.

The Group's subsidiaries are involved in the marketing, distribution, processing, technology or financing of dairy products. All Group subsidiaries have a balance date of 31 July unless otherwise indicated. Subsidiaries with different balance dates from that of the Group are due to legislative requirements in the country the entities are domiciled.

The Group holds investments in certain countries that have some limited restrictions on the repatriation of funds back to New Zealand. This does not result in any significant restriction on the flow of funds for the Group.

The significant subsidiaries of the Group are listed below:

SUBSIDIARY NAME	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	OWNERSHIP INTERESTS (%)	
		AS AT 31 JULY 2019	AS AT 31 JULY 2018
Fonterra Australia Pty Limited	Australia	100	100
Fonterra Brands (Australia) Pty Limited	Australia	100	100
Dairy Partners Americas Brasil Limitada ¹	Brazil	51	51
Comercial Santa Elena S.A. ¹	Chile	99.9	99.9
Soprole S.A. ¹	Chile	99.9	99.9
Prolesur S.A. ¹	Chile	86.26	86.26
Fonterra Commercial Trading (Shanghai) Company Limited ¹	China	100	100
Fonterra (Yutian) Dairy Farm Co. Limited ¹	China	100	100
Fonterra (Ying) Dairy Company Limited ¹	China	100	100
Fonterra Brands (Hong Kong) Limited	Hong Kong	100	100
Fonterra Brands Indonesia, PT	Indonesia	100	100
Fonterra Brands (Malaysia) Sdn Bhd	Malaysia	100	100
Fonterra (Europe) Coöperatie U.A.	Netherlands	100	100
Fonterra Europe Manufacturing B.V.	Netherlands	100	100
Fonterra (New Zealand) Limited	New Zealand	100	100
Fonterra Brands (New Zealand) Limited	New Zealand	100	100
Fonterra Brands (Tip Top) Limited	New Zealand	–	100
Fonterra Dairy Solutions Limited	New Zealand	100	100
Fonterra Ingredients Limited	New Zealand	100	100
Fonterra Limited	New Zealand	100	100
RD1 Limited	New Zealand	100	100
Kotahi Logistics LP	New Zealand	91	91
Fonterra Brands (Singapore) Pte Limited	Singapore	100	100
Fonterra Brands Lanka (Private) Limited	Sri Lanka	100	100
Fonterra Middle East FZE	UAE	100	100
Fonterra (USA) Inc.	United States	100	100
Corporación Inlaca CA	Venezuela	–	60

¹ Balance date 31 December.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

23 SUBSIDIARIES CONTINUED

The Group's ownership interest of the following entities is 50 per cent or less. However, they have been consolidated on the basis that the Group controls them through its exposure or rights to variable returns and the power to affect those returns.

OVERSEAS SUBSIDIARIES 50% OR LESS OWNERSHIP	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	OWNERSHIP INTERESTS (%)	
		AS AT 31 JULY 2019	AS AT 31 JULY 2018
Fonterra (Japan) Limited	Japan	50	50
Fonterra Brands (Middle East) L.L.C.	UAE	49	49

In addition to the entities above, Fonterra controls the Fonterra Shareholders' Fund and Fonterra Farmer Custodian Limited and consolidates these two entities. The trustees of the Fonterra Farmer Custodian Trust own the legal title to all of the shares of the Custodian. The Fund is a managed investment scheme with an independent trustee. In concluding that the Group controls the Fund and the Custodian, the Directors took into consideration that they form an integral part of the structure and operation of Trading Among Farmers.

24 FAIR VALUE MEASUREMENT

Valuation techniques for determining fair values

The fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

The fair values of financial assets and liabilities are calculated by reference to quoted market prices where that is possible. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If quoted market prices are not available, the methodology used to calculate the fair values of financial assets and liabilities is to identify the expected cash flows under the terms of each specific contract and then discount these values back to the present value. These models use as their basis independently sourced market data where it is available and rely as little as possible on entity-specific estimates.

The calculation of the fair value of financial instruments reflects the impact of credit risk where applicable.

Specific valuation techniques used to value financial instruments include:

- the fair value of foreign exchange contracts is determined using observable currency exchange rates, option volatilities and interest rate yield curves;
- the fair value of interest rate contracts is calculated as the present value of the estimated future cash flows based on observable interest rate yield curves;
- the fair value of commodity contracts that are not exchange traded is determined by calculating the present value of estimated future cash flows based on observable quoted prices for similar instruments; and
- the fair value on the hedged risks of borrowings and long-term advances that are not exchange traded is calculated as the present value of the estimated future cash flows based on observable currency exchange rates and interest rate yield curves.

Fair value hierarchy

The fair value hierarchy described below is used to provide an indication of the level of estimation or judgement required in determining fair value:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

24 FAIR VALUE MEASUREMENT CONTINUED

The following table shows the fair value hierarchy for assets and liabilities measured at fair value on the statement of financial position:

	GROUP \$ MILLION					
	LEVEL 1		LEVEL 2		LEVEL 3	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018	AS AT 31 JULY 2019	AS AT 31 JULY 2018	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Derivative assets						
– Commodity derivatives	14	15	1	3	–	–
– Foreign exchange derivatives	–	–	40	45	–	–
– Interest rate derivatives ¹	–	–	433	200	–	–
Derivative liabilities						
– Commodity derivatives	(9)	(12)	(4)	(2)	–	–
– Foreign exchange derivatives	–	–	(200)	(308)	–	–
– Interest rate derivatives ¹	–	–	(539)	(454)	–	–
Investment in Beingmate	234	–	–	–	–	–
Investments in shares	8	13	15	16	16	6
Livestock	–	–	–	–	295	288
Fair value	247	16	(254)	(500)	311	294

¹ Includes cross-currency interest rate swaps.

The following table shows the fair value hierarchy for each class of financial asset and liability where the carrying value in the statement of financial position differs from the fair value:

	GROUP \$ MILLION					
	CARRYING VALUE		FAIR VALUE			
			LEVEL 1		LEVEL 2	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018	AS AT 31 JULY 2019	AS AT 31 JULY 2018	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Financial assets						
Long-term advances	142	154	–	–	150	148
Financial liabilities						
Borrowings						
– NZX-listed bonds	(600)	(500)	(627)	(513)	–	–
– Capital notes	(35)	(35)	(35)	(34)	–	–
– Bank loans	(619)	(1,128)	–	–	(620)	(1,128)
– Medium-term notes	(4,952)	(4,640)	–	–	(5,208)	(4,883)
– Finance leases	(71)	(131)	–	–	(75)	(143)

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

25 OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where there currently is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

The Group enters into various master netting arrangements or similar agreements that do not meet the criteria for offsetting in the statement of financial position but still allow for the related amounts to be offset in certain circumstances. These principally relate to derivative transactions under ISDA (International Swap and Derivative Association) agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

The table below sets out the financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and other agreements.

	GROUP \$ MILLION				
	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION			AMOUNTS NOT OFFSET	NET
	GROSS FINANCIAL ASSETS/ (LIABILITIES)	GROSS FINANCIAL ASSETS/ (LIABILITIES) SET OFF	NET FINANCIAL ASSETS/ (LIABILITIES) PRESENTED		
Cash and cash equivalents	550	–	550	(8)	542
Derivative financial assets	526	(38)	488	(283)	205
Trade and other receivables (excluding prepayments)	1,943	(90)	1,853	–	1,853
	3,019	(128)	2,891	(291)	2,600
Derivative financial liabilities	(790)	38	(752)	291	(461)
Trade and other payables (excluding employee entitlements)	(1,676)	–	(1,676)	–	(1,676)
Owing to suppliers	(1,624)	90	(1,534)	–	(1,534)
Borrowings	(6,536)	–	(6,536)	–	(6,536)
	(10,626)	128	(10,498)	291	(10,207)
31 July 2019	(7,607)	–	(7,607)	–	(7,607)
Derivative financial assets	395	(132)	263	(207)	56
Trade and other receivables (excluding prepayments)	2,327	(94)	2,233	–	2,233
	2,722	(226)	2,496	(207)	2,289
Derivative financial liabilities	(908)	132	(776)	207	(569)
Trade and other payables (excluding employee entitlements)	(1,840)	–	(1,840)	–	(1,840)
Owing to suppliers	(1,673)	94	(1,579)	–	(1,579)
Borrowings	(6,738)	–	(6,738)	–	(6,738)
	(11,159)	226	(10,933)	207	(10,726)
31 July 2018	(8,437)	–	(8,437)	–	(8,437)

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

26 NET TANGIBLE ASSETS PER SECURITY

	GROUP	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Net tangible assets per security¹		
\$ per listed debt security on issue	4.67	5.18
\$ per equity instrument on issue	2.04	1.94
Listed debt securities on issue (million)	703	603
Equity instruments on issue (million)	1,612	1,612

1 Net tangible assets represents total assets less total liabilities less intangible assets.

Independent Auditor's Report



TO THE SHAREHOLDERS OF FONTERRA CO-OPERATIVE GROUP LIMITED

We have audited the financial statements which comprise:

- the statement of financial position as at 31 July 2019;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

OUR OPINION

In our opinion, the accompanying financial statements of Fonterra Co-operative Group Limited (the Company), including its controlled entities (the Group), present fairly, in all material respects, the financial position of the Group as at 31 July 2019, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

AUDITOR INDEPENDENCE

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Bruce Hassall was appointed as an Independent Director and Chair of the Audit and Finance Committee (AFC) of the Company on 2 November 2017. Bruce Hassall was Chief Executive Officer of PricewaterhouseCoopers to 30 September 2016 when he retired from the firm. At the time of his appointment, the Board of the Company (the Board) made the decision that Bruce Hassall would not be involved in the appointment of the Group's auditor or the setting of audit fees for three years from the date of his appointment. Scott St John, Independent Director and member of the AFC, has continued to act as Chair of the AFC in relation to these matters and the Chair of the Board has joined the AFC for deliberation. In addition, the engagement partner on the audit has direct access to the Chair of the Board, John Monaghan, to address any actual or perceived auditor independence threats.

Brent Goldsack was appointed as a Farmer-elected Director of the Company on 2 November 2017. Brent Goldsack retired as a partner of PricewaterhouseCoopers on 22 September 2017. Brent Goldsack was not involved in the provision of any audit services to the Group during his time as a partner of PricewaterhouseCoopers.

Bruce Hassall and Brent Goldsack had no financial relationship with PricewaterhouseCoopers upon their appointment to the Board.

During the year, our firm provided services to the Group as described in note 6 to the financial statements, including: assistance with collation of information for a vendor due diligence process; advice on a sale and purchase agreement; facilitation and administration support for the Fonterra Strategic review including board strategy workshops and programme management support; corporate tax advice to an equity accounted investee; access to generic training and technical accounting websites; as well as other assurance and attestation services provided in our capacity as auditors. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These matters have not impaired our independence as auditor of the Group.

Independent Auditor's Report CONTINUED

OUR AUDIT APPROACH



Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality: \$27.8 million, which represents 5% of three-year average normalised (adjusted for items described in note 1 of the financial statements as normalisation adjustments) net profit before tax.

The Group's net profit before tax is subject to volatility due to fluctuations in the Farmgate Milk Price, commodity prices and foreign exchange rates. Using a three-year average normalised net profit before tax provides a stable basis for establishing our materiality. We used this benchmark because, in our view, it is the benchmark against which the performance of the Group is measured by users.

We determined that there are four key audit matters:

- Impairment of the carrying value of indefinite life intangible assets for the New Zealand and Brazil consumer and foodservice businesses
- Impairment assessment of the Australia ingredients business
- Accounting treatment for investment in Beingmate Baby & Child Co., Ltd.
- Impairment of the carrying value of China Farms' property, plant and equipment.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatements in the financial statements and our application of materiality. In particular, we focused on areas where significant judgements, estimates and assumptions have been made by the Directors surrounding future events which are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry and strategic markets in which the Group operates. The Group has six reportable segments that reflect the Group's management and reporting structure as viewed by Fonterra's Management Team. The financial statements are a consolidation of 145 subsidiaries and 15 equity accounted investees (two of which are classified as held for sale at year end), comprising the Group's collection, processing and distribution of the ingredients business in New Zealand, global sales and marketing of New Zealand and non-New Zealand ingredients products, Fonterra Farm Source™ stores, fast-moving consumer goods, Australian and South American ingredients businesses, and foodservice businesses, and farming operations in China.

Of the Group's 145 subsidiaries and 15 equity accounted investees, we identified 12 subsidiaries that, due to their financially significant contribution as well as strategic importance to the Group's overall results, required a full-scope audit. In addition, we also performed specific audit procedures on certain balances and transactions of other subsidiaries. Audits of each subsidiary are performed at a materiality level calculated with reference to a proportion of Group materiality relative to the financial scale of the business concerned.

In establishing the overall approach to the Group audit, we determined the type of work to be performed at the subsidiary level by us, as the Group audit engagement team, or by component auditors from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work performed over those subsidiaries in order to conclude whether sufficient appropriate audit evidence had been obtained to provide a basis for our opinion on the Group financial statements as a whole. This, together with additional procedures performed at the Group level, provided us with the audit evidence we needed for our opinion on the financial statements as a whole.

New Zealand sourced milk supplied by farmer shareholders comprises the volume of milk solids supplied at the Farmgate Milk Price as determined by the Board of Directors for the relevant season. In making that determination, the Board takes into account the Farmgate Milk Price calculated in accordance with the Farmgate Milk Price Manual. The Farmgate Milk Price is independently audited. The Fonterra Farmgate Milk Price Statement sets out information about the Farmgate Milk Price, and how it is calculated by Fonterra. It can be found in the 'Investors/Farmgate Milk Prices' section of the Company's website.

Independent Auditor's Report CONTINUED

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the key audit matter

Impairment of the carrying value of indefinite life intangible assets for the New Zealand (FBNZ) and Brazil (DPA Brazil) Consumer and Foodservice businesses

Impairments recognised in relation to FBNZ and DPA Brazil, as at 31 July 2019, are disclosed within note 2a) and 2c) to the financial statements. Indefinite life intangible assets (goodwill and brands) are disclosed within note 17 of the financial statements.

As disclosed in the basis of preparation of the financial statements, management assesses the recoverability of these assets on an annual basis by performing an impairment assessment using a discounted cash flow model based on forecast future performance. Performing this assessment requires management to exercise significant judgement when estimating future cash flows.

FBNZ

The FBNZ recoverable amount determined by management resulted in an impairment of \$185 million to goodwill, as set out in note 2 to the financial statements, leaving a total value of indefinite lived intangible assets of \$533 million.

Key assumptions included in the FBNZ forecasts prepared by management relate to annual trade spend management savings (by year five), annual productivity savings (manufacturing and supply chain efficiencies) (by year five) and annual operating expense savings (by year five) as well as terminal growth rate and discount rate (post-tax).

DPA Brazil

The DPA Brazil recoverable amount determined by management, resulted in an impairment of \$133 million to goodwill, as set out in note 2 to the financial statements, leaving a total value of indefinite lived intangible assets of \$250 million.

Key assumptions included in the DPA Brazil impairment assessment forecasts prepared by management relate to revenue growth (first three-year CAGR), gross margin improvement (first three years), growth rates and discount rate (post-tax).

We performed the following audit procedures in relation to FBNZ and DPA Brazil's recoverable amounts determined by management using value in use:

- held discussions with management and understood the processes undertaken and basis for determining the key assumptions in preparing the forecast cash flows; and
- evaluated the assumptions and methodologies applied in the forecasts.

In relation to forecast cash flows, we performed the following audit procedures:

- compared these forecast cash flows to Board approved forecast cash flows and obtained explanations for any differences;
- assessed the reliability of management's budgeting process in previous years and considered the impact on our assessment of forecast earnings and understood the differences between the historical and budgeted performance;
- considered the impact of key strategic and operational initiatives in FBNZ and DPA Brazil by performing the following, as relevant
 - considered budget to actual achievement;
 - considered cost incurred to date against expectations to assess delivery risk; and
 - where appropriate, analysis of initiatives against other external market measures
- confirmed that key estimates and judgements determined by management in calculating the recoverable amounts were approved by the Board.

We engaged our auditor valuation experts in New Zealand and Brazil to assess the appropriateness of the terminal growth and discount rates.

We also considered the appropriateness of disclosures in the financial statements.

Independent Auditor's Report CONTINUED

KEY AUDIT MATTERS CONTINUED

Key audit matter	How our audit addressed the key audit matter
<i>Impairment assessment of the Australian ingredients business</i>	
The impairment assessment in relation to the Australian ingredients business is disclosed within note 2e) to the financial statements. The recoverable amount of the Australian ingredients business was determined by management using a fair value less costs of disposal (FVLCD). The FVLCD was determined using recent observable transactions which provided evidence of multiples which management applied in performing their assessment. This was an area of audit focus as there is significant judgement in determining the FVLCD, particularly in establishing key assumptions and relevant multiples. Management determined the recoverable amount of the Australian ingredients business was higher than the carrying value of \$942 million.	We engaged our auditor valuation experts and with the assistance of these experts, we performed the following audit procedures: – assessed whether the methodology applied was appropriate; – evaluated whether the key assumptions adopted by management were relevant to the business operations; – evaluated the relevance of comparable transactions and the associated multiples; and – confirmed that key estimates and judgements determined by management in calculating the recoverable amounts were approved by the Board. We also considered the appropriateness of disclosures in the financial statements.
Key audit matter	How our audit addressed the key audit matter
<i>Accounting treatment for investment in Beingmate Baby & Child Co. Ltd. (Beingmate)</i>	
As disclosed in the basis of preparation and within note 2g) of the financial statements, the Group holds an 18.8% share in Beingmate, an entity listed on the Shenzhen Stock Exchange. As a result of the facts and circumstances presented in note 2g), management concluded there is no longer sufficient evidence to clearly demonstrate that Fonterra has significant influence on the Board of Beingmate and the investee ceased to be an equity accounted investment. Subsequent to the change in classification, the investment is measured at fair value, based on the quoted market price. Changes in fair value are recognised in profit or loss. The carrying value of Beingmate based on the closing quoted market price as at 31 July 2019 is \$234 million.	We performed the following audit procedures: – assessed the judgements made by Fonterra management in determining whether significant influence had ceased; – evaluated the technical accounting applied by management and completed a formal consultation with our technical accounting experts to confirm that it was appropriate to account for the investment as held for trading at fair value through profit or loss; and – confirmed that key estimates and judgements (as disclosed in note 2g of the financial statements) made by management were approved by the Board. We also audited the impact from the change in classification by reperforming the calculations and agreed the fair value of the shares at balance date to the quoted price on the Shenzhen Stock Exchange. We also considered the appropriateness of disclosures in the financial statements.

Independent Auditor's Report CONTINUED

KEY AUDIT MATTERS CONTINUED

Key audit matter	How our audit addressed the key audit matter
<i>Impairment of the carrying value of China Farms' property, plant and equipment</i>	
As disclosed in note 2b) of the financial statements an impairment charge of \$203 million was recognised in relation to China Farms. Management applied significant judgement in preparing forecast cash flows that support the recoverable amount and impairment recognised. Key assumptions included in the China Farms forecasts prepared by management relate to future milk price (year five), milk production for sale (year five), feed costs per kg of milk sold (year five), effluent costs per kg of milk sold (year five), terminal growth rate and discount rate (post-tax). Management determined the recoverable amount of the China Farms assets were \$546 million	We performed the following audit procedures in relation to the recoverable amount of China Farms: – held discussions with management and understood the processes undertaken and basis for determining the key assumptions in preparing the forecast cash flows; and – evaluated the assumptions and methodologies applied. In relation to forecast cash flows prepared by management, we performed the following audit procedures: – compared these forecast cash flows to Board approved forecast cash flows and obtained explanations for any differences; – understood the differences between the historical and budgeted performance to assess the reliability of management's budgeting process in previous years and considered the impact on our assessment of forecast earnings; – considered the impact of operational initiatives, given that the impairment assessments were most sensitive to cash flows from these initiatives; and – confirmed that key estimates and judgements determined by management in calculating the recoverable amounts were approved by the Board. We engaged our auditor valuation experts to assess the appropriateness of the terminal growth and discount rates. We also considered the appropriateness of disclosures in the financial statements.

Independent Auditor's Report CONTINUED

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT

The Directors are responsible for the Annual Report. Our opinion on the financial statements does not cover the other information included in the Annual Report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information in the Annual Report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at: <https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/>

This description forms part of our auditor's report.

WHO WE REPORT TO

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Jonathan Skilton.

For and on behalf of:



Chartered Accountants

Auckland

25 September 2019

Statutory Information

FOR THE YEAR ENDED 31 JULY 2019

EQUITY SECURITIES HELD AT BALANCE DATE

In accordance with Rules of the Fonterra Shareholders' Market (FSM) Rule 9.4.4(c), the following table identifies the Equity Securities in which each Director has a Relevant Interest as at 31 July 2019.

	UNITS ISSUED BY THE FONTERRA SHAREHOLDERS' FUND ¹	CO-OPERATIVE SHARES
Brent Goldsack	–	147,434
Leonie Guiney	–	878,824
Andrew Macfarlane	132,150	813,301
Peter McBride	–	5,504,288
John Monaghan	–	140,179
John Nicholls	–	2,148,864
Donna Smit	12,380	1,187,862

¹ Units issued by the Fonterra Shareholders' Fund may be converted to Co-operative shares.

A 'Relevant Interest' in Fonterra securities which is required to be disclosed is explicitly defined in the Financial Markets Conduct Act 2013.

To qualify as a Farmer Elected Director under the Fonterra Constitution a person must be a shareholder, a shareholder of a company that is a shareholder, a member of a partnership that is a shareholder, or have a legal or beneficial interest in, or a right or entitlement to participate directly in the distributions of, a body corporate that is a shareholder of Fonterra.

Given the variety of ways that farmer shareholders can organise their interests, it is possible for Fonterra Elected Directors to have an interest in Fonterra shares without this being a 'Relevant Interest' as defined in the Financial Markets Conduct Act 2013.

All current Elected Directors have relevant interests in Fonterra shares, some also have interests in Fonterra shares which are not within the definition of 'Relevant Interest' in the Financial Markets Conduct Act 2013 and those interests are not disclosed above.

CO-OPERATIVE STATUS

In accordance with section 10 of the Co-operative Companies Act 1996, the Directors of Fonterra unanimously resolved on 23 August 2019 that the Company was, for the year ended 31 July 2019 a co-operative company. The opinion was based upon the fact that:

- Throughout that period the principal activities of the Company have been the activities stated in clause 1.3 of the Company's constitution:
 - the manufacture and sale of butter, cheese, dried milk, casein, or any other product derived from milk or milk solids supplied to the Company by its shareholders;
 - the sale to any person of milk or milk solids supplied to the Company by its shareholders;
 - the collection, treatment, and distribution for human consumption of milk or cream supplied to the Company by its shareholders.
- Each of the Company's principal activities are co-operative activities (as defined in section 3 of the Co-operative Companies Act 1996).
- Throughout that period not less than 60 per cent of the voting rights attaching to shares in the Company have been held by transacting shareholders (as defined in section 4 of the Co-operative Companies Act 1996).

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

REMUNERATION OF DIRECTORS

The total remuneration and value of other benefits received by each Director in the 12-month period from 1 August 2018 to 31 July 2019 are scheduled below:

	BOARD FEES	COMMITTEE CHAIR FEES	TRAVEL ALLOWANCE	DISCRETIONARY POOL	TOTAL REMUNERATION (\$)
Clinton Dines	175,000				175,000
Brent Goldsack (Chair of the Co-operative Relations Committee ¹)	175,000	23,064			198,064
Leonie Guiney (Chair of the Safety and Risk Committee ¹)	127,897	22,680			150,577
Bruce Hassall (Chair of the Audit and Finance Committee)	175,000	35,000		25,000 ²	235,000
Simon Israel	175,000		60,000 ³		235,000
Andrew Macfarlane	175,000				175,000
Peter McBride ¹	127,897				127,897
John Monaghan (Chairman of the Board of Directors)	430,000				430,000
John Nicholls ¹	107,468				107,468
Nicola Shadbolt ¹	72,917				72,917
Donna Smit	175,000				175,000
Scott St John (Chair of the Milk Price Panel)	175,000	35,000			210,000
Ashley Waugh (previous Chair of the Safety and Risk Committee ¹)	43,750	13,596			57,346
John Wilson ¹	87,500				87,500

¹ Indicates a part year.

² The Appointments and Remuneration Committee and the Chairman of the Board of Directors has approved a payment of \$25,000 to Mr Hassall from the discretionary pool for additional work undertaken in FY19.

³ The Board has approved the payment to Mr Israel of a travel allowance of \$10,000 per meeting to travel to and from New Zealand to attend Board meetings.

SUBSIDIARY COMPANY DIRECTORS

The following companies were subsidiaries of Fonterra as at 31 July 2019. Directors as at that date are listed; those who resigned during the year are denoted with an R. Alternate Directors are denoted with an A.

Canpac International Limited:

G A Duncan, P D Wynen

Dairy Industry Superannuation Scheme Trustee Limited:

M A Apiata-Wade, B J Kerr, T P McGuinness, D W C Scott, A K Williams, P D Wynen, A J Lawton (R), M F van Zon

Fonterra (Delegated Compliance Trading Services) Limited:

G A Duncan, S D T Till

Fonterra (International) Limited:

G A Duncan, C E Rowe

Fonterra (Kotahi) Limited:

R J Spurway, R G Carlyle

Fonterra (Middle East) Limited:

G A Duncan, P D Washer

Fonterra (New Zealand) Limited:

G A Duncan, C E Rowe

Fonterra (North Asia) Limited:

G A Duncan, S D T Till

Fonterra Brands (New Zealand) Limited:

M R Cronin, J C M Fair (R), L J Paravicini (R), B Henshaw

Fonterra Commodities Limited:

G A Duncan, B M Turner

Fonterra Dairy Solutions Limited:

G A Duncan, R McNickle

Fonterra Equities Limited:

G A Duncan, S D T Till

Fonterra Farming Ventures Limited:

G A Duncan, M W Hurrell (R), C E Rowe

Fonterra Finance Corporation Limited:

G A Duncan, S D T Till

Fonterra Holdings (Americas) Limited:

G A Duncan, B Mealings

Fonterra Holdings (Brazil) Limited:

G A Duncan, B Mealings

Fonterra Holdings (Venezuela) Limited:

G A Duncan, B Mealings

Fonterra Ingredients Limited:

G A Duncan, L J Paravicini (R), B M Ryan

Fonterra Limited:

K A Wickham, R J Spurway

Fonterra PGGRC Limited:

G A Duncan, M Piper

Fonterra TM Limited:

G A Duncan, S D T Till

Glencol Energy Limited:

G A Duncan, P D Wynen

GlobalDairyTrade Holdings Limited:

G A Duncan, L J Paravicini (R), C E Rowe

Kotahi GP Limited:

R J Spurway, D G Boulton, J C M Fair (R), R G Carlyle, B Mealings

Lactanol Limited:

C E Rowe, G A Duncan

MIH Limited:

G A Duncan, M W Hurrell (R), R J Allen

Milktest GP Limited:

P G Brown, M E Leslie (R), R G Townshend, T A Winter, P D S Grave, R A McPhillips (R), R J van Boheemen, G McCullough

MyMilk Limited:

M W Hurrell (R), B Mealings (R), M J Bolger (R), K F Shaw, C W Fergusson

New Zealand Dairy Board:

G A Duncan, C E Rowe

New Zealand Milk (International) Limited:

G A Duncan, L J Paravicini (R), R M Kennerley

New Zealand Milk Brands Limited:

G A Duncan, S D T Till

NZAgbiz Limited:

G A Duncan, M W Hurrell (R), R J Allen

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

RD1 Limited:

K M Turner (R), R Allen, G A Duncan

SAITL Limited:

M E Leslie (R), T A Winter, G McCullough

Tangshan Dairy Farm (NZ) Limited:

G A Duncan, M R Cronin

Whareroa Co-Generation Limited:

G A Duncan, P D Wynen

Anchor Insurance Pte. Limited

[Singapore]:

S S Herbert, B Mealings, G A Duncan,
H N Toh (A)

Annum (Malaysia) Sdn. Bhd. [Malaysia]:

F Spinelli (R), V Sivaraja, J Oh, R M Kennerley

Auckland Limited [Barbados]:

M F Maldonado (R), A Turnbull, L Hartmann (R),
F Spinelli (R), L J Paravicini (R), G A Duncan

Australasian Food Holdings Pty

Limited [Australia]:

G A Duncan, A Maharaj (R), R Dedoncker

Bonland Cheese Trading Pty Ltd

[Australia]:

G A Duncan, A Maharaj (R), R Dedoncker

Comercial Dos Alamos S.A. [Chile]:

J C Petersen (R), E Becker, R Waldspurger,
M Kunstmann

Comercial Santa Elena S.A. [Chile]:

J Barria, E Aldunate, W E Flen Silva

Dairy Enterprises (Chile) Limitada [Chile]:

R Sepúlveda Seminario, J P Egaña Bertoglia
(A), F Spinelli, G A Duncan, R Lavados (A),
P L Linhares (A)

Dairy Partners Americas Brasil Limitada

[Brazil]:

M J L Barros (R), L P L Rivero (R), F Goncalves,
R Gurrero Leal, M Favoretto (R), F Silveira (R),
F Spinelli, M G Guerreiro, R de Oliveira Carrelas

Dairy Partners Americas Nordeste-

Productos Alimenticios Ltda [Brazil]:

M J L Barros (R), L P L Rivero (R), F Goncalves,
D R Gurrero Leal, M Favoretto (R), F Silveira (R),
F Spinelli, M G Guerreiro, R de Oliveira Carrelas

Dairymas (Malaysia) Sdn Bhd [Malaysia]:

F Spinelli (R), V Sivaraja, J Oh, R M Kennerley

Darnum Park Pty Ltd [Australia]:

G A Duncan, R Dedoncker, A Maharaj (R)

Falcon Dairy Holdings Limited

[Hong Kong]:

J F Ginascol, R O Frey, M P Campbell,
M W Hurrell (R), G A Duncan

Fazenda MIH Ltda [Brazil]:

M P Bueno (R), G Nascimento (R),
A R V Januaria Oliveira, E B da Costa Junior

Fonterra (Brasil) Ltda [Brazil]:

M P Bueno (R), G Nascimento (R),
M J L Barros (R), A R V Januario Oliveira,
P C C Freitas Guedes

Fonterra (Canada), Inc. [Canada]:

G A Duncan, B Kipping, B M Ryan, J P Coote

Fonterra (China) Limited [Hong Kong]:

G A Duncan, C Zhu, M Namboodiri (R)

Fonterra (CIS) Limited Liability Company

[Russian Federation]:

M Bates (R), E Grishina

Fonterra (Europe) Coöperatie U.A.

[Netherlands]:

G A Duncan, H Huistra, M Erol (R)

Fonterra (Europe) GmbH [Germany]:

A Wright (R), G R Sharma

Fonterra (France) SAS [France]:

H Huistra

Fonterra (Ing.) Limited [Mauritius]:

G Lee, B M Ryan

Fonterra (Japan) Limited [Japan]:

K Kumagai, H Ono, Y Saito, B M Ryan,
K A Wickham, A Okuyama

Fonterra (Korea) Limited [Korea]:

G A Duncan, Y Saito, J Murney

Fonterra (Logistics) Ltd [United Kingdom]:

G R Sharma, M Erol (R), G A Duncan, H Huistra

Fonterra (Mexico) S.A. de C.V. [Mexico]:

G A Duncan, L Barona Mariscal (A),
F R Camacho (A), J P Coote, J A Del Rio,
E P G R Gil (A)

Fonterra (SEA) Pte. Ltd. [Singapore]:

H Gowans, A Aggarwal

Fonterra (Thailand) Limited [Thailand]:

K Vunthanadit, A Aggarwal

Fonterra (USA) Inc. [United States]:

G A Duncan, B M Ryan, J P Coote,
N R Christiansen

Fonterra (Ying) Dairy Farm Company

Limited [China]:

R M Kennerley (R), G A Duncan, H Berghorst,
S I Ahmed

Fonterra (Yutian) Dairy Farm Company

Limited [China]:

R M Kennerley (R), G A Duncan, H Berghorst,
S I Ahmed

Fonterra Australia Pty Ltd [Australia]:

G A Duncan, R Dedoncker, A Maharaj (R)

Fonterra Beijing Farm Management

Consulting Company Limited [China]:

R M Kennerley (R), A van der Nagel (R),
L O'Neil (R), S I Ahmed, H Berghorst, X Xu

Fonterra Brands (Asia Holdings) Pte. Ltd

[Singapore]:

M R Cronin, S I Ahmed, A Dasgupta (R)

Fonterra Brands (Australia) Pty Ltd

[Australia]:

G A Duncan, R Dedoncker, A Maharaj (R)

Fonterra Brands (Far East) Limited

[Hong Kong]:

G A Duncan, P D Washer

Fonterra Brands (Guangzhou) Ltd

[China] (in liquidation):

K A Wickham, T T Lye, P A Turner

Fonterra Brands (Hong Kong) Limited

[Hong Kong]:

G A Duncan, P D Washer, J Ho

Fonterra Brands (Malaysia) Sdn Bhd

[Malaysia]:

F Spinelli (R), V Sivaraja, J Oh, R M Kennerley

Fonterra Brands (New Young) Pte. Ltd.

[Singapore]:

Y Lin, C Lin, J Ling, Y Li, A Dasgupta (R),
P D Washer, S I Ahmed

Fonterra Brands (Singapore) Pte. Ltd

[Singapore]:

M R Cronin, A Dasgupta (R), S I Ahmed

Fonterra Brands (Thailand) Ltd [Thailand]:

P A Richards, F Spinelli, S Totana, S Pronanut

Fonterra Brands (Viet Nam) Company

Limited [Vietnam]:

F Spinelli (R), P Richards, R M Kennerley

Fonterra Brands Indonesia, PT [Indonesia]:

M Namjoshi (R), S S Rapaka, D M Infani,
J Chow (R), F Spinelli (R), L J Paravicini (R),
J Swales, R M Kennerley, C A Salinas Robeson,
G Thiagarajan

Fonterra Brands Lanka (Private) Limited

[Sri Lanka]:

J H P Gallage, S Sethi, F Spinelli (R),
R M Kennerley

Fonterra Brands Manufacturing Indonesia,

PT [Indonesia]:

M A Nasution, T A Siswanto, M Namjoshi (R),
S S Rapaka, J Chow (R), F Spinelli (R),
L J Paravicini (R), J Swales, R M Kennerley,
C A Salinas Robeson

Fonterra Brands Myanmar Co Ltd

[Myanmar]:

G A Duncan, P Richards

Fonterra Brands Phils. Inc. [Philippines]:

L T Barin (R), R A Mendoza, M T Boness,
F Spinelli (R), L De Velez, R Cook, C Ferrer

Fonterra Chile SpA:

R Sepúlveda Seminario, F Spinelli (R),
A Cordner, G A Duncan, J P Egaña Bertoglia (A),
R Lavados (A), P L Linhares (A)

Fonterra Commercial Trading (Shanghai)

Company Limited [China]:

G A Duncan, R J Allen, J Ruan, C Zhu,
P D Washer

Fonterra Egypt Limited [Egypt]:

G A Duncan, A Anwar

Fonterra Europe Manufacturing B.V.

[Netherlands]:

C E Rowe (R), D Krabbe, B Mealings

Fonterra Europe Manufacturing Holding

B.V. [Netherlands]:

G A Duncan, H Huistra

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

Fonterra Foodservices (USA), Inc.

[United States]:

G A Duncan, J P Coote, N R Christiansen

Fonterra Global Business Services Asia

Sdn Bhd [Malaysia]:

V Sivaraja, J Oh

Fonterra India Private Limited [India]:

K M Turner, H D Gowans, S G Matthews, A Aggarwal

Fonterra Ingredients Australia Pty Ltd [Australia]:

G A Duncan, A Maharaj (R), R Dedoncker

Fonterra Investments Netherlands

Coöperatie U.A. [Netherlands]:

H Huistra, G A Duncan

Fonterra Middle East FZE

[United Arab Emirates]:

G A Duncan, A M Fitzsimmons (R), S Penfold

Fonterra MIH Holdings Brasil Ltda [Brazil]:

M P Bueno (R), G Nascimento (R), A R V Januario Oliveira, P C C Frieta Guedes

Fonterra Milk Australia Pty Ltd [Australia]:

G A Duncan, A Maharaj (R), R Dedoncker

Fonterra Tangshan Dairy Farm (HK)

Limited [Hong Kong]:

H Berghorst, M W Hurrell (R), G A Duncan

Fonterra Venezuela, S.A. [Venezuela]:

F C Ortega Becea, G A Duncan, M M Perez (R)

Inversiones Dairy Enterprises S.A. [Chile]:

J P Egaña Bertoglia (A), R Sepúlveda Seminario, F Spinelli (R), R Lavados (A), P L Linhares (A), G A Duncan, A Cordner

Key Ingredients, Inc. [United States]:

G A Duncan, B M Ryan, J P Coote, N R Christiansen

Lactaid Holdings Ltd [Barbados]:

M F Maldonado (R), A D Turnbull, L Hartmann (R), F Spinelli, L J Paravicini (R)

Lacven Corp [Barbados]:

M F Maldonado (R), A Turnbull, L Hartmann (R), L J Paravicini (R), F Spinelli

Milk Products Holdings (Middle East)

EC [Bahrain]:

G A Duncan, F Spinelli, G Amade

Milk Products Holdings (North America)

Inc. [United States]:

B M Ryan, J P Coote, N R Christiansen

New Tai Milk Products Co Ltd [Taiwan]:

C Lee (R), G Lee (R), M Lee (R), K Lee, Y Lee, G Lee, B M Ryan, K A Wickham, T Chow

New Zealand Milk (Australasia) Pty Ltd

[Australia]:

G A Duncan, A Maharaj (R), R Dedoncker

New Zealand Milk (Barbados) Ltd

[Barbados]:

G A Duncan, F Spinelli

New Zealand Milk (LATAM) Ltd

[Bermuda]:

G A Duncan, F Spinelli

New Zealand Milk Products (Ethiopia) SC

[Ethiopia]:

M Woodward, A B Abubeker, M B Abubeker, F Spinelli, G Amade

Newdale Dairies (Private) Limited

[Sri Lanka]:

J H P Gallage, S Sethi, F Spinelli (R), R M Kennerley

NZMP (AEM) Ltd [United Kingdom]:

G R Sharma, M Erol (R), H Huistra, G A Duncan

NZMP Fonterra Nigeria Limited [Nigeria]:

G A Duncan, H Huistra

Pure Source Dairy Farm Company Limited

[Hong Kong]:

J F Ginascol, H Berghorst, M W Hurrell (R), D LiYan, G A Duncan

Sociedad Agrícola y Lechera Praderas

Australes S.A. ("Pradesur") [Chile]:

J C Petersen (R), E Becker, R Waldspurger, M Kunstmann

Sociedad Procesadora de Leche Del Sur

S.A. [Chile]:

E Alcalde Undurraga (A)(R), J Milic Barros, J M Alcalde Undurraga (A)(R), S Oddo Gómez (A), C Perez-Cotapos Subercaseaux (A), T Walker Prieto, R Lavados McKenzie (A), M W Hurrell (R), A Tagle (R), S Diez Arriagada, J C M Fair (R), G Grez Jordan (A), A Montaner (A), C Herrera Barriga (A)(R), R J Spurway, C Alcade U, L M Patron Costas, M P Campbell, G Varela, J Barria Pina

Soprole Inversiones SA [Chile]:

R Sepúlveda Seminario (A), L J Paravicini (R), F Spinelli, P L Linhares (A), R Carneiro (R), H Covarrubias Lalanne, J P Egaña Bertoglia, J P Matus Pickering (A), J C Sanchez (A), J A Parodi (A), J Swales, A D Turnbull

Soprole S.A. [Chile]:

R Sepúlveda Seminario (A), L J Paravicini (R), F Spinelli, P L Linhares (A), R Carneiro (R), H Covarrubias Lalanne, J P Egaña Bertoglia (A), J P Matus Pickering, J C Sanchez (A), J A Parodi (A), J Swales, A D Turnbull

Tangshan Fonterra Dairy Farm Ltd [China]:

G A Duncan, H Berghorst, Q Jiang, M W Hurrell (R), S I Ahmed

Unifood Holding B.V. [The Netherlands]:

H Huistra, M Bates (R), M P Campbell, M Ivanov, A Sirotinin

Unifood LLC [Russian Federation]:

H Huistra, M Bates (R), M P Campbell, M Ivanov, A Sirotinin

United Milk Tasmania Pty Limited

[Australia]:

G A Duncan, A Maharaj (R), R Dedoncker

REMUNERATION FRAMEWORK

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

Fonterra's remuneration framework for salaried staff is based on a 'total remuneration' approach, which is consistent with best practice globally. This includes base salary, benefits (superannuation and insurance), and variable remuneration (incentives).

The amounts we pay to our employees are benchmarked against comparable companies in relevant markets, using information obtained from independent remuneration consultants. Adjustments to packages may occur on a cyclical basis, such as an annual salary review, or on an as-needed basis to recognise additional responsibilities.

The framework is designed to take into account budget targets and restraints, market conditions, internal equity, and governance factors such as local legislation, as well as taking into account individual performance.

Fonterra's incentive programmes are designed to drive the Co-operative's performance by:

- Focusing on the Co-operative's primary objective of maximising returns for its farmer shareholders;
- Promoting collaboration and a one team approach to achieve Fonterra's goals;
- Establishing targets which are challenging yet achievable; and linked to team (such as business unit) and group performance.

At the end of each financial year, performance is reviewed and incentive payments are approved by the Appointments and Remuneration Committee ("ARC") at its discretion. The Committee retains absolute discretion in respect to payments for all incentive schemes.

Further detail on Fonterra's remuneration framework can be found in the Corporate Governance section of the Annual Review.

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

EMPLOYEE REMUNERATION

The Group operates in a number of countries where remuneration market levels differ widely. During the year ended 31 July 2019, the number of employees, not being Directors of Fonterra, who received remuneration, incentives, and other benefits (including superannuation and allowances etc) exceeding \$100,000 was as follows:

REMUNERATION RANGE (\$)		NEW ZEALAND HEAD OFFICE ¹		REGIONAL NEW ZEALAND ¹		OFFSHORE ²		CESSATIONS ³		TOTAL
		WAGED	SALARIED	WAGED	SALARIED	WAGED	SALARIED	WAGED	SALARIED	
100,000	110,000	–	70	634	286	50	161	32	41	1,274
110,001	120,000	–	60	302	369	161	134	20	26	1,072
120,001	130,000	–	60	282	405	150	112	5	33	1,047
130,001	140,000	–	46	70	189	82	109	8	28	532
140,001	150,000	–	45	46	110	37	116	8	28	390
150,001	160,000	–	41	26	114	25	73	–	24	303
160,001	170,000	–	42	12	81	15	67	1	20	238
170,001	180,000	–	30	6	58	6	59	–	16	175
180,001	190,000	–	43	5	47	7	49	–	7	158
190,001	200,000	–	32	1	39	4	43	–	11	130
200,001	210,000	–	12	2	33	2	35	1	10	95
210,001	220,000	–	26	–	22	1	40	–	14	103
220,001	230,000	–	26	1	12	–	26	1	9	75
230,001	240,000	–	25	–	13	1	24	–	5	68
240,001	250,000	–	13	–	14	–	21	–	6	54
250,001	260,000	–	17	–	6	–	26	–	11	60
260,001	270,000	–	10	–	7	–	17	1	5	40
270,001	280,000	–	8	–	7	–	14	–	7	36
280,001	290,000	–	15	–	9	–	20	–	4	48
290,001	300,000	–	12	–	8	–	13	1	7	41
300,001	310,000	–	7	–	7	–	13	–	1	28
310,001	320,000	–	11	–	3	–	17	–	2	33
320,001	330,000	–	8	–	4	–	7	–	4	23
330,001	340,000	–	9	–	5	–	15	–	2	31
340,001	350,000	–	2	–	–	–	5	–	2	9
350,001	360,000	–	7	–	2	–	5	–	2	16
360,001	370,000	–	4	–	2	–	8	–	3	17
370,001	380,000	–	3	–	2	–	2	–	2	9
380,001	390,000	–	5	–	–	–	6	–	3	14
390,001	400,000	–	3	–	–	–	9	–	2	14
400,001	410,000	–	4	–	2	–	4	–	1	11
410,001	420,000	–	–	–	1	–	3	–	2	6
420,001	430,000	–	1	–	3	–	4	–	1	9
430,001	440,000	–	2	–	1	–	6	–	2	11
440,001	450,000	–	2	–	1	–	1	–	–	4
450,001	460,000	–	1	–	2	–	6	–	1	10
460,001	470,000	–	1	–	–	–	8	–	1	10
470,001	480,000	–	2	–	–	–	4	–	1	7
480,001	490,000	–	–	–	–	–	2	–	2	4
490,001	500,000	–	3	–	–	–	1	–	2	6
500,001	510,000	–	–	–	2	–	6	–	–	8
510,001	520,000	–	–	–	–	–	6	–	2	8
520,001	530,000	–	–	–	1	–	1	–	4	6
530,001	540,000	–	1	–	3	–	3	–	–	7
540,001	550,000	–	3	–	–	–	3	–	–	6
550,001	560,000	–	–	–	–	–	1	–	–	1
560,001	570,000	–	1	–	–	–	3	–	–	4
570,001	580,000	–	1	–	–	–	1	–	–	2

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

REMUNERATION RANGE (\$)		NEW ZEALAND HEAD OFFICE ¹		REGIONAL NEW ZEALAND ¹		OFFSHORE ²		CESSATIONS ³		TOTAL
		WAGED	SALARIED	WAGED	SALARIED	WAGED	SALARIED	WAGED	SALARIED	
580,001	590,000	-	1	-	-	-	-	-	1	2
590,001	600,000	-	-	-	-	-	3	-	1	4
600,001	610,000	-	-	-	-	-	1	-	1	2
610,001	620,000	-	1	-	-	-	1	-	1	3
620,001	630,000	-	-	-	-	-	4	-	-	4
630,001	640,000	-	-	-	-	-	3	-	-	3
640,001	650,000	-	1	-	-	-	-	-	1	2
660,001	670,000	-	-	-	-	-	1	-	-	1
680,001	690,000	-	-	-	-	-	1	-	-	1
690,001	700,000	-	-	-	-	-	1	-	-	1
710,001	720,000	-	-	-	-	-	1	-	-	1
720,001	730,000	-	1	-	-	-	-	-	1	2
730,001	740,000	-	-	-	-	-	1	-	-	1
740,001	750,000	-	-	-	-	-	2	-	-	2
750,001	760,000	-	1	-	-	-	-	-	-	1
770,001	780,000	-	1	-	-	-	1	-	2	4
780,001	790,000	-	1	-	-	-	2	-	-	3
790,001	800,000	-	-	-	-	-	2	-	-	2
800,001	810,000	-	1	-	-	-	1	-	1	3
810,001	820,000	-	-	-	1	-	1	-	-	2
830,001	840,000	-	1	-	-	-	-	-	-	1
850,001	860,000	-	-	-	-	-	1	-	-	1
880,001	890,000	-	1	-	-	-	-	-	1	2
890,001	900,000	-	-	-	-	-	1	-	-	1
910,001	920,000	-	-	-	-	-	1	-	-	1
940,001	950,000	-	-	-	-	-	1	-	1	2
950,001	960,000	-	-	-	-	-	-	-	1	1
1,050,001	1,060,000	-	-	-	-	-	2	-	-	2
1,110,001	1,120,000	-	1	-	-	-	-	-	-	1
1,160,001	1,170,000	-	1	-	-	-	-	-	-	1
1,180,001	1,190,000	-	-	-	-	-	1	-	-	1
1,320,001	1,330,000	-	-	-	-	-	1	-	-	1
1,370,001	1,380,000	-	-	-	-	-	1	-	-	1
1,420,001	1,430,000	-	-	-	1	-	1	-	-	2
1,470,001	1,480,000	-	-	-	-	-	1	-	-	1
1,770,001	1,780,000	-	1	-	-	-	-	-	-	1
1,890,001	1,900,000	-	1	-	-	-	-	-	-	1
1,950,001	1,960,000	-	-	-	-	-	1	-	-	1
2,260,001	2,270,000	-	1	-	-	-	-	-	-	1
2,880,001	2,890,000	-	-	-	-	-	-	-	1	1
4,670,001	4,680,000	-	-	-	-	-	-	-	1	1
Totals		-	729	1,387	1,872	541	1,347	70	638	6,322

1 Includes employees employed in New Zealand during the reporting period.

2 Includes employees employed in an offshore operation during the reporting period. Amounts paid in foreign currency have been converted at the average conversion rate for the period. As Fonterra has a significant offshore population, the number of offshore employees exceeding the fixed figure of \$100,000 increases if the New Zealand dollar currency weakens significantly. Should the New Zealand dollar strengthen against those markets' currencies, these same individuals may not be reported in future lists.

3 Cessations include employees that have been terminated or retired during the period. The amounts paid to former employees include salary and bonuses for the current period, prior period bonuses that have been paid in the current period (which were accrued at 31 July 2018) and termination entitlements including those arising from employment arrangements entered into by legacy companies prior to the formation of Fonterra.

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

Within New Zealand, employees, who received remuneration, incentives, and other benefits (including superannuation and allowances etc) exceeding \$100,000 were based throughout the country as follows:

	TOTAL
Auckland	1,039
Bay of Plenty	120
Canterbury	409
Manawatu – Wanganui	262
Northland	138
Southland	181
Taranaki	435
Waikato	1,337
Rest of New Zealand	67
New Zealand total	3,988

In addition to being a significant employer in New Zealand, we also have employees in markets around the world. Those who received remuneration, incentives, and other benefits (including superannuation and allowances etc) exceeding \$100,000 were based in markets around the world as follows:

	TOTAL
Australia	1,010
China	220
Europe	106
Latin America	127
New Zealand	3,988
Rest of Asia	269
Rest of World	79
United States	77
Cessations	446
Global total	6,322

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

CURRENT CREDIT RATING STATUS

Standard & Poor's long-term rating for Fonterra is A- with a rating outlook of stable. Fitch's long- and short-term default rating is A with a rating outlook of negative. Retail Bonds have been rated the same as the Company's long-term rating by both Standard & Poor's and Fitch. Capital Notes which are subordinate to other Fonterra debt issued are rated BBB+ by Standard & Poor's and A- by Fitch.

EXCHANGE RULINGS AND WAIVERS

NZX Limited (NZX) has ruled that Capital Notes do not constitute 'equity securities' under the NZX Main Board/Debt Market Listing Rules (Listing Rules). This means that where Capital Notes are quoted on NZX's Debt Market, Fonterra Co-operative Group Limited (Fonterra) is not required to comply with certain Listing Rules which apply to an issuer of quoted equity securities.

Fonterra was issued with a ruling in respect of Rule 1.7.1(d) of the Fonterra Shareholders' Market Rules (FSM Rules) on 27 June 2017 by NZX Regulation (NZXR). The effect of this ruling was to not preclude the appointment of Mr Bruce Hassall to the position of an independent director of Fonterra by virtue of a child of Mr Hassall being employed in a non-decision making and non-senior role at Fonterra.

Fonterra was issued with a ruling in respect of FSM Rule 5.1.2(c) on 22 November 2016 by NZXR. The effect of this ruling is that Fonterra's internal governance resolutions are considered to be matters that do not require the NZXR to approve a notice of meeting under FSM Rule 5.1.1.

Fonterra was issued with a waiver of Listing Rule 5.2.3 on 5 November 2018 by NZXR for a period of six months from 15 November 2018. This was in respect of fixed rate bonds (FCG050s) quoted on the NZX Debt Market and was to the extent that this Listing Rule would otherwise require the FCG050s to be held by at least 100 Members of the Public holding at least 25 per cent of the FCG050s on issue.

NZX TRADING HALTS

On 9 August 2018 NZX Regulation (NZXR), at the request of Fonterra Co-operative Group Limited (Fonterra) and Fonterra Shareholders' Fund (FSF), placed a trading halt on Fonterra and its debt securities (FCG030, FCG040, & FCGHA), and FSF. Fonterra was preparing its annual financial statements for the financial year ended 31 July 2018 and as a result there was potential for a variation from the earnings guidance previously given by Fonterra to the market. The trading halt had been requested to allow Fonterra to determine this and to make any required announcement to the market. On 10 August 2018 Fonterra shared a revision to its forecast 2017/18 Farmgate Milk Price and updated its normalised earnings per share and dividend guidance. The trading halt was lifted on 10 August 2018 following this announcement.

STOCK EXCHANGE LISTINGS

Fonterra's Co-operative shares are listed and quoted on the Fonterra Shareholders' Market (operated by NZX Limited for Fonterra) under the code 'FCG'. Fonterra has three issues of retail bonds listed and quoted on the NZDX under the codes 'FCG030', 'FCG040', and 'FCG050'. Fonterra also has an issue of capital notes listed and quoted on NZDX under the code 'FCGHA' and a Euro Medium Term Note Programme listed on the Singapore Stock Exchange.

As at 31 July 2019 there were 1,611,991,722 Fonterra Co-operative shares on issue.

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

ANALYSIS OF SHAREHOLDING

Analysis of Fonterra's shareholding as at 31 July 2019:

FCG Largest Recorded Share Holdings¹

NAME	NUMBER OF SHARES	% OF SHARES
Fonterra Farmer Custodian Limited	102,934,582	6.38
Waitonui Mill Trust Agri Holdings Farm Management Limited	1,169,620	0.07
Singletree Dairies 2013 Limited	1,042,776	0.06
Theland Tahi Farm Group Limited – Pineview	1,039,603	0.06
Ellis-Lea Farms (2000) Limited	1,000,194	0.06
Silverdale Farm Limited	973,679	0.06
Stewart Partnership Limited	922,500	0.05
Arlanda Limited	891,413	0.05
Coringa Park Dairies Limited	890,722	0.05
Theland Tahi Farm Group Limited – Pureora North	878,786	0.05
Moffitt Dairy Limited	873,433	0.05
McBain Farms Limited	867,790	0.05
Poplar Partnership Limited	864,982	0.05
R.E.M Farming Limited	863,797	0.05
Southern Pastures (Manako Farm) Limited Partnership	840,055	0.05
Cookstin Dairies Limited	839,600	0.05
Waitonui Milltrust AG Holdings Farm Management LP	832,795	0.05
Van'T Klooster Farms Limited – Waihao Valley Farm	817,500	0.05
Auchenbrae Farm Limited	802,888	0.04
Cashmore Investments Limited	794,315	0.04

¹ The FSM Rules, which reflect the rules of the NZX Main Board, require that Fonterra's annual report contain the names and holdings of persons having the 20 largest holdings of Fonterra shares on the register of Fonterra as at a date not earlier than two months before the date of the publication of the annual report. The list above complies with the FSM Rules and sets out the list of the 20 largest shareholders on the register as at the appropriate date. There is a separate requirement in the FSM Rules to disclose in the annual report those persons who have a 'Relevant Interest' (as defined in the Financial Markets Conduct Act 2013) in Fonterra shares in excess of five per cent, where this information has been provided to Fonterra. Accordingly, the list of the 20 largest holdings of Fonterra shares is not required to show, and does not purport to show, the top 20 holdings of 'Relevant Interests' in Fonterra shares which may be owned or controlled by a person or entity and their associated entities. Other people or entities may have 'Relevant Interests' in a greater number of Fonterra shares than those listed above. However, it is not possible for Fonterra to accurately determine those interests, nor is it a requirement of the FSM Rules for those interests to be reported in the annual report, except where Fonterra has been advised that a person has a 'Relevant Interest' in excess of the five per cent threshold.

Substantial Product Holders

According to notices given to the Company under the Financial Markets Conduct Act 2013, as at 31 July 2019, the substantial product holders in the Company and their relevant interests are noted below. The total number of Co-operative shares on issue as at 31 July 2019 was 1,611,991,722.

SUBSTANTIAL PRODUCT HOLDERS	NUMBER OF VOTING SECURITIES	DATE OF MOST RECENT NOTICE
Fonterra Farmer Custodian Limited	111,816,183	30 July 2018
FSF Management Company Limited	111,735,183	30 July 2018

More than one 'Relevant Interest' can exist in the same voting financial products. Fonterra Farmer Custodian Limited holds Fonterra shares for the Fonterra Shareholders' Fund, of which FSF Management Company Limited is the manager. These two notices therefore refer to substantially the same Fonterra shares. The Custodian also holds some Fonterra shares for the Registered Volume Provider in respect of the Fonterra Shareholders' Fund.

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

FCG Fonterra Co-operative Shares

Analysis of Fonterra Co-operative Shares as at 31 July 2019:

FROM-TO	HOLDER COUNT	%	HOLDING QUANTITY	%
1-50,000	1,175	12.14	33,397,036	2.07
50,001-100,000	2,573	26.59	197,147,527	12.23
100,001-200,000	3,425	35.40	483,339,445	29.98
200,001-400,000	2,031	20.99	551,667,067	34.23
400,001 and over	472	4.88	346,440,647	21.49

ANALYSIS OF CAPITAL NOTE AND RETAIL BOND HOLDING

Analysis of Fonterra's Capital Note Holding as at 6 August 2019:

FCGHA Capital Notes

FROM-TO	HOLDER COUNT	%	HOLDING QUANTITY	%
1-1,000	9	1.32	3,974	0.00
1,001-5,000	25	3.67	66,584	0.07
5,001-10,000	231	33.87	1,645,920	1.61
10,001-100,000	386	56.59	11,148,144	10.87
100,001 and over	31	4.55	89,654,632	87.45

100,001 and over includes Fonterra Co-operative Group Limited's holding of 67,435,575.

Analysis of Fonterra's Retail Bond Holding as at 6 August 2019:

FCG030 \$350 million Retail Bond issue

FROM-TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000-9,999	36	6.23	217,000	0.06
10,000-49,999	267	46.19	5,959,000	1.70
50,000-99,999	69	11.94	4,241,000	1.21
100,000-999,999	167	28.89	56,089,000	16.03
1,000,000 and over	39	6.75	283,494,000	81.00

FCG040 \$150 million Retail Bond issue

FROM-TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000-9,999	60	9.84	347,000	0.23
10,000-49,999	377	61.79	7,907,000	5.27
50,000-99,999	76	12.46	4,610,000	3.07
100,000-999,999	75	12.30	15,525,000	10.35
1,000,000 and over	22	3.61	121,611,000	81.08

FCG050 \$100 million Retail Bond issue

FROM-TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000-9,999	7	4.49	48,000	0.05
10,000-49,999	95	60.89	2,282,000	2.28
50,000-99,999	19	12.18	1,149,000	1.15
100,000-999,999	20	12.82	5,826,000	5.83
1,000,000 and over	15	9.62	90,695,000	90.69

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

ENTRIES IN THE INTERESTS REGISTER

Directors' interests in transactions

General disclosures of interest

The following general disclosures of interest were made in the period from 1 August 2018 to 31 July 2019:

Clinton Dines	Chairman of Sky Renewables Pty Limited. Ceased to be a non-executive Director of North Queensland Airports.
Brent Goldsack	Chair of Waitomo Petroleum Limited and associated companies. Ceased to be a Director of New Zealand Fieldays Society. Ceased to be a shareholder of Longfields Investments Limited and Goldcar Dairy Holdings Limited. Ceased to be General Manager of Kiwitahi Pastoral Limited and One Bird Partnership.
Leonie Guiney	Director and Shareholder of Shamrock Fern Dairies Limited, Hillcrest Dairy Limited, Wimborne Dairy Farm Limited, Greenburn Dairy Farm Limited and Bobby Square Limited. Shareholder of Foxburn Limited.
Bruce Hassall	Chair of Fletcher Building Limited and Fletcher Building Industries Limited. Ceased to be a member of the Auckland Business School Advisory Board.
Andrew Macfarlane	Ceased to be a Director of Macfarlane Rural Business Limited and Ngai Tahu Farming Limited.
Peter McBride	Director and Shareholder of Crocodile Farms Limited. Managing Director of South East Hort Limited and subsidiaries and Ellett Beach Farms Joint Venture. Chief Executive Officer of Trinity Lands Limited. Ceased to be Chairman of Zespri Group Limited. Ceased to be a Director of Zespri International Limited and subsidiaries, Zespri Innovation Co Limited and The New Zealand International Business Forum. Ceased to be a member of the Executive Board of the New Zealand China Council.
John Monaghan	Director of Waitonui Milltrust Agricultural Holdings General Partner Limited, WMAH Farm Management General Partner Limited and Waitohi General Partner Limited. Member of the Executive Board of the New Zealand China Counsel.
John Nicholls	Chair of MHV Water Limited and Quigley Contracting (Advisory Board). Director and Shareholder of Rylib Group Limited. Director of Fairmont Farm Limited, Delarbe Farm Limited, Ma Taua Dairies Limited, Kairoa Dairies Limited, Mahanga Dairies Limited, Akitu Dairies Limited, MC Waters Limited and FEP Dashboard Limited. Trustee and Beneficiary of Rylib Trust and Jeeves Trust. Trustee on G&K Duckett Trust. Shareholder of D & D Dairies Limited (as a Trustee of G&K Duckett Trust).
Donna Smit	Director and Shareholder of Fonterra Farmer Custodian Limited. Director of FSF Management Company Limited and East Pack Limited. Ceased to be a Director of Balance Agri-Nutrients Limited.
Scott St John	Ceased to be a Director of FSF Management Company Limited and First NZ Capital Limited.

During the financial year there were no notices from Directors requesting to disclose or use information received in their capacity as Directors which would not otherwise have been available to them.

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

Securities dealings of Directors

The following entries were made in the Interests Register during the year.

New disclosures

Directors disclosed the following holdings of Co-operative shares during the year:

	RELEVANT INTERESTS IN CO-OPERATIVE SHARES
Leonie Guiney (on appointment 8 November 2018)	878,824
Peter McBride (on appointment 8 November 2018)	5,504,288
John Nicholls (on appointment 20 December 2018)	2,148,864

During the year, Directors disclosed in respect of section 148(2) of the Companies Act 1993 and/or section 297 of the Financial Markets Conduct Act 2013 that they (or their associated persons) acquired or disposed of a relevant interest in financial products as follows:

Co-operative share transactions

DIRECTOR	NUMBER OF SECURITIES ACQUIRED	NUMBER OF SECURITIES DISPOSED	CONSIDERATION \$	DATE
Brent Goldsack	–	280,029 ¹	–	8 November 2018
Brent Goldsack	146,334 ¹	–	–	8 November 2018
Brent Goldsack	1,100	–	–	21 November 2018

¹ Share transactions occurred through the disposal and acquisition of a relevant interest and not via trading on the market.

Unit transactions

DIRECTOR	NUMBER OF SECURITIES ACQUIRED	NUMBER OF SECURITIES DISPOSED	CONSIDERATION \$	DATE
Andrew Macfarlane	10,000	–	57,400	20 April 2018
Donna Smit	561 ¹	–	2,713	15 November 2018

¹ Acquired as part of the Contract Fees for Units agreement.

Retail Bond transactions

There were no transactions by Directors (or their associated persons) in Retail Bonds reported during the period from 1 August 2018 to 31 July 2019. No current holdings of Retail Bonds have been advised by Directors (or their associated persons).

Capital Note transactions

There were no transactions by Directors (or their associated persons) in Capital Notes reported during the period from 1 August 2018 to 31 July 2019. No current holdings of Capital Notes have been advised by Directors (or their associated persons).

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

Directors' remuneration

The Directors' Remuneration Committee, comprising six shareholders elected in accordance with the Constitution, makes recommendations for shareholder approval as to the level of Directors' fees.

At the Annual Meeting of shareholders held on 8 November 2018, shareholders approved, on the recommendation of the Directors' Remuneration Committee, the following amounts of remuneration to apply to Elected Directors from the date of that Annual Meeting of shareholders.

Chairman	\$430,000 p.a.
Directors	\$175,000 p.a.
Discretionary additional payments to the Chair of permanent Board Committees (except if the Chair is the Fonterra Chairman)	\$35,000 p.a.

The Board has approved payment of the discretionary additional payment, at the prevailing approved rate, to the Chair of permanent Board Committees. The Board has discretion to set the fees for Directors appointed under clause 12.4 of the Constitution (Appointed Directors). In the period to 31 July 2019 the Board applied the same remuneration levels as above to the Appointed Directors.

The Board has approved the payment to Mr Israel of a travel allowance of \$10,000 per meeting for travel to and from New Zealand to attend Board meetings.

The Appointments and Remuneration Committee and the Chairman of the Board of Directors has the discretion to allocate a discretionary pool of up to \$75,000 per annum for fees for Directors remuneration for additional duties, workload and responsibilities (in each case not to exceed \$25,000 per annum per Director).

Fees paid by subsidiary or associate companies in respect of Fonterra Directors or employees appointed by Fonterra as Directors of those companies are payable directly to Fonterra.

Directors' indemnity and insurance

Fonterra has given indemnities to, and has effected insurance for, Directors and executives of the Company and its related companies, in accordance with section 162 of the Companies Act 1993, and clause 35 of Fonterra's Constitution, which, except for specific matters that are expressly excluded, indemnify and insure Directors and executives against monetary losses as a result of actions undertaken by them in the course of their duties. Among the matters specifically excluded are penalties and fines that may be imposed for breaches of law.



Dairy for life

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Shareholder And Supplier Services
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For global locations visit www.fonterra.com



Dairy for life

Fonterra Annual Results 2019

26 September 2019

Important Information



Disclaimer

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

While all reasonable care has been taken in the preparation of this presentation, none of Fonterra or any of its respective subsidiaries, affiliates and associated companies (or any of their respective officers, employees or agents) (Relevant Persons) makes any representation, assurance or guarantee as to the accuracy or completeness of any information in this presentation or likelihood of fulfilment of any forward-looking statement or projection or any outcomes expressed or implied in any forward-looking statement or projection. The forward-looking statements and projections in this report reflect views held only at the date of this presentation.

Statements about past performance are not necessarily indicative of future performance.

Except as required by applicable law or any applicable Listing Rules, the Relevant Persons disclaim any obligation or undertaking to update any information in this presentation.

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

Summary

FARMGATE
MILK PRICE

\$6.35
per kgMS

From \$6.69

FREE CASH
FLOW¹

\$1,095
million

From \$600m

NET LOSS
AFTER TAX²

\$605
million

From \$196m

RETURN
ON CAPITAL³

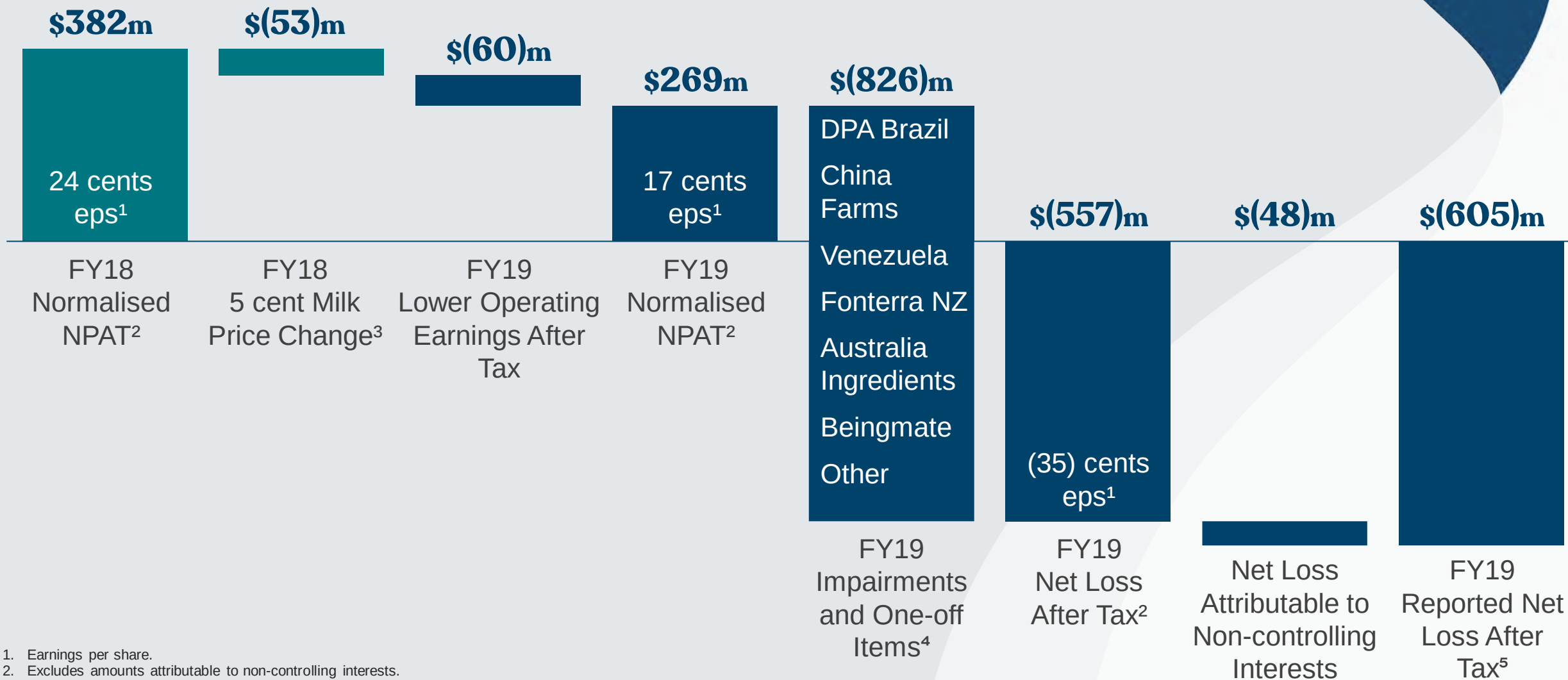
5.8
per cent

From 6.3%

- Significant one-off adverse items resulting in a net loss of \$605 million
- Continued progress with business reset and implementation of new strategy
- New Zealand Ingredients solid but challenges in Australia and Latin America
- Growth in Foodservice gross margin but offset by challenges in some consumer markets
- Financial discipline resulted in lower operating expenditure, reduced capital expenditure, improved cash flow and lower debt
- \$6.35 Farmgate Milk Price and small increase in milk collections

1. Free Cash Flow (FCF) is net cash flows from operating activities less cash flows from investing activities, and includes proceeds received from divestments. FCF represents the amount available to pay interest, dividends and reduce debt.
2. Includes amounts attributable to non-controlling interests.
3. Based on normalised earnings, and capital employed includes brands, goodwill, and equity accounted investments.

Net profit after tax reconciliation



1. Earnings per share.

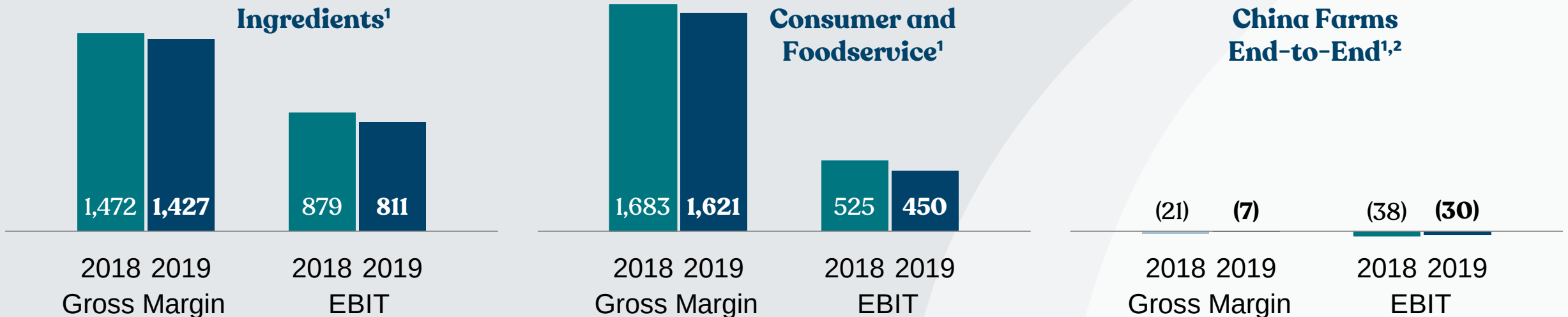
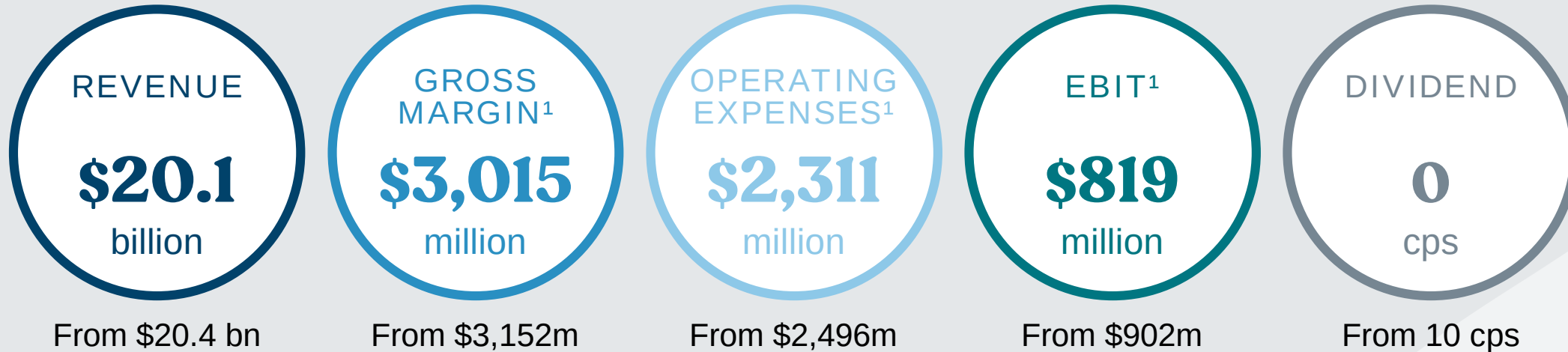
2. Excludes amounts attributable to non-controlling interests.

3. \$53 million is the after tax amount of the \$74 million impact from the change in Farmgate Milk Price in FY18.

4. Total accounting impact of the strategy review is \$829 million losses recorded in EBIT, plus \$56 million of additional tax expense, less \$59 million relating to the non-controlling interest in Fonterra's DPA Brazil joint venture. Therefore, the after tax amount attributable to equity holders is \$(826) million.

5. Includes amounts attributable to non-controlling interests.

Disappointing earnings performance



1. Normalised basis and does not add to total group due to including inter-segment sales.

2. Provides end-to-end perspective, comprising China Farms' segment plus financials from Ingredients and Consumer and Foodservice related to China Farms.

Key drivers of FY19 business performance

Progress

Capital expenditure.....	down \$261m to \$600m
Operating expenditure.....	down \$185m to \$2,311m
New Zealand Ingredients.....	gross margin up \$35m to \$1,332m
Greater China Foodservice.....	gross margin up \$17m to \$203m
Asia Foodservice.....	gross margin up \$14m to \$93m

Disappointing

Australia Ingredients.....	gross margin down \$67m to \$10m
Latin America Consumer.....	gross margin down \$62m to \$367m
Asia Consumer.....	gross margin down \$18m to \$359m
Prolesur, Chile.....	gross margin down \$13m to \$(4)m

Progress on the three-point plan

Take stock

Reduce debt by \$800 million



Gearing within 40-45% range by year-end

48.2%²
Down 0.2%

Get the basics right

Reduce capex by \$200 million



\$160 million decrease in operating expense by FY20



More accurate forecasting

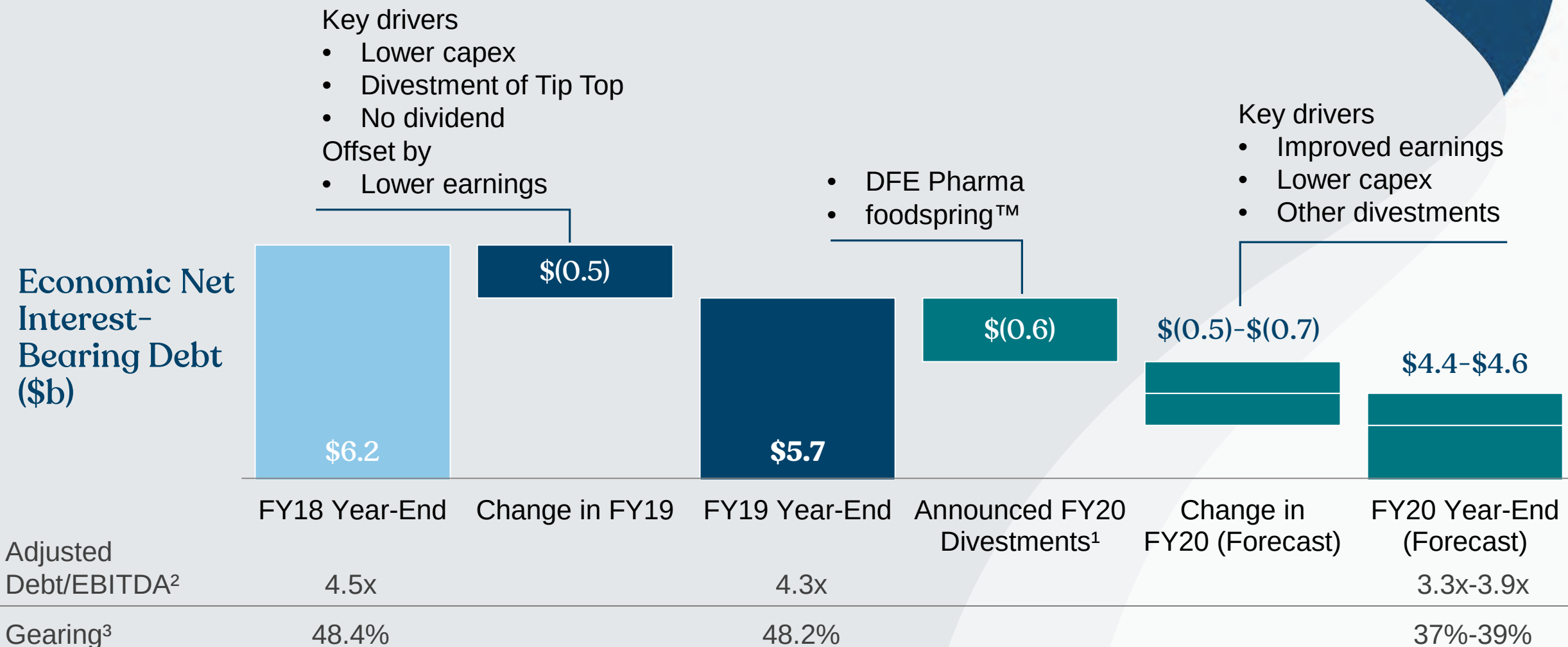
- Work in progress
- Providing timely and realistic updates
- Providing additional information for greater transparency
- Increased use of digital analysis

1. The announced divestments of our interest in foodspring™ and DFE Pharma will result in sale proceeds of \$0.6 billion in FY20.

2. Gearing ratio is economic net interest-bearing debt divided by total capital. Total capital is equity excluding the hedge reserves, plus economic net interest bearing debt.

3. Includes the impact of not paying performance bonuses in relation to FY19.

Committed to strengthening our balance sheet



1. The divestment of foodspring™ and DFE Pharma have been announced and the sale proceeds will be received in FY20.

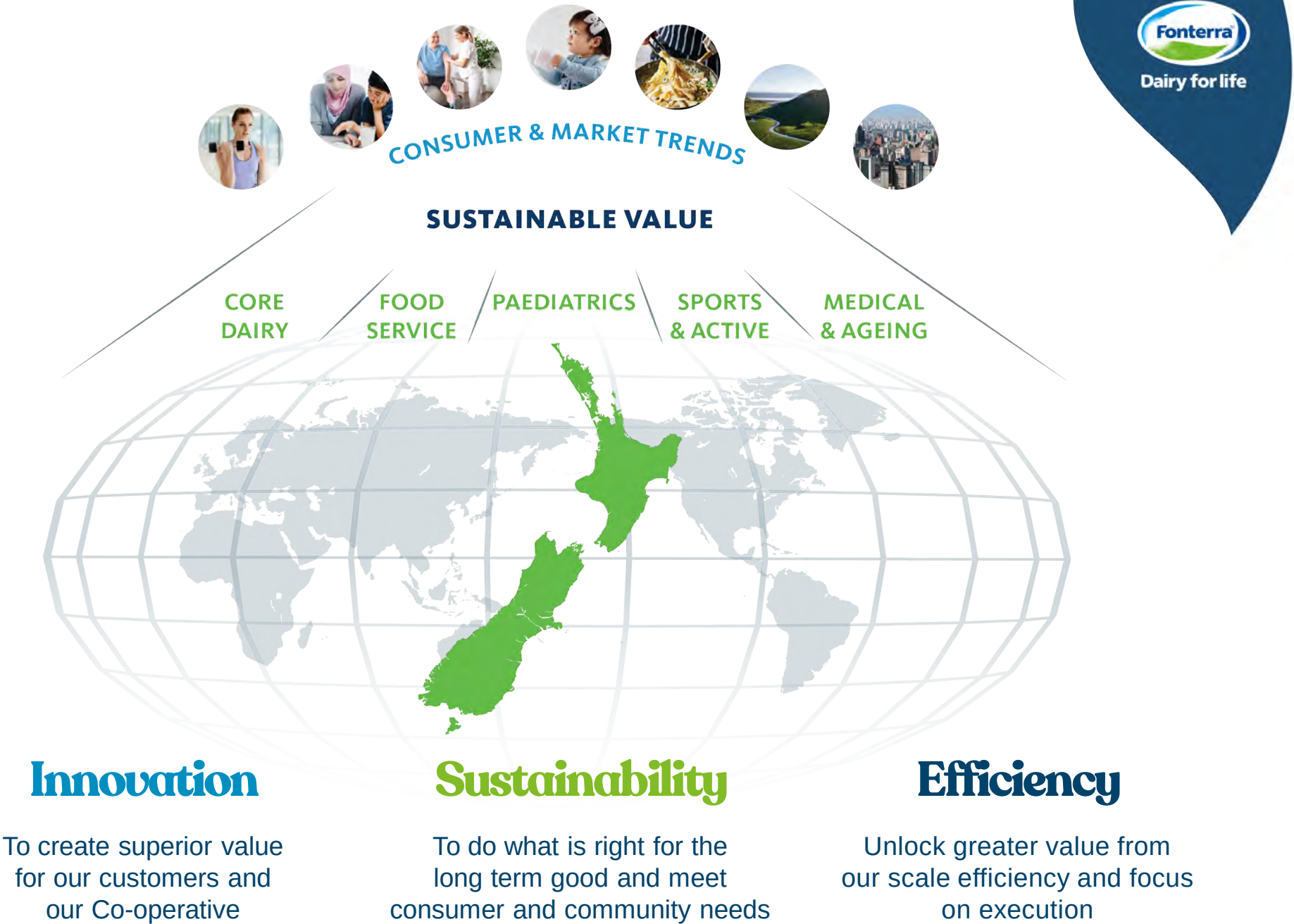
2. Ratio is economic net interest bearing debt divided by earnings before interest, tax, depreciation and amortisation (EBITDA). Both debt and EBITDA are adjusted from reported amounts for the impact of operating leases, certain normalisations and non-cash amounts.

3. Gearing ratio is economic net interest bearing debt divided by total capital. Total capital is equity excluding the hedge reserves, plus economic net interest bearing debt.

Our Strategy

Our strategy focuses on using New Zealand milk to meet market needs.

We will create sustainable value for our customers and farmers through innovation, sustainability and efficiency.



We've made some big choices

From

Volume

Global Milk Pools

Maximum volume into consumer

Dairy only

Partner with cash investments

Debt funded growth

Global giant with HQ
in New Zealand

Invest widely based on
aggressive growth plans



To

Value

Prioritise New Zealand Milk
+ complementary components

Focus on key categories to deliver superior value

Supplement with non-dairy where makes sense

Partner with IP and skills and lift R&D

Conservative balance sheet

Celebrate Aotearoa New Zealand
and take it to the world

Divest non-core businesses and
focus where we have a competitive advantage

Our goals for a sustainable Co-operative

We will measure success with a triple bottom line

Healthy People

Valuable nutrition
Strong relationships
Supporting communities

Healthy Environment

Lower footprint
Zero waste
Restoring nature

Healthy Business

Sustainable payout
Return on capital
Reliable dividends

What's going to be different

- A proud co-operative delivering for our farmer owners, our people, our customers, New Zealand and the world
- A leaner, more focused business, clear about who we are and where we are going
- Re-setting the business to get our balance sheet in order and focusing where we add superior value
- Well positioned to create value from exciting market trends

What you can expect from us

- We're changing our culture and behaviours to focus on building a great team
- We'll be open and honest, even when there are challenges along the way
- We'll deliver on our triple bottom line commitments
- We'll live our Purpose and Values and put sustainability at the heart of everything we do

The future of our Co-op is in our hands.

Tātou, tātou

Our priorities for 2020

Build a great team

- Live our Purpose and Values through our actions
- Successfully shift to new customer-led operating model
- Create a culture that empowers our people

Support regional New Zealand

- Inject \$10 billion into rural communities through competitive milk price payments
- Support communities through nutritional and environment programmes

Hit our financial targets

- Debt no more than 3.75x earnings
- Capital expenditure no more than \$500 million
- Gross margin in excess of \$3 billion
- Meet earnings guidance of 15-25 cents per share

Improve our environmental footprint

- Support farmers to complete a further 1,000 Farm Environment Plans
- Provide climate emissions reports for all our farmers
- Reduce emissions, improve energy efficiency and water use at our sites

FY20 outlook

Year of transition



Group

Forecast Farmgate
Milk Price

\$6.25 – \$7.25

per kgMS

Forecast
Milk Collection

1,520

million kgMS

Forecast Earnings per Share

15 – 25

cents

Ingredients

Forecast
Gross Margin

7% – 9%

from 8.4%

Forecast EBIT

\$600 – \$700

million

from \$811 million

Consumer and Foodservice

Forecast
Gross Margin

22% – 24%

from 23.1%

Forecast EBIT

\$430 – \$530

million

from \$450 million

Appendix



Our Purpose guides everything we do

OUR PURPOSE

*Our Cooperative,
Empowering people
to create goodness for generations
You, me, us together
Tātou Tātou*

Let's be straight...



- When you go through tough times, you ask yourself hard questions
- Before starting the strategy review we took a hard look in the mirror
- And asked ourselves who we really are and what we have learned
- 18 months ago we might have said we're a global dairy giant, here to make a difference in the lives of 2 billion people
- When times get tough, you reflect. We've been here nearly 150 years – we want at least 150 more
- At our heart, we're a co-operative, doing amazing things with New Zealand milk to enhance people's lives and create value for customers and our farmer owners
- It may not sound so radical, but this simple change of how we think of ourselves takes us to a really different place
- And a stronger long term future together

We looked at what's happening in the world



Opportunities

RISING INCOMES IN DEVELOPING WORLD

URBANISATION

ENVIRONMENTAL IMPACT

OUT OF HOME EATING

VALUE OF NATURAL FOOD

AGEING POPULATION

CONVENIENCE & HEALTHY SNACKING

SOCIAL IMPACT

FOOD AS NUTRITION

Growing risks

TRADE TENSIONS

INDUSTRY DISRUPTIONS

ENVIRONMENTAL IMPACT

REGULATION CHANGES

CLIMATE CHANGE

SOCIAL MEDIA

FOOD SAFETY

FINANCIAL SHOCKS

NEW FOODS

We're clear on our strengths as a Co-op and the realities we face



Strengths

OUR PEOPLE

INNOVATION, RESEARCH & DEVELOPMENT

SCALE & EFFICIENCY

PASTURE BASED FARMING MODEL

LOW GREEN HOUSE GAS EMISSIONS

GLOBAL SUPPLY CHAIN

PRODUCT & MARKET OPTIONALITY

FOOD SAFETY & TRACEABILITY

AOTEAROA NEW ZEALAND

CUSTOMER RELATIONSHIPS

Our realities

INCREASING COMPETITION

CONSTRAINED CAPITAL

LARGE ASSET BASE

HIGH DEBT LEVEL

LACK OF TRUST & CONFIDENCE

BIG PART OF NEW ZEALAND

ENVIRONMENTAL INVESTMENT COSTS

RECENT UNDER PERFORMANCE

Product innovation to meet consumer needs



High protein and great tasting **medical beverages**

An infant formula composition inspired by breast milk



High Protein Instant Milk Powder cost-effective option providing 33% of an adult's daily calcium needs



Reduced sugar in Kiwi kids diets



Protein fortified healthy drinks and snacks in high demand



Anchor™ Food Professionals high quality, fit-for-purpose products and solutions for foodservice professionals

Healthy business

Measuring success

(Normalised)	FY19 Actual	3-Year Plan ¹	5-Year Plan ¹
Gross Margin %	15.0%	15.2%	15.6%
EBIT	\$819m	\$950m	\$1,100m
NPAT ²	\$269m	\$650m	\$800m
Capital Expenditure	\$600m	\$500m	\$500m
Free Cash Flow ³	\$699m	\$900m	\$1,050m
Debt/EBITDA	4.3x	2.5-3.5x	2.5-3.5x
Return on Capital	5.8%	8.5%	10%
Earnings per Share	17c	40c	50c

1. There can be no certainty of outcome in relation to the matters to which these plans or forward-looking statements relate. They involve risks, uncertainties, assumptions and other important factors (some of which may be out of Fonterra's control) that could cause the actual outcomes to be materially different from the results expressed or implied. No assurance or guarantee is given as to the likelihood of fulfilment of any such statement or projection.

2. Excludes amounts attributable to non-controlling interests.

3. For comparative purposes divestments proceeds have been excluded from free cash flow.

Healthy people

Measuring success

	Current	2025	2030
Nutrition ¹	71% ²	100%	100%
Health and Safety	4.9 ³	<5	<5
Employee engagement ⁴	3 rd quartile	World Class (Top Quartile)	World Class (Top Quartile)
Farmer Satisfaction ⁵	-17	10	≥10
Customer Satisfaction ⁶	8.2	≥8	≥8
Public Perception ⁷	62	65	67

1. Fonterra's nutritional guidelines for consumer branded products that is independently endorsed (New Zealand Nutritional Foundation) – the target is to reach 100% for everyday and advanced products.
2. Current performance represents FY18 due to timing of data availability.
3. TRIFR (Total Recordable Injury Frequency Rate) – Zero harm philosophy. World class = <5 per million work hours.
4. Independent staff engagement survey (MySay survey) – rating is on a 5 point scale, and we are currently at 4. World class is 4.11. Top quartile refers to fourth quartile.
5. Net Promoter Score – Farmer sentiment measure. This is for Fonterra not Farm Source. World class is 30-40, anything above 20 is favourable.
6. Customer Value Monitor – Customer satisfaction measure. These results are for NZMP globally. World class is 8, and the measure is out of 10.
7. RepZ – Public perception measure. Results and targets are for NZ only. RepZ gives a score out of 100. Our score is slightly above the national average of 61.3.



Healthy environment

Measuring success

	Current	Target
Reduce Greenhouse Gas Emissions ¹	3%	30% by 2030
Reduction in Water use ²	New Target	30% by 2030
Solid Waste to Landfill	15,430MT ³	0MT by 2025

1. Reduction in absolute manufacturing emissions from FY15 baseline. Current performance represents FY18 due to timing of data availability.
2. Reduction at manufacturing sites in water stressed regions. Water stressed (constrained) regions are determined by a combination of attributes.
3. No solid waste sent to landfill – current performance represents FY18 due to timing of data availability.

New dividend policy

- Over time we expect to distribute half of our net earnings, excluding abnormal gains
- This will be subject to not borrowing to pay dividends and the serviceability of existing debt remaining within the Board's specified guidelines

Parameters and guidelines

Net Earnings

- Payout ratio of 40-60% of Reported NPAT, but excluding abnormal gains
- Distributions of any abnormal gains considered separately

Not borrowing to pay dividends

- Dividend not to exceed 100% of Available Net Cash Flows
- Available Net Cash Flow defined as cash flows available to reduce debt, but excluding any material working capital changes considered highly likely to reverse in future periods

Debt serviceability

- Measured based on Debt to EBITDA ratio
- Dividend payment will not result in Debt to EBITDA ratio in current and forecast year exceeding level required to maintain 'A' band credit rating

Continued focus on financial discipline

\$648m

Net Cash Flow¹

Up by \$1,030m

4.3x

Adjusted Debt/EBITDA²

Down 0.2x

**83
days**

Working Capital

No change

48.2%

Gearing³

Down 0.2%

\$5.7bn

Net Debt⁴

Down by \$469m

\$600m

Capex⁵

Down by \$261m

\$2.3bn

Operating Expenses

Down by \$185m

**A
Negative
Fitch**

**A-
Stable
S&P**

Credit Rating

1. Net Cash Flow is calculated as Free Cash Flow less net interest paid and dividends paid in the same period.

2. Ratio is economic net interest-bearing debt divided by earnings before interest, tax, depreciation and amortisation (EBITDA). Both debt and EBITDA are adjusted from reported amounts for the impact of operating leases, certain normalisations and non-cash amounts.

3. Gearing ratio is economic net interest-bearing debt divided by total capital. Total capital is equity excluding hedge reserves, plus economic net interest-bearing debt.

4. Economic net interest-bearing debt reflects total borrowings less cash and cash equivalents and non-current interest-bearing advances adjusted for derivatives used to manage changes in hedged risks, and bank overdraft.

5. Capital expenditure comprises purchases of property (less specific disposals where there is an obligation to repurchase), plant and equipment and intangible assets, and net purchases of livestock.

Normalisation adjustments: Accounting impact of the Strategy Review

FY19 NZD million	Intangible Impairment	PP&E Impairment	Total Impairment	(Loss) on Disposal & Other	Net Profit Before Tax	Tax Impact	Total Group	Non- controlling Interests	Attributable to Equity Holders
Fonterra New Zealand	(189)	(7)	(196)	(48)	(244)	34	(210)		(210)
China Farms		(203)	(203)		(203)		(203)		(203)
Brazil	(133)		(133)	(16)	(149)	(110)	(259)	59	(200)
Venezuela			0	(134)	(134)		(134)		(134)
Australia Ingredients	(9)	(23)	(32)	(36)	(68)	18	(50)		(50)
Beingmate			0	(12)	(12)		(12)		(12)
Other ¹			0	(19)	(19)	2	(17)		(17)
Total	(331)	(233)	(564)	(265)	(829)	(56)	(885)	59	(826)

1. Includes strategic reset costs not assigned to the other categories within the table.

Operating expenses¹

\$ million		2017	2018	2019
Ingredients	Selling and marketing	117	128	114
	Distribution	229	237	239
	Administrative expenses	301	331	303
	Research and development	3	3	0
	Other expenses	75	109	79
	Total	725	808	735
Consumer and Foodservice	Selling and marketing	491	492	459
	Distribution	321	335	322
	Administrative expenses	229	223	225
	Research and development	11	13	12
	Other expenses	140	150	155
	Total	1,192	1,213	1,173
China Farms		31	31	21
Unallocated Costs	Operating and administration	331	380	319
	Research and development	56	64	63
	Total	387	444	382
Total Normalised Operating Expenses		2,335	2,496	2,311

- Operating expenses reduced \$185 million, and includes the impact of not paying performance bonuses in relation to FY19
 - Ingredients down \$73 million
 - Consumer and Foodservice down \$40 million
 - China Farms down \$10 million
 - Unallocated costs down \$62 million
- Unallocated costs breakdown provided on the following slide

1. Normalised basis.

Unallocated costs

Illustrative Business Unit Distribution of 2019 Unallocated Costs¹

Unallocated Costs ² (\$ million)	2018	2019
Research & Development	64	63
Group Finance and Support	66	57
IT	67	59
IT impairment ³	—	29
Farmer Services ⁴	65	43
People & Culture	22	21
Advertising and Promotion Costs	30	16
Food Safety & Quality	15	14
Property	11	12
Trade Relations and Compliance	10	10
Governance	9	9
Other	85	49
Total	444	382

Consumer and		Not Allocated	Total
Ingredients	Foodservice		
42	21	—	63
—	—	57	57
38	21	—	59
13	7	9	29
43	—	—	43
13	8	—	21
—	—	16	16
9	5	—	14
8	4	—	12
6	4	—	10
—	—	9	9
—	—	49	49
172	70	140	382

1. For illustrative purposes, in this table the unallocated costs for 2019 have been shown against the business units where the primary function of the cost item is to support the business units. The distribution is based on sales volume. The balance is retained as "Not Allocated".

2. Normalised basis.

3. One-off impairment of IT assets due to change in IT strategy.

4. The majority of the reduction in 2019 was because of a reclassification of milk testing to the Ingredients business.

Number of full time employees decreasing

- Continual focus on efficiency and reduction of duplication
 - Decrease in the number of full time employees across the business
 - Decrease in consumer and foodservice numbers reflects divestment of Tip Top and our Venezuelan business
 - In addition, over FY19 the number of contractors has reduced from 1,165 to 784

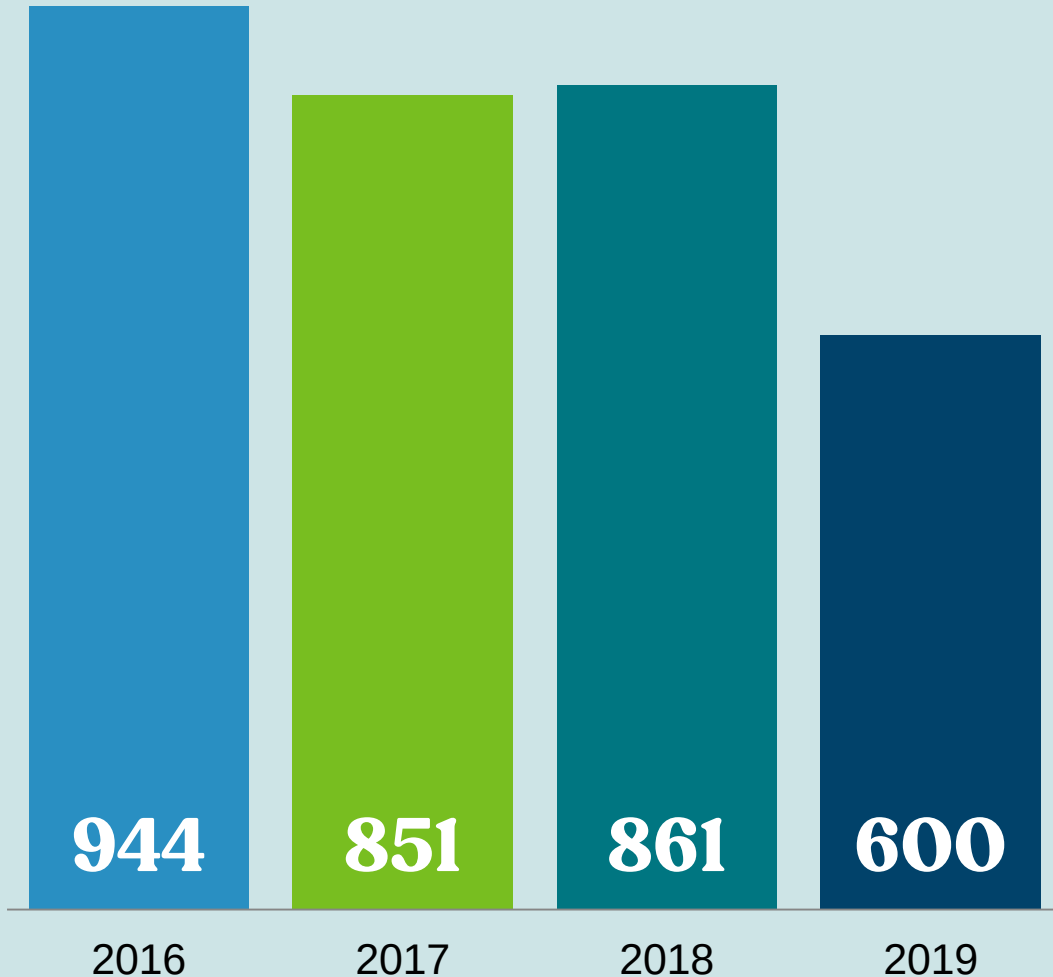
Breakdown of 2019 by Geographic Region

Function	FY17	FY18	FY19	New Zealand	Asia and Australia	MEA	Greater China	Latin America	Rest of World	Total
Ingredients	10,235	10,391	10,318	8,435	1,029	95	90	424	245	10,318
Consumer and Foodservice	8,343	8,245	6,892	1,513	243	1,872	603	2,634	27	6,892
China Farms	1,071	1,065	1,103	—	—	—	1,103	—	—	1,103
Group Functions	1,675	1,780	1,700	1,526	45	93	9	26	1	1,700
Total	21,324	21,481	20,013	11,474	1,317	2,060	1,805	3,084	273	20,013

Note: Figures represent full time employees. Defined as permanent, salary and wage, employees as at 31 July.

Capital expenditure

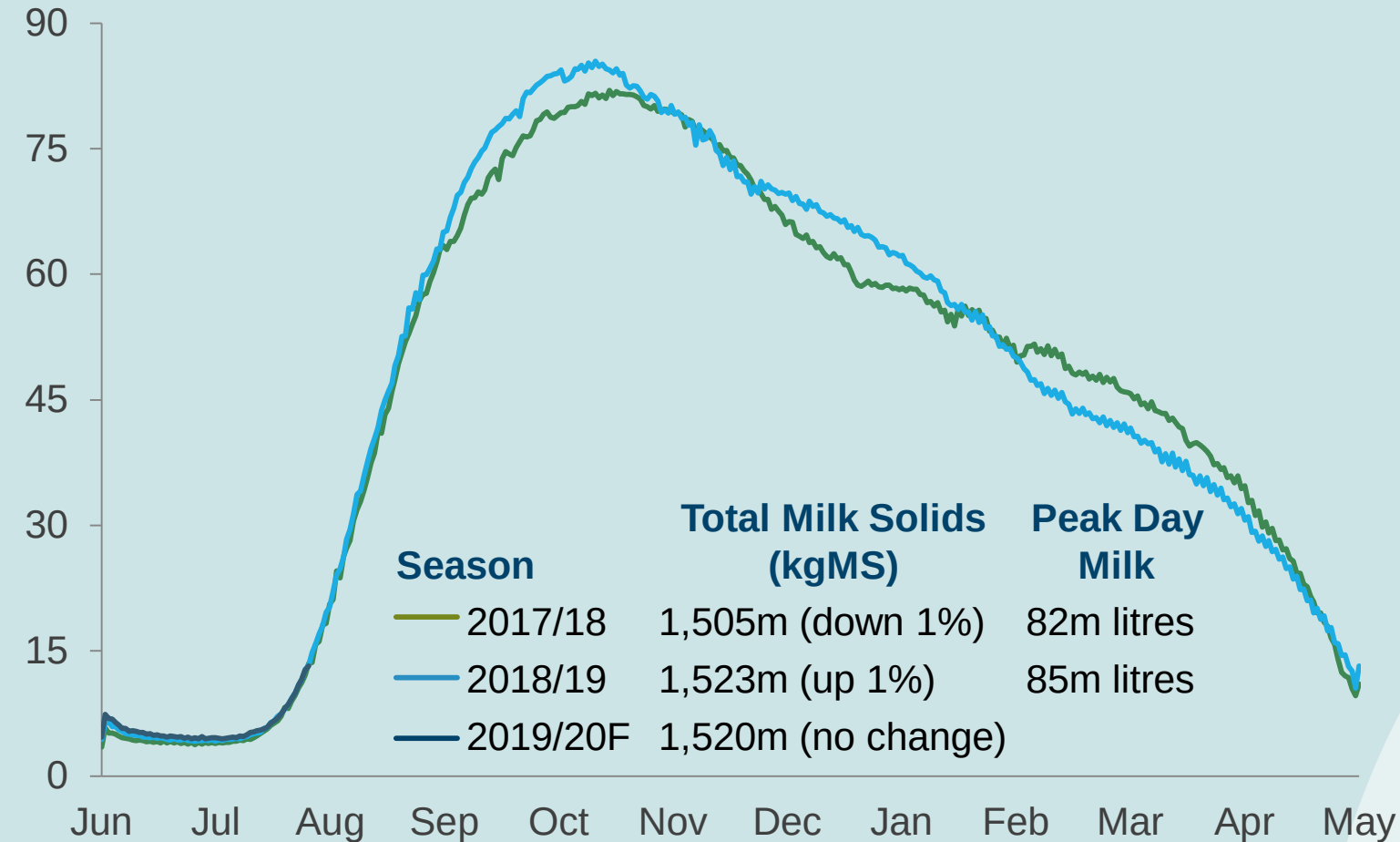
\$ million



- Significant reduction in capital expenditure achieved
 - Down \$261 million to \$600 million
- Key drivers of the reduction:
 - Essential spend decreased from \$367 million to \$340 million, down 7%
 - Growth spend decreased from \$494 million to \$260 million, down 47%
- 53% of growth spend was for carry-over projects from previous years, including:
 - Stanhope Cheese Expansion \$61 million
 - Clandeboye Mozzarella Expansion \$43 million
 - Darfield Cream Cheese Plant \$17 million
 - Darnum \$17 million
- FY20 forecast capital expenditure of no more than \$500 million

Milk collections

Volume (m litres/day)

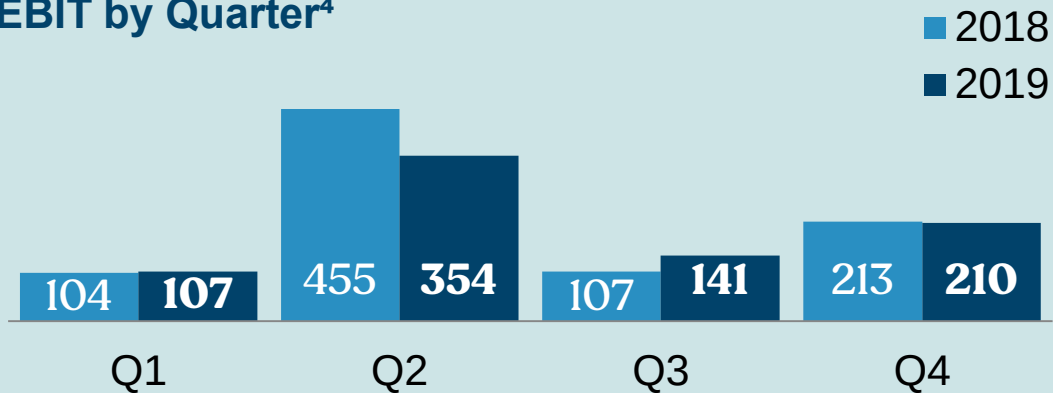


- 2018/19 season New Zealand milk collections were 1,523 million kgMS
- 18 million kgMS or 1.2% increase on last season
- Peak day collections were up due to favourable weather conditions in first half
- Unfavourable on-farm conditions in second half reduced impact of strong first half
- 2019/20 season forecast milk collection of 1,520m kgMS

Ingredients

million	2018	2019	%Δ ¹
Volume ² (LME)	20,520	21,421	4%
Revenue (\$)	16,306	17,035	4%
Gross Margin ³ (\$)	1,472	1,427	(3)%
Gross Margin ³ (%)	9.0%	8.4%	
Operating Expenses ³ (\$)	(808)	(735)	(9)%
EBIT ³ (\$)	879	811	(9)%

EBIT by Quarter⁴



- New Zealand Ingredients' performance improved but offset by challenges in offshore businesses – Australia Ingredients and Prolesur in Chile
- New Zealand Ingredients gross margin up 3% due to favourable pricing but partially offset by bringing new plants online and peak volume costs
- Australia gross margin down from \$77 million to \$10 million:
 - Higher milk price in response to competitive market and factories underutilised due to lower collections
 - Announced closure of Dennington to address overcapacity and undertook business simplification process – expect future cost savings
- Prolesur experienced strong competition for milk in Chile, collections down 16%. Gross margin down \$13 million to \$(4) million

1. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of reported figures.

2. Includes sales to other strategic platforms.

3. Normalised basis.

4. Summing of EBIT margin figures may not add up to total EBIT displayed in table above due to rounding. Note: EBIT is in NZD millions. All changes are expressed relative to FY18.

Ingredients by region

New Zealand Ingredients

Volume¹

19,494 million LME

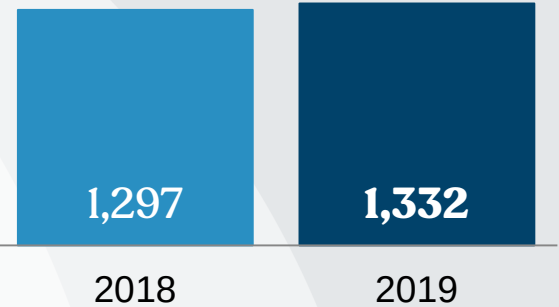
From 18,427 million

Gross Margin^{2,3}

8.7%

From 8.9%

\$ million³



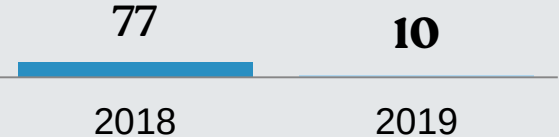
Australia

1,659 million LME

From 1,755 million

0.6%

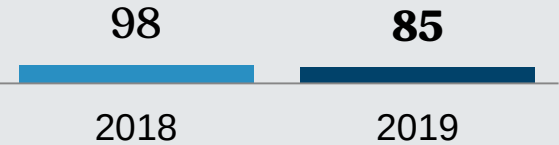
From 4.1%



Other and Eliminations

268 million LME

From 338 million



1. Includes sales to other strategic platforms.
 2. Not meaningful to show gross margin for "Other and Elimination".
 3. Normalised basis.

Note:
 Gross margin is in NZD millions. All changes are expressed relative to FY18.
 Percentages as shown in tables may not align to the calculation of percentages based on numbers in the tables due to rounding of reported figures.

New Zealand Ingredients product mix

	2018		2019	
	\$ million	\$ per MT	\$ million	\$ per MT
Sales Volume (000 MT)^{1,2}				
Reference	1,794	–	1,864	–
Non-Reference	620	–	774	–
Revenue^{1,2}				
Reference	8,703	4,851	8,833	4,739
Non-Reference	3,495	5,637	4,202	5,427
Cost of Milk				
Reference	6,810	3,796	6,673	3,580
Non-Reference	1,849	2,982	2,398	3,098
Gross Margin				
Reference	555	309	626	336
Non-Reference	791	1,275	701	905

- Reference product gross margin up due to lower cost of fat following decline in fat prices
- Non-reference gross margin down due to the increased cost of protein

1. Excludes bulk liquid milk. Bulk liquid milk for the year ended 31 July 2019 was 73,000 MT (year ended 31 July 2018: 68,000 MT).

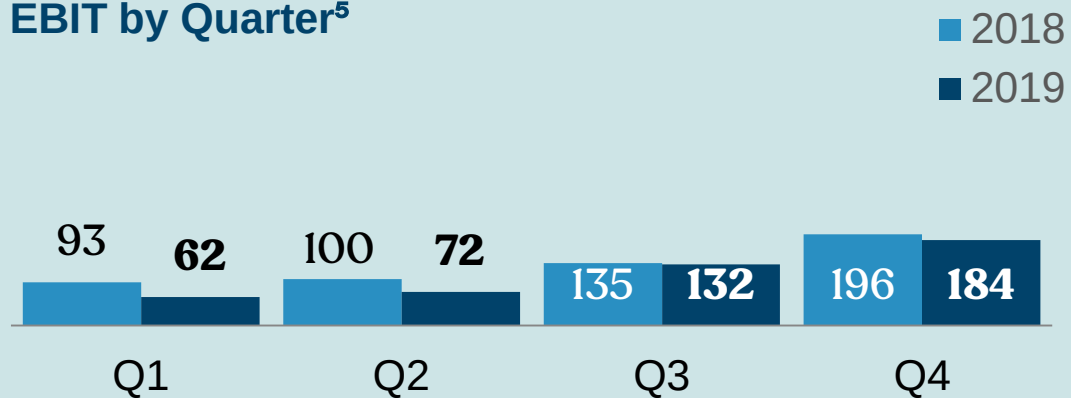
2. The way in which Ingredients presents certain inter-segment sales between Ingredients and Foodservice was revised in FY19. This increased sales volumes for the year ended 31 July 2019 by 21,000 MT and 167,000 MT and increased sales revenue by \$153 million and \$748 million on reference and non-reference products respectively. This change had no impact to the reported gross margin for the Ingredients business.

Note: Reference products are products used in the calculation of the Farmgate Milk Price – WMP, SMP, BMP, Butter and AMF. Milk solids used in the products sold were 515 million kgMS in reference and 178 million kgMS non-reference (previous comparable period 547 million kgMS reference and 190 million non-reference).

Consumer and Foodservice

million	2018	2019	%Δ ¹
Volume ^{2,3} (LME)	5,365	5,129	(4)%
Revenue (\$)	7,122	7,011	(2)%
Gross Margin ⁴ (\$)	1,683	1,621	(4)%
Gross Margin ⁴ (%)	23.6%	23.1%	
Operating Expenses ⁴ (\$)	(1,213)	(1,173)	(3)%
EBIT ⁴ (\$)	525	450	(14)%

EBIT by Quarter⁵



- Foodservice gross margin up but offset by challenges in Consumer business in some markets
- Volume down due to lower sales of butter in Greater China and Asia in first half
- Overall performance improved in second half relative to first half, in particular Greater China and Latin America recovered from a slow start, with 70% of earnings in second half
- Foodservice's gross margin improved 10%, from \$388 million to \$426 million, with improvement in all regions
- Consumer's gross margin down 8%, from \$1,295 million to \$1,195 million, mainly due to pricing pressure in Latin America and Asia
- Oceania Consumer and Foodservice business improved, with normalised EBIT of \$92 million, up 37% from last year
- Lower gross margin partially offset by reduced operating expenses, down \$40 million, but lower 'Other Income' resulted in lower EBIT

1. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of reported figures.
 2. Includes sales to other strategic platforms.
 3. FY18 LME volume adjusted for the exclusion of discontinued inter-company sales to improve comparability. FY18

volumes were restated for 224m LMEs.

4. Normalised basis.

5. Summing of quarterly EBIT figures may not add up to total EBIT displayed in table above due to rounding.

Note: EBIT is in NZD millions. All changes are expressed relative to FY18.

Consumer and Foodservice

Greater China

Volume²

1,208 million LME

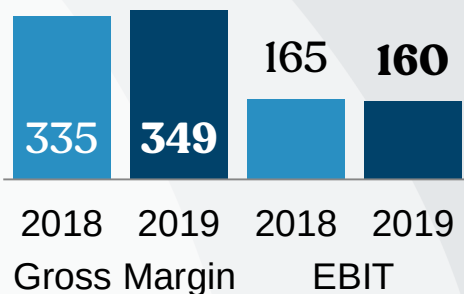
From 1,413 million

Gross Margin³

23.5%

From 21.4%

\$ million



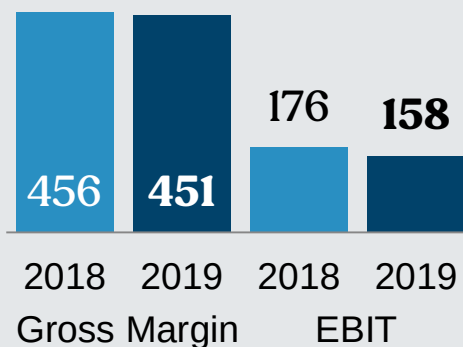
Asia¹

1,450 million LME

From 1,549 million

24.2%

From 24.5%



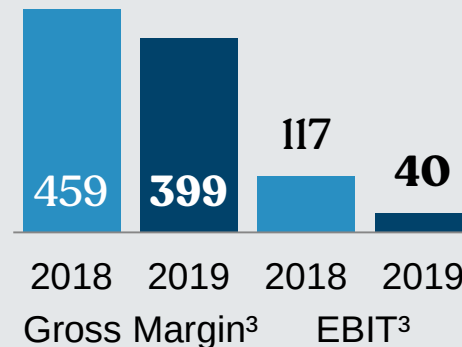
Latin America

779 million LME

From 747 million

26.5%

From 29.9%



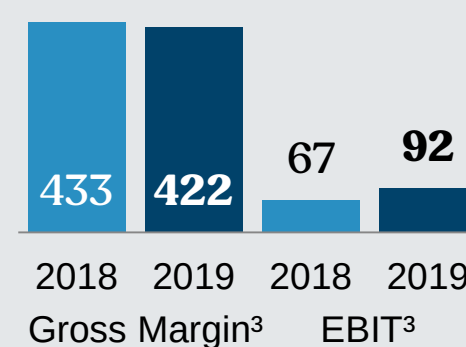
Oceania

1,692 million LME

From 1,656 million

19.5%

From 20.1%



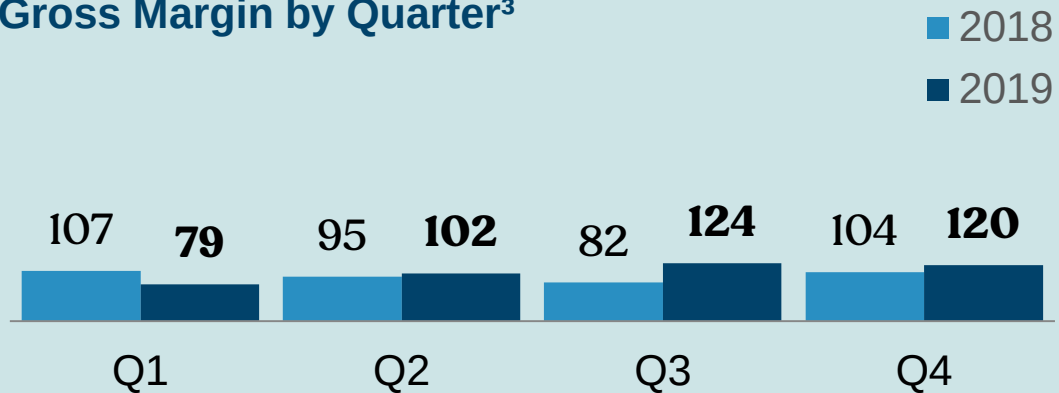
1. FY18 LME volume adjusted for the exclusion of discontinued inter-company sales to improve comparability. FY18 volumes were restated for 224m LMEs.
2. Includes sales to other strategic platforms.
3. Normalised basis.

Note:
EBIT and gross margin are in NZD millions. All changes are expressed relative to FY18.
Sum of individual numbers from the regional and divisional breakdown may not add to the totals in each category due to rounding.

Foodservice

million	2018	2019	%Δ ¹
Volume ² (LME)	2,437	2,185	(10)%
Revenue (\$)	2,479	2,369	(4)%
Gross Margin (\$)	388	426	10%
Gross Margin (%)	15.7%	18.0%	

Gross Margin by Quarter³



- Volume down mainly due to lower sales of butter in Greater China and Asia in first half:
 - Greater China had higher in market inventories at start of the year
 - In Asia there were challenging economic conditions in Middle East and in Indonesia we moved away from lower margin butter sales
- Gross margin growth in all regions:
 - Greater China had growth in Anchor Food Professionals™ UHT milk and Anchor Food Professionals™ UHT culinary cream
 - Asia reflected improved performance from Indonesia with increased focus on higher value products
 - In Oceania the Australia business improved both margin and volume

1. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of reported figures.

2. Includes sales to other strategic platforms.

3. Summing of quarterly gross margin figures may not add up to total gross margin displayed in table above due to rounding.

Note: Gross margin is in NZD millions. All changes are expressed relative to FY18.



Greater China

Volume¹

1,083 million LME

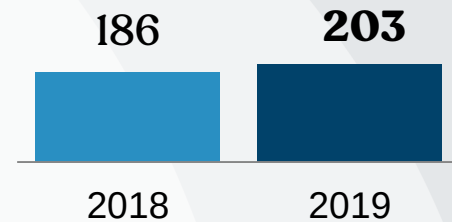
From 1,273 million

Gross Margin

18.1%

From 15.2%

\$ million



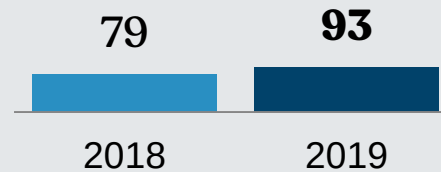
Asia

559 million LME

From 643 million

15.8%

From 12.6%



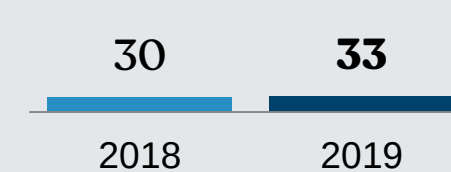
Latin America

109 million LME

From 94 million

22.8%

From 25.9%



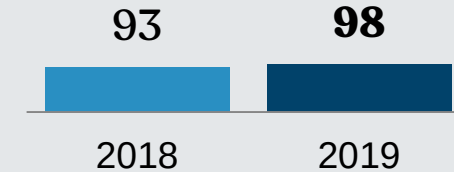
Oceania

433 million LME

From 427 million

18.9%

From 18.1%



Foodservice

1. Includes sales to other strategic platforms.

Note:

Gross margin is in NZD millions unless otherwise stated. All changes are expressed relative to FY18.

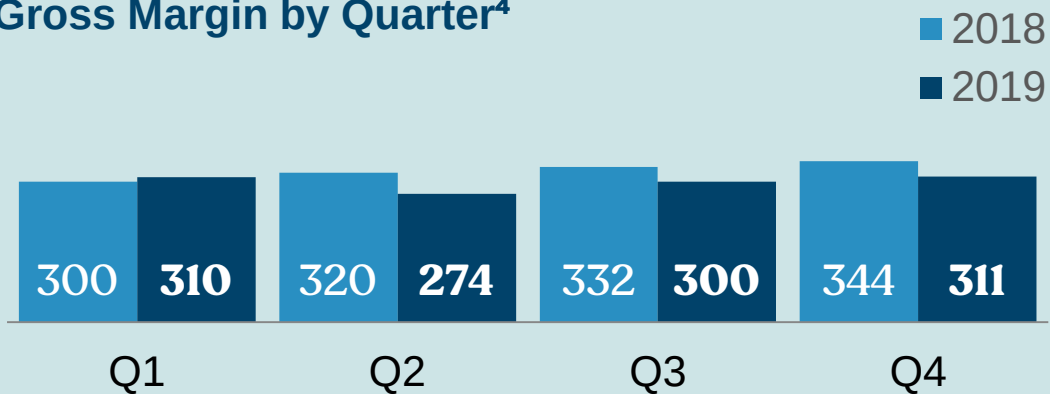
Sum of individual numbers from the regional and divisional breakdown may not add to the totals in each category due to rounding.

Consumer



million	2018	2019	%Δ ¹
Volume ^{2,3} (LME)	2,928	2,944	1%
Revenue (\$)	4,643	4,642	0%
Gross Margin (\$)	1,295	1,195	(8)%
Gross Margin (%)	27.9%	25.7%	

Gross Margin by Quarter⁴



- Sales volume up 1%, strong growth in Australia partially offset by lower butter sales in the Middle East and challenges in Sri Lanka
- Overall Consumer gross margin down due to tighter margins from pricing pressure in Latin America and Asia Consumer:
 - Latin America down due to a 'buy local' marketing campaign in Chile impacting Soprole
 - Asia down mainly due to pricing constraints in Sri Lanka
- Mainland China's Consumer business was offset by subdued retail sales in Hong Kong
- Soprole's performance returning to historical earnings levels in last quarter

1. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of reported figures.
 2. Includes sales to other strategic platforms.
 3. FY18 LME volume adjusted for the exclusion of discontinued inter-company sales to improve comparability. FY18

volumes were restated for 224m LMEs.
 4. Summing of quarterly gross margin figures may not add up to total gross margin displayed in table above due to rounding.
 Note: Gross margin is in NZD millions. All changes are expressed relative to FY18.



Greater China

Volume²

126 million LME

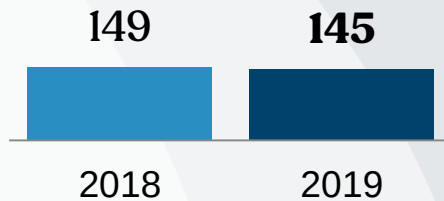
From 139 million

Gross Margin

40.2%

From 43.5%

\$ million



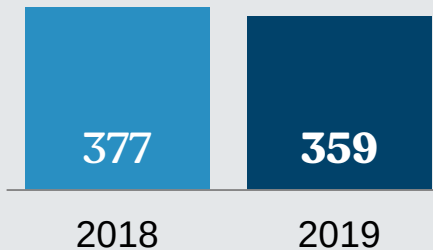
Asia¹

890 million LME

From 906 million

28.1%

From 30.5%



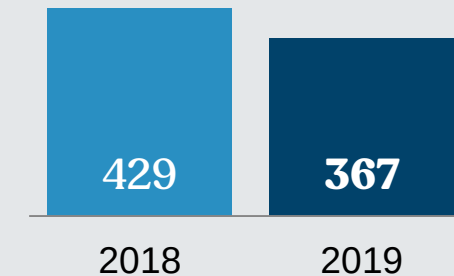
Latin America

670 million LME

From 653 million

26.9%

From 30.3%



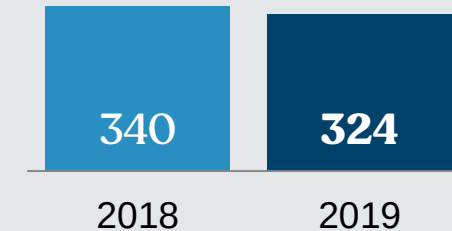
Oceania

1,258 million LME

From 1,228 million

19.7%

From 20.7%



Consumer

1. FY18 LME volume adjusted for the exclusion of discontinued entries to improve comparability. FY18 volumes were restated for 224m LMEs.
2. Includes sales to other strategic platforms.

Note:

Gross margin is in NZD millions. All changes are expressed relative to FY18. Sum of individual numbers from the regional and divisional breakdown may not add to the totals in each category due to rounding.

China Farms



million	2018	2019	%Δ ¹
Volume ² (LME)	273	259	(5)%
Revenue (\$)	262	249	(5)%
Gross Margin ^{3,4} (\$)	5	5	(6)%
Gross Margin ⁴ (%)	1.9%	2.1%	
Operating Expenses ³ (\$)	(31)	(21)	(33)%
Other Income and Other ³ (\$)	22	21	(2)%
China Farms EBIT ^{4,5} (\$)	(9)	(14)	(59)%
End-to-End EBIT Perspective			
Ingredients EBIT ⁶ (\$)	(30)	(20)	33%
Consumer EBIT ⁶ (\$)	1	4	194%
China Farms End-to-End ⁷ (\$)	(38)	(30)	21%

1. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of reported figures.

2. Includes sales to other strategic platforms.

3. Fonterra-owned farms in the China Farms business segment.

4. Normalised basis.

- Sales volumes decreased 5% due to milk production being impacted by floods in Yutian and animal health
- Operating expenses down 33% on last year to \$21 million
- At EBIT level, loss increased from \$9 million to \$14 million with improvements in Fonterra-owned hubs being offset by increased losses in joint venture farm hub:
 - Fonterra-owned farming hubs EBIT up \$9 million, from \$(4) million to \$5 million
 - Joint venture farm hub losses increased from \$(5) million last year to \$(19) million
- End-to-end China Farms had a total loss of \$30 million
 - \$(14) million, China Farms – inclusive of joint venture
 - \$(20) million, Ingredients
 - \$4 million, Consumer and Foodservice
- Continued improvement in the average price received for our milk, 39% of our revenue was from milk sold for more than RMB 4 versus 19% in 2018

5. Includes Fonterra-owned farms and the joint venture farms.

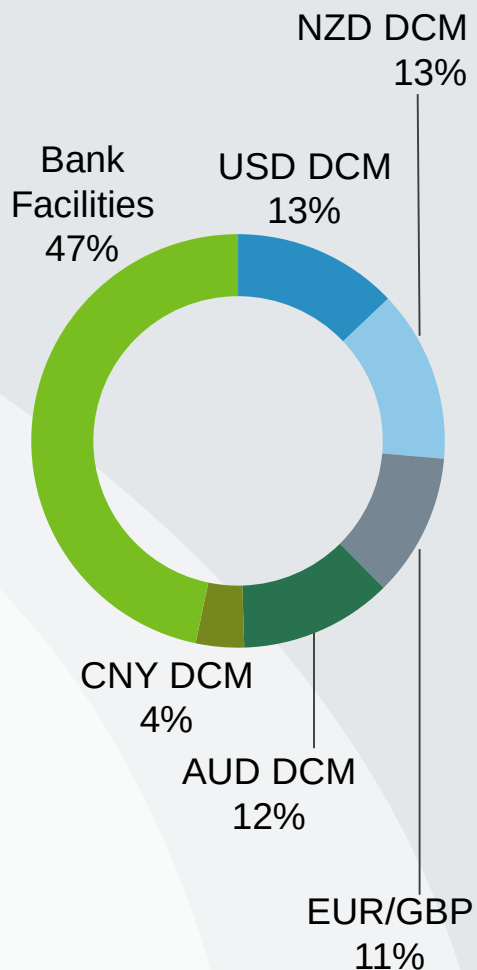
6. Includes EBIT impact of milk from China Farms sold by the Fonterra Ingredients and Consumer businesses.

7. Provides end-to-end perspective, comprising China Farms segment plus financials from Ingredients and Consumer and Foodservice related sales of milk from China Farms.

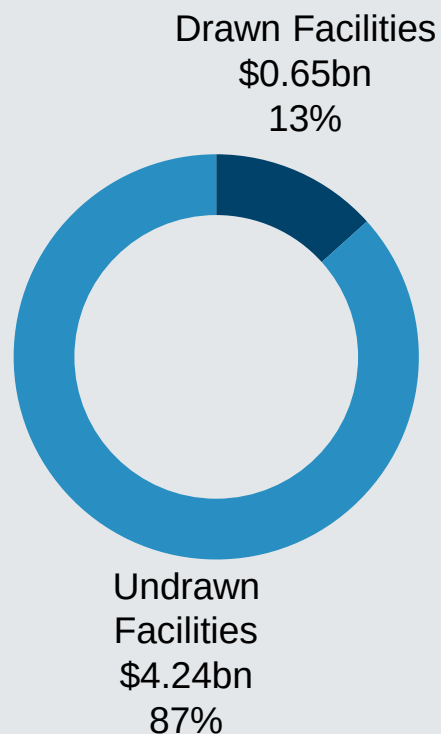
Note: All changes are expressed relative to FY18.

Diversified and prudent funding position

Diversified Profile¹

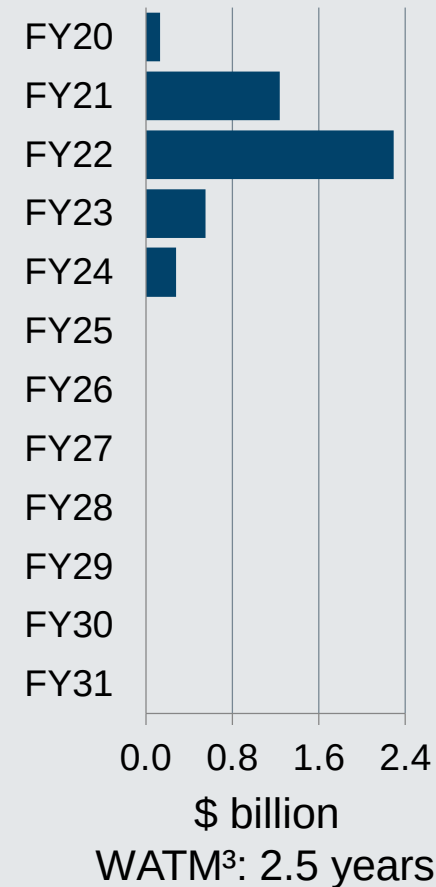


Prudent Liquidity



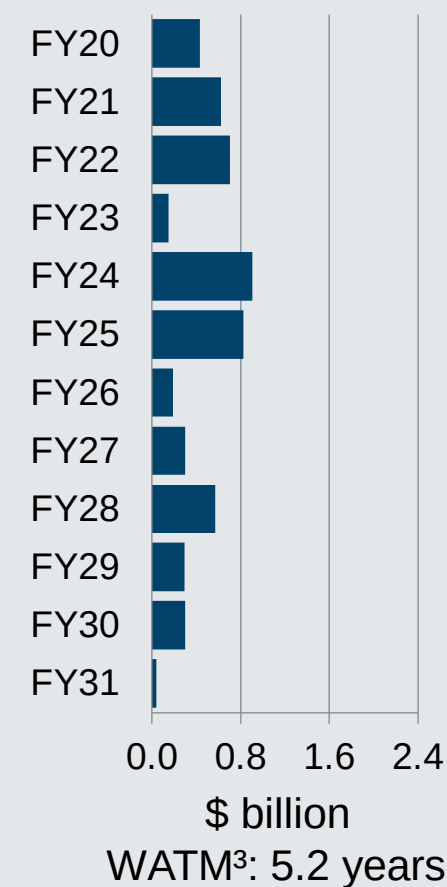
Bank Facilities

Maturity Profile



Debt Capital Markets²

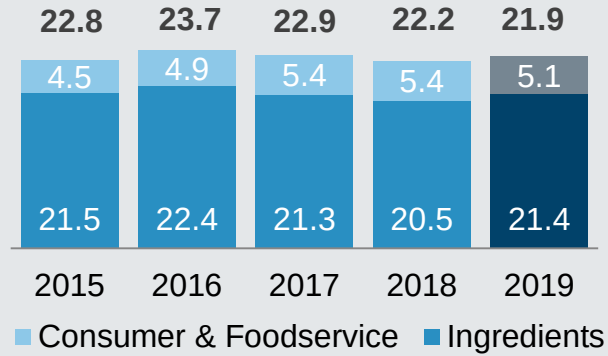
Maturity Profile



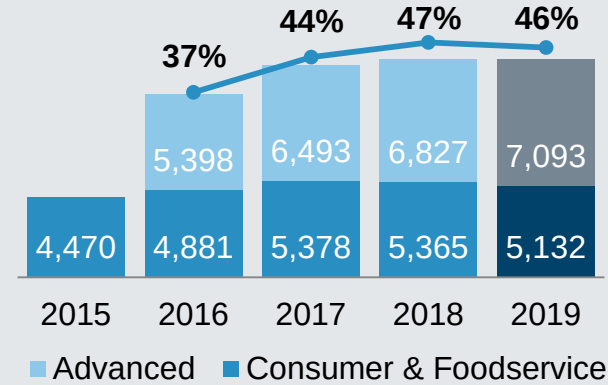
1. Includes undrawn facilities and commercial paper.
 2. Excluding commercial paper.
 3. WATM is weighted average term to maturity.
 Note: As at 31 July 2019.

Key financial metrics for FY19

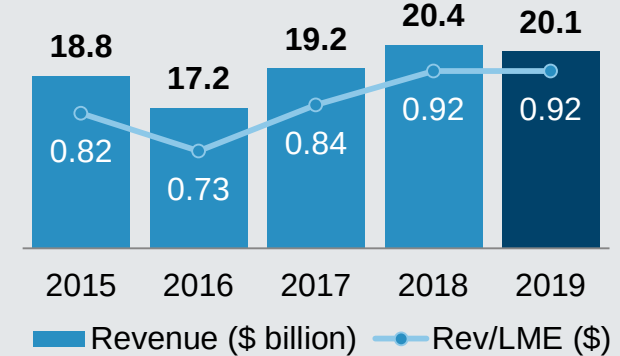
Sales Volume (LME bn)¹



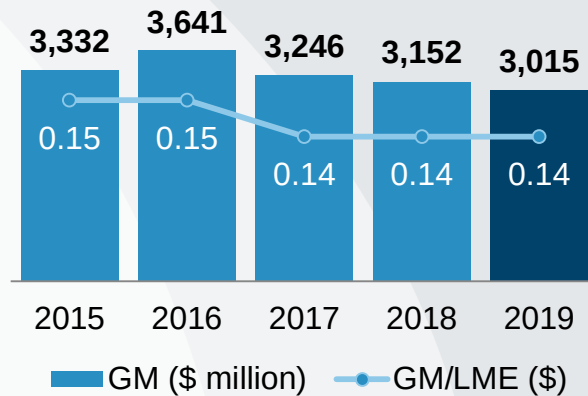
Total Value-Add²



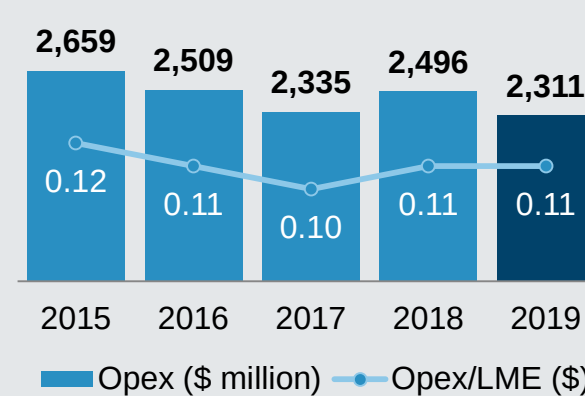
Reported Revenue



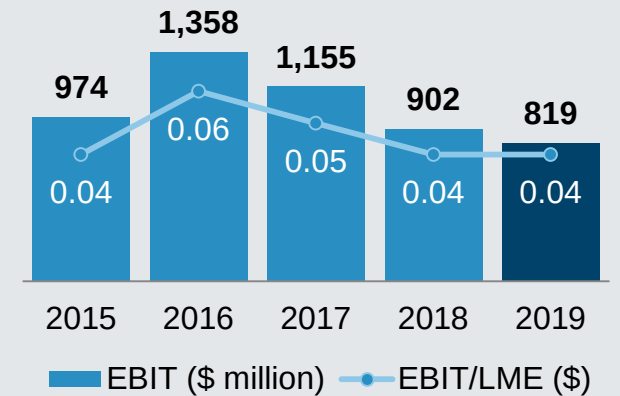
Normalised Gross Margin



Normalised Opex



Normalised EBIT

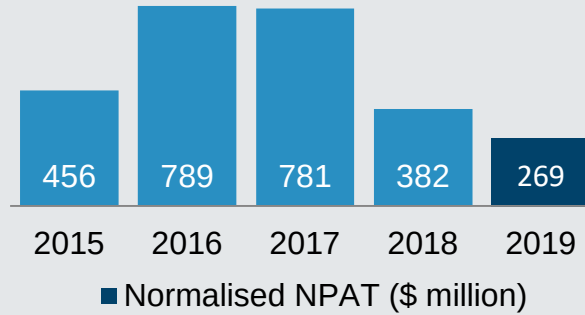


1. Does not add to total due to inter-group eliminations.

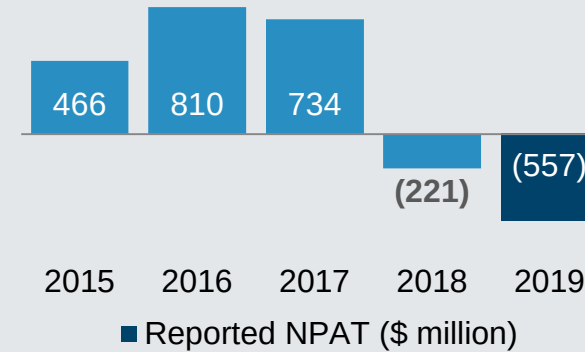
2. Advanced Ingredients split only from 2016. Percentages displayed represent higher value products as a percentage of total LMEs.

Key financial metrics for FY19

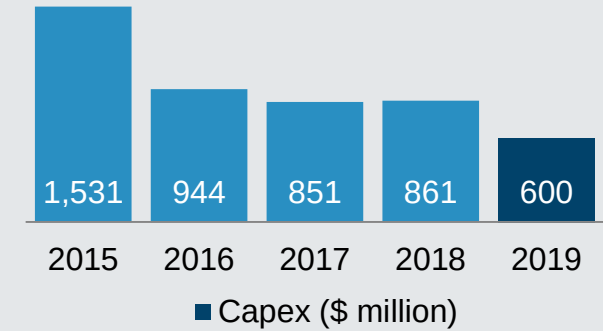
Normalised NPAT¹



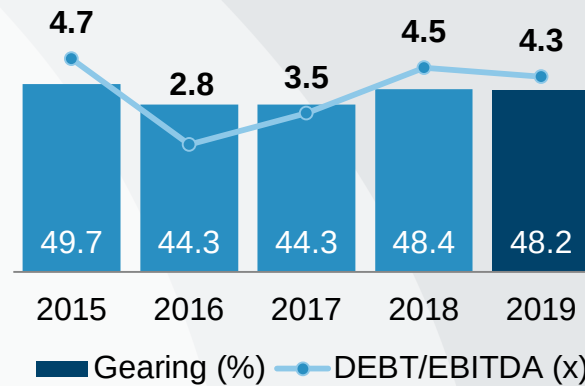
Reported NPAT¹



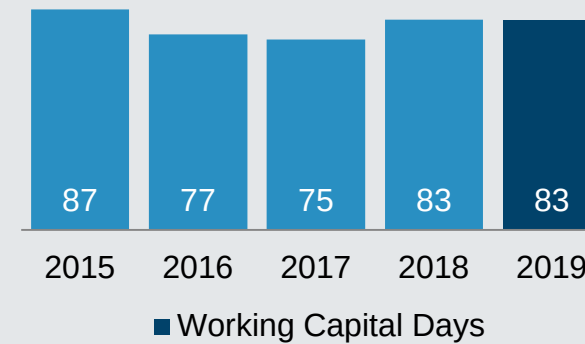
Capex²



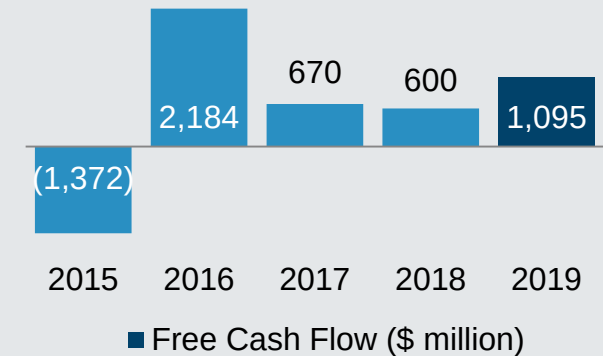
Leverage



Working Capital Days



Free Cash Flow

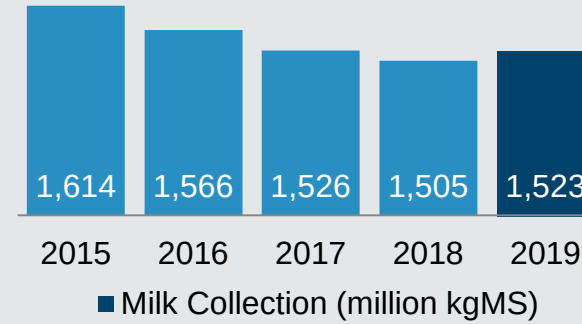


1. Net Profit after Tax attributable to equity holders of the Parent.

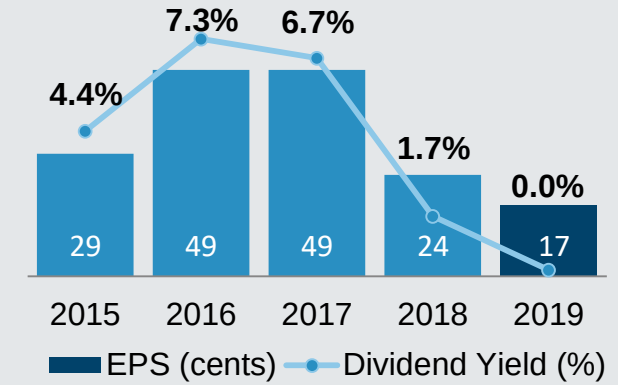
2. Capital expenditure comprises purchases of property (less specific disposals where there is an obligation to repurchase), plant and equipment and intangible assets, and net purchases of livestock.

Key financial metrics for FY19

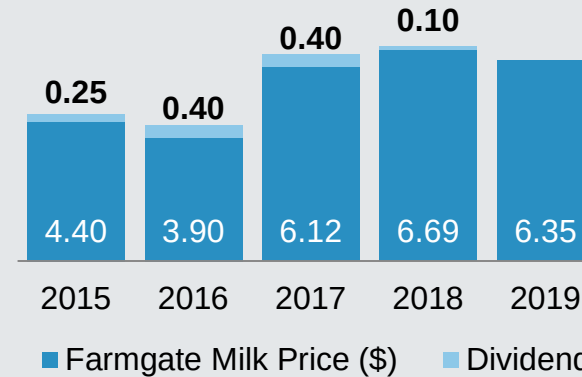
Milk Collection



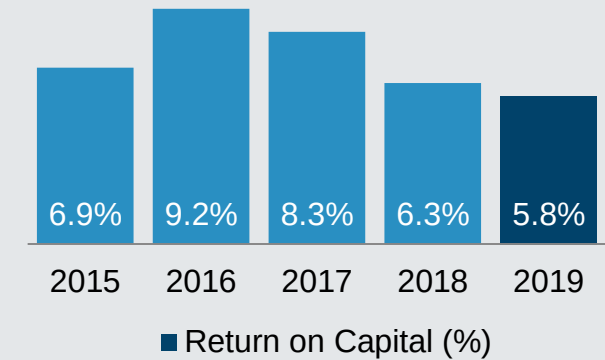
Normalised EPS and Dividend Yield¹



Total Cash Payout



Return on Capital²



1. Dividend over volume weighted average share price from 1 August to 31 July.
 2. Including intangibles and equity accounted investments.

Glossary

Acronyms and Definitions

AMF

Anhydrous Milk Fat

BMP

Butter Milk Powder

Base Price

Prices used by Fonterra's sales team as referenced against GDT prices and other relevant benchmarks

DIRA

Dairy Industry Restructuring Act 2001 (New Zealand)

GDT

Global Dairy Trade, the online provider of the twice monthly global auctions of dairy ingredients

Gearing Ratio

Gearing ratio is economic net interest bearing debt divided by total capital. Total capital is equity excluding the hedge reserves, plus economic net interest bearing debt.

Farmgate Milk Price

The price for milk supplied in New Zealand to Fonterra by farmer shareholders

Fluid and Fresh Dairy

The Fonterra grouping of skim milk, whole milk and cream – pasteurised or UHT processed, concentrated milk products and yoghurt

kgMS

Kilogram of milk solids, the measure of the amount of fat and protein in the milk supplied to Fonterra

LME (Liquid Milk Equivalent)

A standard measure of the amount of milk (in litres) allocated to each product based on the amount of fat and protein in the product relative to the amount of fat and protein in standardised raw milk

Non-Reference Products

All dairy products, except for Reference, produced by the NZ Ingredients business

Price Achievement

Revenue achieved over the base price less incremental supply chain costs above those set out in the Milk Price model

Reference Products

The dairy products used in the calculation of the Farmgate Milk Price, which are currently WMP, SMP, BMP, butter and AMF

Regulated Return

The earnings component of Milk Price generated from a WACC return on an assumed asset base

Season

New Zealand: A period of 12 months to 31 May in each year

Australia: A period of 12 months to 30 June in each year

SMP

Skim Milk Powder

Stream Returns

The gross margin differential between Non-Reference Product streams and the WMP stream (based on base prices)

WACC

Weighted Average Cost of Capital

WMP

Whole Milk Powder

Glossary



Fonterra Strategic Platforms

Ingredients

The Ingredients platform comprises bulk and specialty dairy products such as milk powders, dairy fats, cheese and proteins manufactured in New Zealand, Australia, Europe and Latin America, or sourced through our global network, and sold to food producers and distributors in over 140 countries. It also includes Fonterra Farm Source™ retail stores.

Consumer

The Consumer platform comprises branded consumer products, such as powders, yoghurts, milk, butter, and cheese. Base products are sourced from the ingredients business and manufactured into higher-value consumer dairy products.

Foodservice

The Foodservice platform comprises a range of branded products and solutions for commercial kitchens, including bakery butter, culinary creams, and cheeses.

China Farms

The China Farms platform comprises the farming operations in China, which produce high-quality fresh milk for the Chinese market.



Thank you.



Dairy for life

Annual Results Strategy

26 September 2019

Our Purpose guides everything we do

OUR PURPOSE

*Our Cooperative,
Empowering people
to create goodness for generations
You, me, us together
Tātou Tātou*

Let's be straight...



- When you go through tough times, you ask yourself hard questions
- Before starting the strategy review we took a hard look in the mirror
- And asked ourselves who we really are and what we have learned
- 18 months ago we might have said we're a global dairy giant, here to make a difference in the lives of 2 billion people
- When times get tough, you reflect. We've been here nearly 150 years – we want at least 150 more
- At our heart, we're a co-operative, doing amazing things with New Zealand milk to enhance people's lives and create value for customers and our farmer owners
- It may not sound so radical, but this simple change of how we think of ourselves takes us to a really different place
- And a stronger long term future together

We looked at what's happening in the world



Opportunities

RISING INCOMES IN DEVELOPING WORLD

URBANISATION

ENVIRONMENTAL IMPACT

OUT OF HOME EATING

VALUE OF NATURAL FOOD

AGEING POPULATION

CONVENIENCE & HEALTHY SNACKING

SOCIAL IMPACT

FOOD AS NUTRITION

Growing risks

TRADE TENSIONS

INDUSTRY DISRUPTIONS

ENVIRONMENTAL IMPACT

REGULATION CHANGES

CLIMATE CHANGE

SOCIAL MEDIA

FOOD SAFETY

FINANCIAL SHOCKS

NEW FOODS

We're clear on our strengths as a Co-op and the realities we face



Strengths

OUR PEOPLE

INNOVATION, RESEARCH & DEVELOPMENT

SCALE & EFFICIENCY

PASTURE BASED FARMING MODEL

LOW GREEN HOUSE GAS EMISSIONS

GLOBAL SUPPLY CHAIN

PRODUCT & MARKET OPTIONALITY

FOOD SAFETY & TRACEABILITY

AOTEAROA NEW ZEALAND

CUSTOMER RELATIONSHIPS

Our realities

INCREASING COMPETITION

CONSTRAINED CAPITAL

LARGE ASSET BASE

HIGH DEBT LEVEL

LACK OF TRUST & CONFIDENCE

BIG PART OF NEW ZEALAND

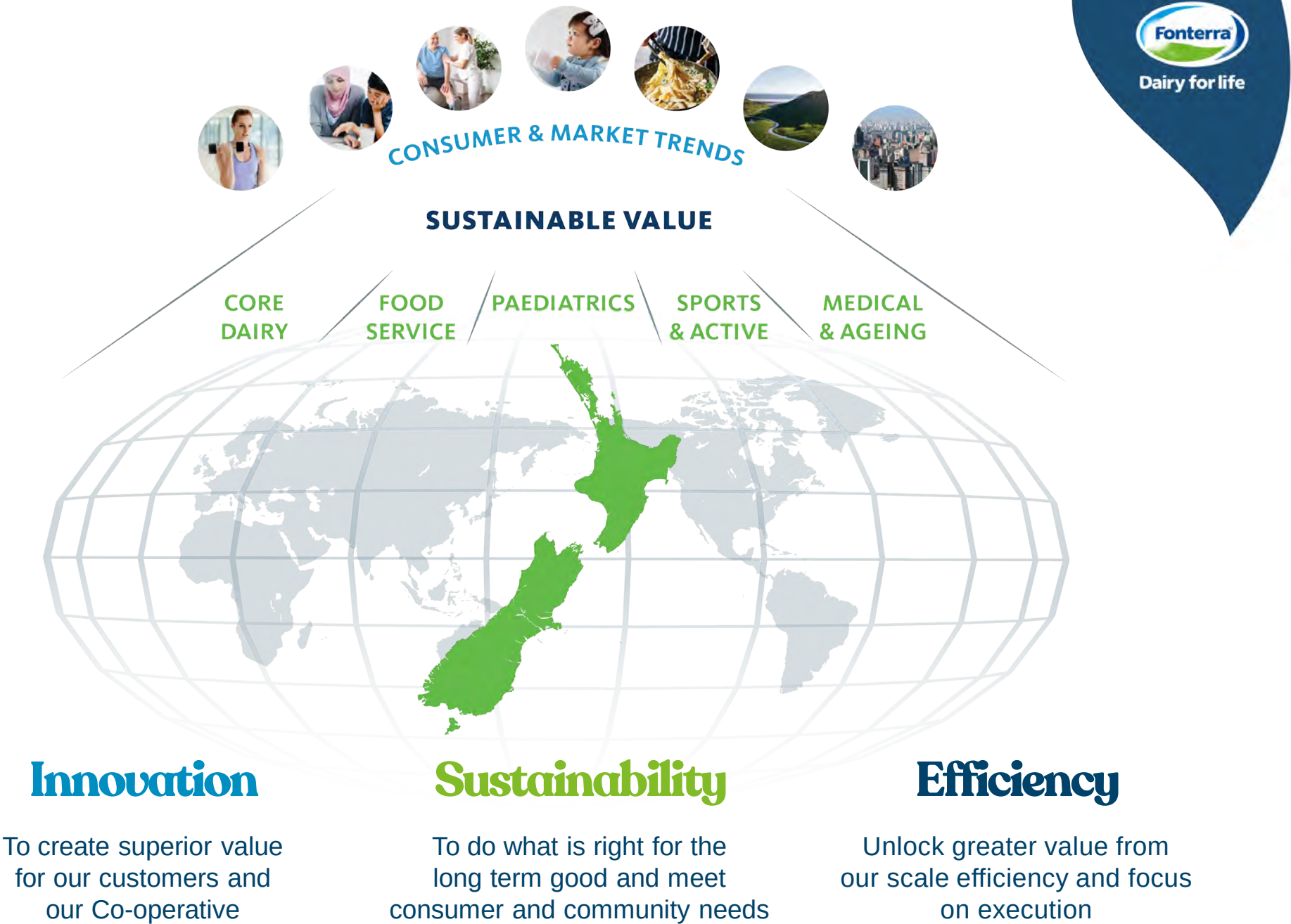
ENVIRONMENTAL INVESTMENT COSTS

RECENT UNDER PERFORMANCE

Our Strategy

Our strategy focuses on using New Zealand milk to meet market needs.

We will create sustainable value for our customers and farmers through innovation, sustainability and efficiency.



We've made some big choices

From

Volume

Global Milk Pools

Maximum volume into consumer

Dairy only

Partner with cash investments

Debt funded growth

Global giant with HQ
in New Zealand

Invest widely based on
aggressive growth plans



To

Value

Prioritise New Zealand Milk
+ complementary components

Focus on key categories to deliver superior value

Supplement with non-dairy where makes sense

Partner with IP and skills and lift R&D

Conservative balance sheet

Celebrate Aotearoa New Zealand
and take it to the world

Divest non-core businesses and
focus where we have a competitive advantage

Our goals for a sustainable Co-operative

We will measure success with a triple bottom line

Healthy People

Valuable nutrition
Strong relationships
Supporting communities

Healthy Environment

Lower footprint
Zero waste
Restoring nature

Healthy Business

Sustainable payout
Return on capital
Reliable dividends

Healthy people

Measuring success

	Current	2025	2030
Nutrition ¹	71% ²	100%	100%
Health and Safety	4.9 ³	<5	<5
Employee engagement ⁴	3 rd quartile	World Class (Top Quartile)	World Class (Top Quartile)
Farmer Satisfaction ⁵	-17	10	≥10
Customer Satisfaction ⁶	8.2	≥8	≥8
Public Perception ⁷	62	65	67

1. Fonterra's nutritional guidelines for consumer branded products that is independently endorsed (New Zealand Nutritional Foundation) – the target is to reach 100% for everyday and advanced products.
2. Current performance represents FY18 due to timing of data availability.
3. TRIFR (Total Recordable Injury Frequency Rate) – Zero harm philosophy. World class = <5 per million work hours.
4. Independent staff engagement survey (MySay survey) – rating is on a 5 point scale, and we are currently at 4. World class is 4.11. Top quartile refers to fourth quartile.
5. Net Promoter Score – Farmer sentiment measure. This is for Fonterra not Farm Source. World class is 30-40, anything above 20 is favourable.
6. Customer Value Monitor – Customer satisfaction measure. These results are for NZMP globally. World class is 8, and the measure is out of 10.
7. RepZ – Public perception measure. Results and targets are for NZ only. RepZ gives a score out of 100. Our score is slightly above the national average of 61.3.



Healthy environment

Measuring success

	Current	Target
Reduce Greenhouse Gas Emissions ¹	3%	30% by 2030
Reduction in Water use ²	New Target	30% by 2030
Solid Waste to Landfill	15,430MT ³	0MT by 2025

1. Reduction in absolute manufacturing emissions from FY15 baseline. Current performance represents FY18 due to timing of data availability.

2. Reduction at manufacturing sites in water stressed regions. Water stressed (constrained) regions are determined by a combination of attributes.

3. No solid waste sent to landfill – current performance represents FY18 due to timing of data availability.

Healthy business

Measuring success

(Normalised)	FY19 Actual	3-Year Plan ¹	5-Year Plan ¹
Gross Margin %	15.0%	15.2%	15.6%
EBIT	\$819m	\$950m	\$1,100m
NPAT ²	\$269m	\$650m	\$800m
Capital Expenditure	\$600m	\$500m	\$500m
Free Cash Flow ³	\$699m	\$900m	\$1,050m
Debt/EBITDA	4.3x	2.5-3.5x	2.5-3.5x
Return on Capital	5.8%	8.5%	10%
Earnings per Share	17c	40c	50c

1. There can be no certainty of outcome in relation to the matters to which these plans or forward-looking statements relate. They involve risks, uncertainties, assumptions and other important factors (some of which may be out of Fonterra's control) that could cause the actual outcomes to be materially different from the results expressed or implied. No assurance or guarantee is given as to the likelihood of fulfilment of any such statement or projection.

2. Excludes amounts attributable to non-controlling interests.

3. For comparative purposes divestments proceeds have been excluded from free cash flow.

What's going to be different

- A proud co-operative delivering for our farmer owners, our people, our customers, New Zealand and the world
- A leaner, more focused business, clear about who we are and where we are going
- Re-setting the business to get our balance sheet in order and focusing where we add superior value
- Well positioned to create value from exciting market trends

What you can expect from us

- We're changing our culture and behaviours to focus on building a great team
- We'll be open and honest, even when there are challenges along the way
- We'll deliver on our triple bottom line commitments
- We'll live our Purpose and Values and put sustainability at the heart of everything we do

The future of our Co-op is in our hands.

Tātou, tātou

Our priorities for 2020

Build a great team

- Live our Purpose and Values through our actions
- Successfully shift to new customer-led operating model
- Create a culture that empowers our people

Support regional New Zealand

- Inject \$10 billion into rural communities through competitive milk price payments
- Support communities through nutritional and environment programmes

Hit our financial targets

- Debt no more than 3.75x earnings
- Capital expenditure no more than \$500 million
- Gross margin in excess of \$3 billion
- Meet earnings guidance of 15-25 cents per share

Improve our environmental footprint

- Support farmers to complete a further 1,000 Farm Environment Plans
- Provide climate emissions reports for all our farmers
- Reduce emissions, improve energy efficiency and water use at our sites

Thank you.

Farmgate Milk Price Statement

FOR THE SEASON ENDED 31 MAY 2019

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2019 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.

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 supply. It is calculated in accordance with the Farmgate Milk Price Manual. The Manual is maintained by the Fonterra Board in accordance with the Dairy Industry Restructuring Act (DIRA) and the Fonterra Constitution.

The 2019 season Farmgate Milk Price of **\$6.35** per kgMS is:

- The Aggregate Farmgate Milk Price of \$9.676 billion; *divided by*
- New Zealand milk supplied to Fonterra in the 2019 season of 1.523 billion kgMS.

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).¹
- 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 Adjustments: 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 Farmgate Milk Price business.

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

2019 SEASON FARMGATE MILK PRICE

\$6.35 per kgMS

¹ Almost all additional milk collected over the past decade in New Zealand by Fonterra and its competitors 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.

2019 Season Farmgate Milk Price CONTINUED

Changes in revenue drive most of the movements in the Farmgate Milk Price between seasons. Figure 1 shows this.

FIGURE 1: CHANGES IN THE FARMGATE MILK PRICE BETWEEN SEASONS

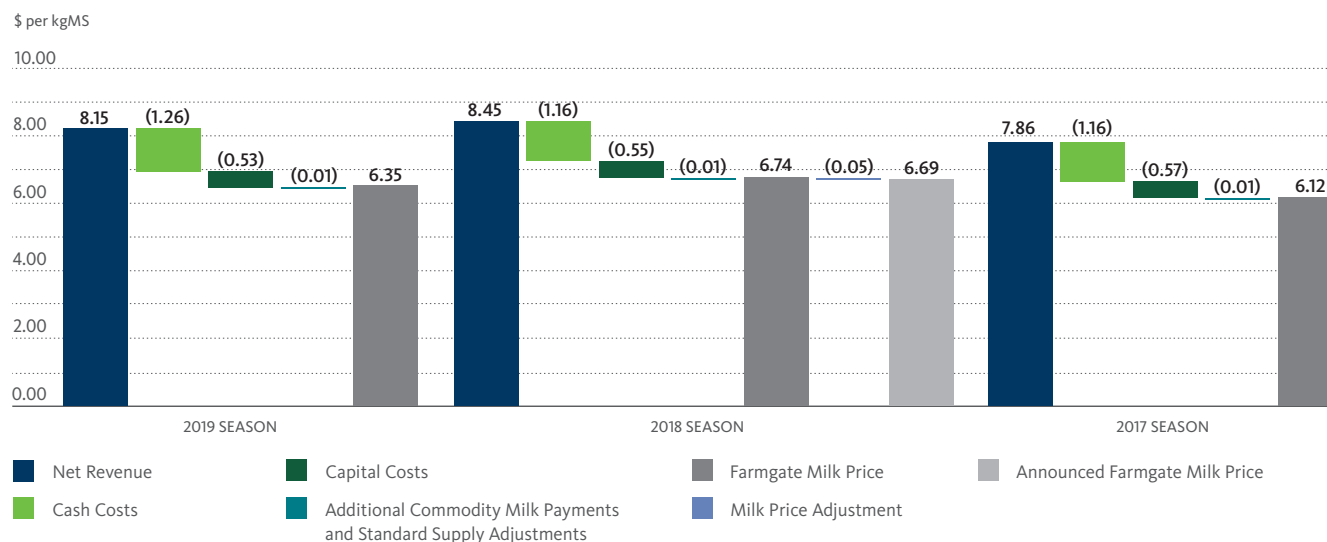


Table 1 shows the summary Farmgate Milk Price calculation for the last three seasons.

TABLE 1: FARMGATE MILK PRICE SUMMARY

SEASON	2019 \$ MILLION	2018 \$ MILLION	2017 \$ MILLION
Farmgate Milk Price Revenue	12,831	13,164	12,400
Lactose	(423)	(441)	(415)
Net Revenue	12,408	12,723	11,985
Farmgate Milk Price Cash Costs	(1,915)	(1,749)	(1,763)
Farmgate Milk Price Capital Costs	(803)	(822)	(873)
Additional Commodity Milk Payments and Standard Supply Adjustments	(14)	(11)	(13)
Aggregate Farmgate Milk Price	9,676	10,142	9,336
Million kgMS	1,523	1,505	1,526
Farmgate Milk Price calculated under the Manual (\$ per kgMS)	6.35	6.74	6.12

In the 2018 season, Fonterra's Board adjusted the Farmgate Milk Price calculated under the Manual downwards by 5 cents per kgMS resulting in an Announced Farmgate Milk Price for the season of \$6.69.

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

Farmgate Milk Price Revenue

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

- 1.523 billion kgMS of milk actually supplied to Fonterra during the 2019 season.
- 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 late October / early November.
- 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 a season do not normally start until August and are normally complete by October of the following year.

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 AND SALES VOLUMES

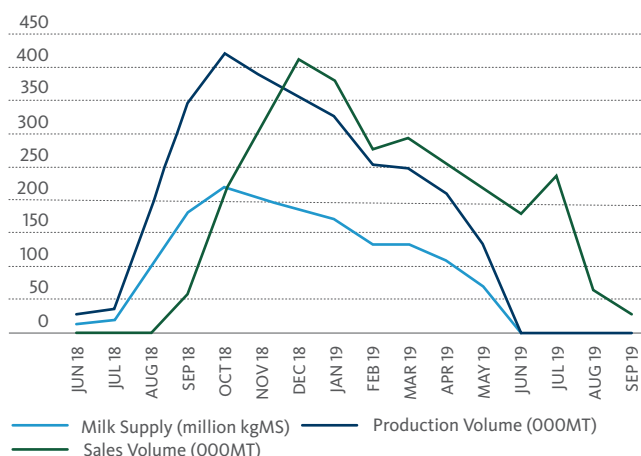
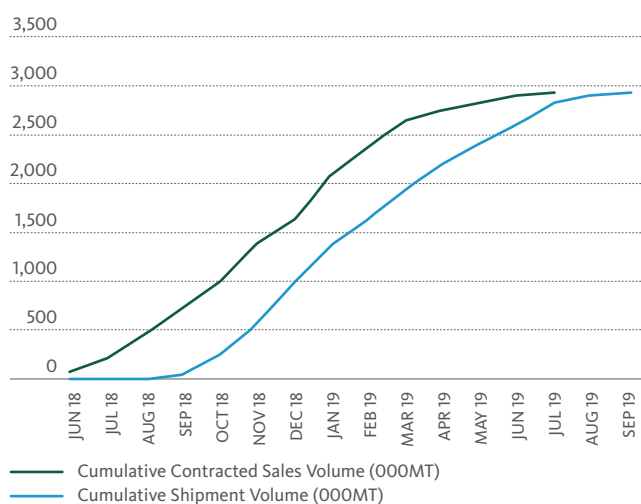


FIGURE 3: AVERAGE LAG BETWEEN WHEN PRICES WERE STRUCK AND SHIPMENT



Farmgate Milk Price Revenue CONTINUED

PRICES

The Farmgate Milk Price uses weighted average monthly prices achieved by Fonterra on relevant sales of RCPs on and off GDT. The Manual outlines the criteria which Fonterra's sales must meet to inform the Farmgate Milk Price which include:

- Only arm's length sales at current market prices to customers in freely 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 2019 season, the inclusion of certain off GDT sales of WMP, SMP and AMF in the Farmgate Milk Price resulted in an increase of 10 cents per kgMS.²

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 5.9% lower for the 2019 season than last season.

Impact of NZD/USD foreign exchange rate movements

As RCPs are sold in USD, Fonterra enters into foreign exchange hedge contracts to reduce volatility and exposure to movements in NZD/USD rates. The average rates Fonterra achieves through its hedging programme are used to convert Farmgate Milk Price USD receipts to NZD.⁴

Fonterra's hedging programme resulted in an average NZD/USD conversion rate for the 2019 season of 0.6905, against an average spot rate of 0.6721. Table 3 shows this across the last three seasons.

LACTOSE

Lactose is used as an ingredient in the production of WMP, SMP and BMP. Raw milk supplied contains lactose. The Farmgate Milk Price has further lactose requirements to achieve a standard product composition in line with internationally recognised standards. The Farmgate Milk Price assumes this further lactose is purchased on global markets. Lactose is shown in Table 1 as a deduction from Farmgate Milk Price Revenue.

Table 4 shows volume and average purchase prices of lactose over the past three seasons.

TABLE 2: WEIGHTED AVERAGE USD CONTRACT PRICE 2017-2019 SEASONS³

WEIGHTED AVERAGE PRICE (USD) PER MT	2019	2018	2017	2019/2018 % CHANGE	2018/2017 % CHANGE
WMP	2,907	3,091	2,854	-6.0%	8.3%
SMP	2,216	1,968	2,216	12.6%	-11.2%
Butter	4,448	5,575	4,221	-20.2%	32.1%
AMF	5,540	6,474	5,076	-14.4%	27.5%
BMP	3,032	2,057	2,211	47.4%	-6.9%
				-5.9%	9.7%

TABLE 3: IMPACT ON THE FARMGATE MILK PRICE OF FONTERRA'S HEDGING, RELATIVE TO NOT HEDGING

SEASON	2019	2018	2017
Average Hedged Rate (NZD/USD)	0.6905	0.7074	0.6924
Average Spot Rate (NZD/USD)	0.6721	0.7014	0.7137
Impact on Milk Price of hedging, relative to not hedging (\$ per kgMS)	-0.23	-0.08	+0.24

TABLE 4: PURCHASED LACTOSE AND PRICE

SEASON	2019	2018	2017	2019/2018 % CHANGE	2018/2017 % CHANGE
Purchased Lactose (000 MT)	348	342	351	1.7%	-2.6%
Average Price (USD per MT)	851	908	809	-6.3%	12.3%
Total Lactose Purchases (USD m)	296	311	284	-4.7%	9.5%

² Relative to not including off GDT sales of WMP, SMP and AMF for the 2019 season.

³ 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.

⁴ Fonterra's hedging policies are outlined in Fonterra's annual financial statements.

Farmgate Milk Price

Cash Costs

Farmgate Milk Price Cash Costs reflect:

- Fonterra's actual collection costs, and supply chain costs benchmarked from 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 are based on running those plants within manufacturers' specifications, Fonterra's per-unit costs, and include typical 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 benchmarked from Fonterra's actual costs for undertaking those activities.

Figure 4 and Table 5 summarise major categories of cash costs and movements between the 2018 and 2019 seasons.

FIGURE 4: SOURCES OF MOVEMENTS IN AVERAGE CASH COSTS

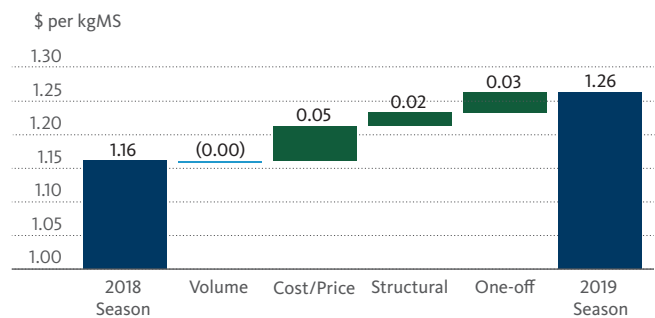


TABLE 5: SUMMARY OF MOVEMENTS IN CASH COSTS

\$ MILLION	2018	VOLUME ⁵	COST/PRICE ⁶	STRUCTURAL ⁷	ONE-OFF	2019	% CHANGE- COST/PRICE	TOTAL % CHANGE
Sales costs	106	-	4	-	-	110	3.8%	4.0%
Variable manufacturing and supply chain costs	652	10	26	4	-	692	4.0%	6.2%
Fixed manufacturing (including repairs and maintenance)/site overheads and supply chain costs	405	-	7	-	36	448	1.7%	10.6%
Collection costs	339	4	11	4	15	372	3.4%	9.9%
Other costs	248	-	32	21	(8)	293	12.7%	18.2%
Total Cash Costs	1,749	13	80	29	43	1,915	4.6%	9.5%
% movement		0.8%	4.6%	1.7%	2.5%			

Movements in cash costs between the seasons were due to:

- An increase in milk collected to 1.523 billion kgMS from 1.505 billion kgMS in the 2018 season. This drove a decrease in average cash costs per kgMS, because fixed costs are spread over higher volumes.
- Inflationary adjustments and higher than inflationary increases in the costs of a range of production inputs including collection costs, packaging, energy, repairs and maintenance, and overheads.
- Structural increases in costs due to changes in the external environment, including changing sustainability requirements, and in the characteristics of the notional Farmgate Milk Price business, including the inclusion in 2016/17 of additional off GDT sales.
- Non-recurring, or one-off costs, including costs arising from a higher than expected intake of milk in the peak period of October / November.

The Manual requires a review of the overhead structure of the Farmgate Milk Price business every four years, with the review results generally implemented in the following season. This comprehensive review assesses the adequacy of the overhead cost base, and updates it where necessary for changes in the operating environment.

The latest four-yearly review commenced in the 2019 season. This identified some additional activities the Farmgate Milk Price business is required to undertake and that some costs have increased by more than inflation. To reflect this, the 2019 season Farmgate Milk Price includes a 3 cents per kgMS uplift in cash costs. 1.6 cents was for costs that have increased faster than inflation. 1.4 cents was mainly for costs of increased compliance, digital and sustainability activities.

⁵ Considers only the change to the cost base due to the change in milk solids collected between the seasons.

⁶ Captures the impact of inflation and movements in market prices of inputs.

⁷ Reflects changes in the structure of the notional cost base e.g. change in regulations and corporate structure.

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 Farmgate Milk Price business manufactures RCPs in modern plants with current industry-standard technology. These plants have manufacturing capacity that approximates the average capacity 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 the 2013 season have an average daily processing capacity of approximately 2.5 million litres, equivalent to the plants installed by Fonterra at Darfield in 2011 and Pahiatua in 2015.

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

WACC incorporates the rolling five-year average of the five-year New Zealand Government bond rate. WACC has been falling over the last three seasons because historic average government bond rates have fallen. The 2020 season WACC will be 5.0%.

For the 2019 season the lower WACC, in isolation, resulted in:

- A decrease of \$7 million in the capital charge on fixed assets.
- A decrease of \$1 million in the capital charge on net working capital.
- A decrease of \$3 million in the provision for corporate tax.
- Higher depreciation of \$2 million.

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 capital goods inflation as long as WACC does not change. This methodology means that a decrease in the WACC will, other things being equal, result in an increase in depreciation.

TABLE 6: CAPITAL COSTS, BOOK VALUE OF FIXED ASSET BASE AND AVERAGE NET WORKING CAPITAL

\$ MILLION	2019	2018	2017
WACC % (post-tax)	5.30%	5.40%	5.60%
Depreciation	260	262	265
WACC Charge – Fixed Assets	358	374	398
WACC Charge – Net Working Capital ⁸	47	41	55
Tax	138	144	155
Total Capital Costs	803	822	873
Total Fixed Assets (Book Value)	6,832	7,021	7,195
Average Net Working Capital	791	729	913

⁸ Certain 2018 season funding costs have been reclassified from cash to capital costs to better reflect their nature.

Appendix 1: Independent Assurance Report

TO THE DIRECTORS OF FONTERRA CO-OPERATIVE GROUP LIMITED



Opinion

We have undertaken a reasonable assurance engagement in respect of the compliance, in all material respects, of the Milk Price Group (MPG), with the Principles, Methodologies and Detailed Rules as defined in the Farmgate Milk Price Manual of 1 August 2018 (the Manual) in deriving the Aggregate Farmgate Milk Price for the season ended 31 May 2019 of NZ\$9.676 billion.

We have confirmed the balances contained in the Farmgate Milk Price Statement for the season ended 31 May 2019 (the Farmgate Milk Price Statement) are correctly extracted, in all material respects, from the calculation of the Aggregate Farmgate Milk Price.

In our opinion the MPG has complied, in all material respects, with the Principles, Methodologies and Detailed Rules in the Manual in deriving the Aggregate Farmgate Milk Price for the season ended 31 May 2019 of NZ\$9.676 billion, and the balances contained in this Farmgate Milk Price Statement for the season ended 31 May 2019 are correctly extracted, in all material respects, from the Aggregate Farmgate Milk Price calculation.

Basis for Opinion

We have conducted our engagement in accordance with Standard on Assurance Engagements SAE 3100 (Revised) *Assurance Engagements on Compliance*, issued by the New Zealand Auditing and Assurance Standards Board.

We believe the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than our scope and the assurance report

The Directors of Fonterra Co-operative Group Limited (the Directors) are responsible for the Farmgate Milk Price Statement. Our opinion on the Farmgate Milk Price Statement does not cover information other than the balances we confirm have been correctly extracted from the calculation of the Aggregate Farmgate Milk Price and we do not express any form of assurance conclusions on the other information.

In connection with our scope, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Farmgate Milk Price Statement or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this assurance report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Milk Price Group's Responsibilities

The MPG are responsible for the calculation of the Aggregate Farmgate Milk Price based upon the Manual, ensuring the Aggregate Farmgate Milk Price has been derived in accordance with the Principles, Methodologies and Detailed Rules set out in the Manual. The MPG is also responsible for the preparation of the Farmgate Milk Price Statement.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 (Revised) issued by the New Zealand Auditing and Assurance Standards Board, which is founded on the 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.

Bruce Hassall was appointed an Independent Director and Chair of the Audit and Finance Committee of Fonterra Co-operative Group Limited (Fonterra) on 2 November 2017 and appointed a member of the Milk Price Panel on 7 December 2017. Bruce Hassall was Chief Executive Officer of PricewaterhouseCoopers to 30 September 2016 when he retired from the firm.

Brent Goldsack was appointed as a Farmer-elected Director of Fonterra on 2 November 2017 and a member of the Milk Price Panel on 13 December 2017. Brent Goldsack retired as a partner of PricewaterhouseCoopers on 22 September 2017. Brent Goldsack was not involved in the provision of any audit services to Fonterra during his time as a partner of PricewaterhouseCoopers.

Bruce Hassall and Brent Goldsack had no financial relationship with PricewaterhouseCoopers upon their appointment as Directors of Fonterra and members of the Milk Price Panel. The engagement partner on the audit has direct access to the Chair of the Milk Price Panel, Scott St John, to address any actual or perceived auditor independence threats.

During the year, our firm provided services to Fonterra including: assistance with collation of information for a vendor due diligence process; advice on a sale and purchase agreement; facilitation and administration support for the Fonterra Strategic review including board strategy workshops and programme management support; corporate tax advice to an equity accounted investee; access to generic training and technical accounting websites; as well as other assurance and attestation services provided in our capacity as auditors. Partners and employees of our firm may deal with Fonterra on normal terms within the ordinary course of trading activities of Fonterra.

These matters have not impaired our independence as auditor of Fonterra.

Appendix 1:

Independent Assurance Report CONTINUED

Independent Auditor's Responsibilities

Our responsibility is to express an independent opinion on whether, with respect to the preparation of the Farmgate Milk Price Statement, the MPG has complied, in all material respects, with the Principles, Methodologies and Detailed Rules set out in the Manual in deriving the Aggregate Farmgate Milk Price, and that the balances, in all material respects, in the Farmgate Milk Price Statement have been correctly extracted from those calculations.

SAE 3100 (Revised) requires that we plan and perform our procedures to obtain reasonable assurance about whether, the MPG has complied, in all material respects, with the Principles, Methodologies and Detailed Rules of the Manual in deriving the Aggregate Farmgate Milk Price, and that the balances, in all material respects, in the Farmgate Milk Price Statement have been correctly extracted from those calculations. The procedures selected depend on our judgement, including the identification and assessment of risks of material non-compliance.

Inherent Limitations

Our engagement includes examining, on a test basis, evidence relevant to the amounts used to derive the Aggregate Farmgate Milk Price and the balances in the Farmgate Milk Price Statement. It also includes assessing the significant assumptions, estimates and judgements made by the MPG in the calculation of the Aggregate Farmgate Milk Price and ensuring the Principles, Methodologies and Detailed Rules applied are consistent with those set out in the Manual. Because of the inherent limitations of an assurance engagement, together with the internal control structure, it is possible that fraud, error or non-compliance may occur and not be detected. As the procedures performed for this engagement were not performed continuously throughout the period and were undertaken on a test basis, our assurance engagement cannot be relied on to detect all instances where the Principles, Methodologies and Detailed Rules set out in the Manual have not been complied with. Our opinion expressed in this report has been formed on the above basis.

Restriction on Distribution or Use

This report is made solely to the Directors. Our report has been prepared at the request of the Directors and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors and Fonterra for this report, or for the opinions we have formed.

The logo for PricewaterhouseCoopers, featuring the company name in a stylized, cursive script.

PricewaterhouseCoopers

Auckland, New Zealand

25 September 2019

Appendix 2:

Updates to the Farmgate Milk Price Manual and 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 Milk Price Panel may initiate additional reviews if circumstances warrant.

FARMGATE MILK PRICE MANUAL UPDATES

The Fonterra Board approved a number of minor amendments to the Manual for the 2020 season. Those amendments do not impact the outcome of the Farmgate Milk Price calculation. The Manual for the 2020 season is available at:

https://www.fonterra.com/content/dam/fonterra-public-website/fonterra-new-zealand/documents/pdf/milk-prices/2020/F20_Milk_Price_Manual_1August2019.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 2018/19 Manual was released on 15 December 2018. That report can be found at:

https://comcom.govt.nz/__data/assets/pdf_file/0021/110496/Final-report-Review-of-Fonerras-2018-19-milk-price-manual-14-December-2018.pdf

CHANGES IN APPROACH TO THE CALCULATION OF THE FARMGATE MILK PRICE

There were no changes in the application of the Manual for the 2019 season that resulted in materially different values of inputs into the Farmgate Milk Price calculation.

Appendix 3:

Farmgate Milk Price Overview

RATIONALE FOR A FARMGATE MILK PRICE

Fonterra currently collects around 81% 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 to 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;
- The amount of Additional Commodity Milk Payments and Standard Supply Adjustments.

RATIONALE FOR REFERENCE COMMODITY PRODUCTS

Manufacture of the RCPs comprised approximately 71% of Fonterra's total New Zealand ingredients production in the 2019 season.

Almost all additional milk collected over the past decade in New Zealand by 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 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.

BASIS FOR THE WACC CALCULATION

The WACC used to determine the Fixed Asset Capital Charge and the Net Working Capital Charge is calculated using the simplified Brennan Lally methodology employed by the Commerce Commission.⁹

The methodology applied through to the 2011 season provided for input parameters into the WACC to be updated every four years. Consequently, the WACC was held constant at 8.5 per cent between the 2009 and 2011 seasons, and reflected market interest rates as of mid-2008.

From the 2012 season, the methodology was revised to be based

on rolling five-year averages of market interest rates, including the five-year New Zealand Government stock rate, resulting in a reduction in the WACC from 7.7% for the 2012 season to 6.8% for the 2014 season.

In the 2015 season, the WACC methodology was changed to incorporate a specific risk premium of 0.15% and a reduction in the asset beta from 0.45 to 0.38, on the basis of a review by an independent expert, Associate Professor Alastair Marsden of the University of Auckland. At the request of the Commerce Commission, Dr Marsden undertook further analysis in the 2016, 2017 and 2018 seasons, the result of which was to confirm his previous recommendation.

The 2019 season WACC was 5.3% and the 2020 season WACC as calculated under the existing methodology and assumptions will be 5.0%, both reflecting further reductions in five-year average government stock rates.

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 at the end of this Appendix.

⁹ For example, <http://www.comcom.govt.nz/regulated-industries/input-methodologies-2/input-methodologies-review/cost-of-capital-im-review/>

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. It has five members: two are Fonterra appointed directors (one of whom is the Chair); one is a Fonterra farmer-elected director; and two are appropriately qualified nominees of the Fonterra Shareholders' Council.

The current members of the Panel are: Scott St John (Chair) and Bruce Hassall, who are appointed Fonterra directors; Brent Goldsack, who is a farmer-elected Fonterra director; and Andrew Wallace and Bill Donaldson, who are nominees of the Fonterra Shareholders' Council.

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 each year in accordance with the Manual.

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

2 MILK PRICE GROUP

The Milk Price Group is a working group established by Fonterra. The Head of the Milk Price Group is independent of Fonterra's management and reports directly to the Chair of the Milk Price Panel. The role of the Milk Price Group includes:

- 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 reviewers.

- 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.

3 EXTERNAL REVIEWERS

External reviewers 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 audits 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 PwC.

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.

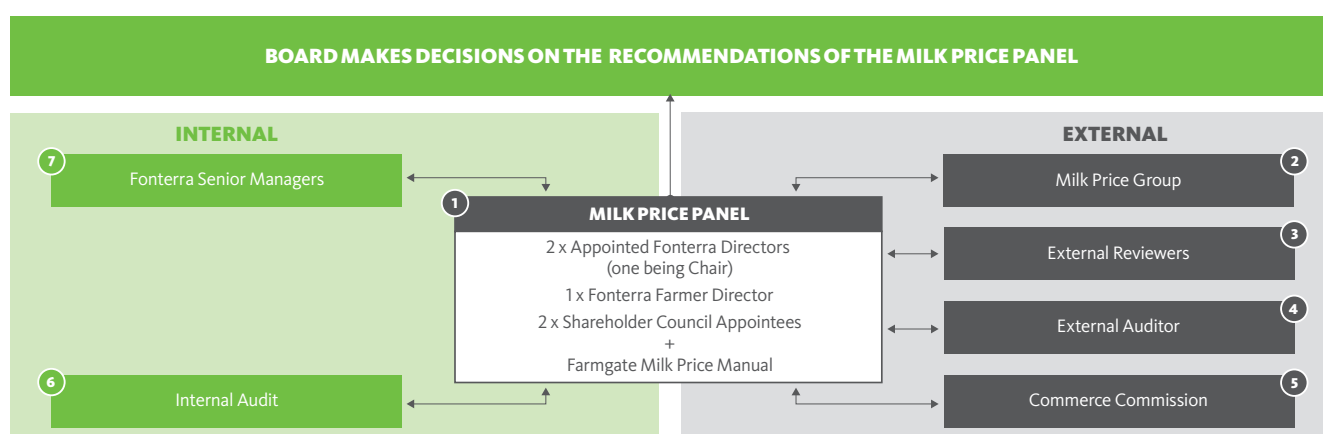
The purpose of Subpart 5A is to promote the setting of a Farmgate Milk Price that provides an incentive to Fonterra to operate efficiently, while providing for contestability in the market for the purchase of milk from farmers (section 150A). Each year the Commission is required to review and report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

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.



Source: Fonterra

Appendix 4: Milk Supplied and Production Volumes

2019 SEASON	MILK SUPPLIED (MILLION kgMS)	PRODUCTION (000 MT) OF FINISHED PRODUCT					TOTAL
		WMP	SMP	BUTTER	AMF	BMP	
Jun 18 to Aug 18	128	195	26	11	10	3	246
Sep 18 to Nov 18	601	756	229	89	59	22	1,154
Dec 18 to Feb 19	487	578	202	91	44	20	935
Mar 19 to May 19	307	337	140	49	43	16	585
Total	1,523	1,867	597	239	155	61	2,920

2018 SEASON	MILK SUPPLIED (MILLION kgMS)	PRODUCTION (000 MT) OF FINISHED PRODUCT					TOTAL
		WMP	SMP	BUTTER	AMF	BMP	
Jun 17 to Aug 17	122	152	48	15	15	5	235
Sep 17 to Nov 17	579	714	228	101	50	21	1,114
Dec 17 to Feb 18	470	537	204	96	42	20	899
Mar 18 to May 18	334	452	98	47	28	13	639
Total	1,505	1,856	577	258	136	59	2,886

2017 SEASON	MILK SUPPLIED (MILLION kgMS)	PRODUCTION (000 MT) OF FINISHED PRODUCT					TOTAL
		WMP	SMP	BUTTER	AMF	BMP	
Jun 16 to Aug 16	122	134	59	16	19	5	234
Sep 16 to Nov 16	573	668	250	98	59	23	1,098
Dec 16 to Feb 17	500	604	200	88	46	20	957
Mar 17 to May 17	331	421	110	54	30	14	630
Total	1,526	1,826	619	256	154	63	2,918

Appendix 5: Sales Volumes

2019 SEASON	SHIPMENTS (000 MT) OF FINISHED PRODUCT					
	WMP	SMP	BUTTER	AMF	BMP	TOTAL SALES
Aug 18 to Oct 18	163	61	18	20	6	268
Nov 18 to Jan 19	731	234	69	50	22	1,106
Feb 19 to Apr 19	526	157	85	40	17	825
May 19 to Jul 19	394	137	49	40	11	631
Aug 19 to Oct 19	53	8	19	5	5	90
Total	1,867	597	239	155	61	2,920

2018 SEASON	SHIPMENTS (000 MT) OF FINISHED PRODUCT					
	WMP	SMP	BUTTER	AMF	BMP	TOTAL SALES
Aug 17 to Oct 17	217	81	18	15	9	340
Nov 17 to Jan 18	654	227	77	31	19	1,007
Feb 18 to Apr 18	476	146	69	32	16	739
May 18 to Jul 18	448	104	73	52	13	691
Aug 18 to Oct 18	61	19	22	5	2	109
Total	1,856	577	258	136	59	2,886

2017 SEASON	SHIPMENTS (000 MT) OF FINISHED PRODUCT					
	WMP	SMP	BUTTER	AMF	BMP	TOTAL SALES
Aug 16 to Oct 16	257	104	27	30	2	419
Nov 16 to Jan 17	616	222	86	50	17	991
Feb 17 to Apr 17	405	115	62	29	16	628
May 17 to Jul 17	485	155	59	39	24	761
Aug 17 to Oct 17	62	24	23	6	3	118
Total	1,826	619	256	154	63	2,918

Appendix 6:

Average Number of Months Prior to Shipment that Prices were Struck

2019 SEASON					
	AVERAGE NUMBER OF MONTHS PRIOR TO SHIPMENT				
	WMP	SMP	BUTTER	AMF	BMP
Aug 18 to Oct 18	2.5	3.0	2.3	2.7	2.7
Nov 18 to Jan 19	2.5	3.2	2.7	3.2	2.9
Feb 19 to Apr 19	2.8	3.1	3.0	3.4	3.0
May 19 to Jul 19	2.9	2.5	3.0	2.6	2.5
Aug 19 to Oct 19	3.2	3.7	2.8	3.2	3.0
	2.7	3.0	2.8	3.0	2.8
2018 SEASON					
	AVERAGE NUMBER OF MONTHS PRIOR TO SHIPMENT				
	WMP	SMP	BUTTER	AMF	BMP
Aug 17 to Oct 17	2.9	3.1	3.2	2.8	3.6
Nov 17 to Jan 18	2.7	3.0	2.7	2.8	2.6
Feb 18 to Apr 18	3.0	3.1	2.7	2.5	3.2
May 18 to Jul 18	2.5	2.8	2.5	2.4	2.4
Aug 18 to Oct 18	2.9	3.1	2.7	3.1	4.0
	2.7	3.0	2.7	2.6	2.9
2017 SEASON					
	AVERAGE NUMBER OF MONTHS PRIOR TO SHIPMENT				
	WMP	SMP	BUTTER	AMF	BMP
Aug 16 to Oct 16	2.9	3.2	3.0	2.8	2.7
Nov 16 to Jan 17	3.1	3.1	3.2	3.1	2.6
Feb 17 to Apr 17	2.6	2.9	2.9	2.8	2.4
May 17 to Jul 17	2.6	2.5	2.5	2.6	2.7
Aug 17 to Oct 17	3.7	3.8	3.1	3.7	3.6
	2.9	3.0	2.9	2.9	2.7

Appendix 7:

Average % of Sales Contracted in Each Month Prior to Shipment

2019 SEASON	AVERAGE % OF SALES CONTRACTED IN EACH OF MONTHS 1-5 PRIOR TO SHIPMENT				
	WMP	SMP	BUTTER	AMF	BMP
1	14%	8%	7%	10%	13%
2	38%	32%	42%	29%	33%
3	22%	27%	25%	27%	25%
4	16%	18%	18%	18%	16%
5	10%	15%	9%	16%	13%

2018 SEASON	AVERAGE % OF SALES CONTRACTED IN EACH OF MONTHS 1-5 PRIOR TO SHIPMENT				
	WMP	SMP	BUTTER	AMF	BMP
1	12%	7%	16%	16%	12%
2	35%	33%	36%	35%	36%
3	25%	27%	22%	29%	23%
4	18%	21%	18%	13%	12%
5	9%	13%	10%	7%	17%

2017 SEASON	AVERAGE % OF SALES CONTRACTED IN EACH OF MONTHS 1-5 PRIOR TO SHIPMENT				
	WMP	SMP	BUTTER	AMF	BMP
1	11%	9%	9%	10%	11%
2	31%	31%	29%	29%	33%
3	29%	27%	29%	32%	37%
4	18%	19%	18%	20%	18%
5	11%	13%	14%	9%	1%

Appendix 8: Average USD Prices

2019 SEASON		USD PER MT OF FINISHED PRODUCT			
SHIPMENT PERIOD	WMP	SMP	BUTTER	AMF	BMP
Aug 18 to Oct 18	3,011	2,056	4,938	5,886	2,483
Nov 18 to Jan 19	2,811	2,051	4,336	5,418	2,707
Feb 19 to Apr 19	2,788	2,214	4,085	5,200	3,131
May 19 to Jul 19	3,163	2,553	4,882	5,821	3,630
Aug 19 to Oct 19	3,198	2,541	4,902	5,851	3,388
	2,907	2,216	4,448	5,540	3,032
Full season GDT-only prices	2,870	2,164	4,355	5,507	2,959

2018 SEASON		USD PER MT OF FINISHED PRODUCT			
SHIPMENT PERIOD	WMP	SMP	BUTTER	AMF	BMP
Aug 17 to Oct 17	3,172	2,080	5,848	6,574	2,186
Nov 17 to Jan 18	3,058	1,971	5,886	6,644	1,996
Feb 18 to Apr 18	2,937	1,859	5,303	6,637	2,007
May 18 to Jul 18	3,244	2,006	5,461	6,266	2,113
Aug 18 to Oct 18	3,233	2,078	5,494	6,252	2,041
	3,091	1,968	5,575	6,474	2,057
Full season GDT-only prices	3,056	1,951	5,464	6,422	2,038

2017 SEASON		USD PER MT OF FINISHED PRODUCT			
SHIPMENT PERIOD	WMP	SMP	BUTTER	AMF	BMP
Aug 16 to Oct 16	2,271	1,919	2,936	3,840	1,767
Nov 16 to Jan 17	2,709	2,236	3,589	4,655	2,338
Feb 17 to Apr 17	3,250	2,576	4,388	5,497	2,656
May 17 to Jul 17	3,005	2,135	5,016	6,073	1,900
Aug 17 to Oct 17	2,951	2,102	5,601	6,270	1,909
	2,854	2,216	4,221	5,076	2,211
Full season GDT-only prices	2,837	2,188	4,184	4,977	2,172

Appendix 9: Average NZD/USD Conversion and Spot Rates

2019 SEASON	FONTERRA'S AVERAGE CONVERSION RATE	SPOT EXCHANGE RATE
Aug 18 to Oct 18	0.6919	0.6676
Nov 18 to Jan 19	0.6982	0.6805
Feb 19 to Apr 19	0.6895	0.6726
May 19 to Jul 19	0.6813	0.6626
Aug 19 to Oct 19	0.6809	0.6613 ¹⁰
Revenue-weighted annual average	0.6905	0.6721

2018 SEASON	FONTERRA'S AVERAGE CONVERSION RATE	SPOT EXCHANGE RATE ¹¹
Aug 17 to Oct 17	0.6988	0.6968
Nov 17 to Jan 18	0.7097	0.7147
Feb 18 to Apr 18	0.7112	0.7172
May 18 to Jul 18	0.7050	0.6803
Aug 18 to Oct 18	0.7061	0.6580
Revenue-weighted annual average	0.7074	0.7014

2017 SEASON	FONTERRA'S AVERAGE CONVERSION RATE	SPOT EXCHANGE RATE
Aug 16 to Oct 16	0.6766	0.7156
Nov 16 to Jan 17	0.6830	0.7117
Feb 17 to Apr 17	0.6922	0.6978
May 17 to Jul 17	0.7071	0.7293
Aug 17 to Oct 17	0.7136	0.7173
Revenue-weighted annual average	0.6924	0.7137

As at 31 July 2019, Fonterra had hedged approximately 70% of the forecast cash flows related to the 2020 season Farmgate Milk Price. If the remaining 30% of the forecast cash flows were to be hedged at the 31 July spot rate, the average NZD/USD conversion rate would be around 67 cents.

¹⁰ This Milk Price Statement presents the spot exchange rate for August to October 19 as the spot rate at 9am on 31 July 2019, which is the last day of Fonterra's financial year.

¹¹ Certain average spot exchange rate figures for the 2018 season differ from those disclosed in the 2018 Farmgate Milk Price Statement, as forecast exchange rates have been replaced with actual exchange rates.

Glossary

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

Additional Commodity Milk Payments as defined in the Manual for the 2019 season.

Aggregate Farmgate Milk Price as defined in the Manual for the 2019 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 2019 season.

Farmgate Milk Price Capital Costs as defined in the Manual for the 2019 season.

Farmgate Milk Price Cash Costs as defined in the Manual for the 2019 season.

Farmgate Milk Price Manual or **Manual** means Fonterra's Farmgate Milk Price Manual which is available on www.fonterra.com.

Farmgate Milk Price Revenue as defined in the Manual for the 2019 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 2019 season.

Fonterra means Fonterra Co-operative Group Limited.

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 2019 season.

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 2019 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.



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