Fonterra Co-operative Group Limited

Results for Announcement to the Market

Results for announcement to the market		
Name of issuer	Fonterra Co-operative Group Limited	
Reporting Period	12 months to 31 July 2020	
Previous Reporting Period	12 months to 31 July 2019	
Currency	NZD	
	Amount (m's)	**Percentage change**
Revenue from continuing operations	$20,282	5%
Total Revenue	$20,975	5%
Net profit/(loss) from continuing operations	$803	N/A
Total net profit/(loss)	$659	N/A
Interim/Final Dividend		
Amount per Quoted Equity Security	5 cents per share	
Imputed amount per Quoted Equity Security	Not Applicable	
Record Date	25 September 2020	
Dividend Payment Date	15 October 2020	
	Current period	**Prior comparable period**
Net tangible assets per Quoted Equity Security	$2.77	$2.01
A brief explanation of any of the figures above necessary to enable the figures to be understood	Please refer to the annual financial statements for further explanation. Net profit/(loss) has moved from a loss in the previous reporting period of $(122 million), therefore the percentage change is not meaningful.	
Authority for this announcement		
Name of person authorised to make this announcement	Anya Wicks	
Contact person for this announcement	Anya Wicks	
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Date of release through MAP	18/09/2020	

Audited financial statements accompany this announcement.

Market Announcement

18 September 2020

Fonterra announces its Annual Results and dividend

Annual Results Summary

- Final cash payout for 2019/20 season: $7.19 per kgMS
  - Final 2019/20 Farmgate Milk Price: $7.14 per kgMS
  - 2019/20 dividend: 5 cents per share
- Reported Profit After Tax: $659 million, up $1.3 billion
- Normalised Profit After Tax[1]: $382 million, up $118 million
- Total Group Earnings Before Interest and Tax (EBIT): $1.1 billion, up $1.2 billion
- Total Group normalised EBIT: $879 million, up $67 million
- Total Group normalised gross profit: $3.2 billion, up $200 million
- Total Group normalised operating expenses: $2.3 billion, down $14 million
- Free cash flow: $1.8 billion, up $733 million
- Net debt[2]: $4.7 billion, down $1.1 billion
- Debt to EBITDA ratio: 3.4x improved from 4.4x
- Full year normalised earnings per share: 24 cents
- 2020/21 forecast Farmgate Milk Price range: $5.90 - $6.90 per kgMS. Mid-point of $6.40 per kgMS
- 2020/21 forecast earnings: 20 – 35 cents per share

Fonterra Co-operative Group Limited today announced its annual results, final Farmgate Milk Price of $7.14 per kgMS and a dividend of 5 cents per share for the 2019/20 season, bringing the final cash payout for farmers to $7.19 per kgMS.

Fonterra CEO Miles Hurrell says 2019/20 was a good year for the Co-op, with profit up, debt down and a strong milk price.

"We increased our profit after tax by more than $1 billion, reduced our debt by more than $1 billion and this has put us in a position to start paying dividends again," he says.

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[1] *Attributable to Fonterra's equity holders and includes Continuing and Discontinued Operations.*

[2] *Debt means Economic net interest bearing debt. This measure of debt includes the capitalised amount of operating leases following changes to accounting standards, and transitioning to this new accounting standard added $581 million to our measurement of debt. However, this was partially offset by the transfer from borrowings to liabilities of disposal groups held for sale of $266 million of net debt for DPA Brazil and China Farms, as a result of being classified as Discontinued Operations.*

"I'm proud of how farmers and employees have come together to deliver these strong results in a challenging environment. They have had to juggle the extra demands and stress of COVID-19 and have gone above and beyond. I would like to thank them for their hard work and support.

"This time last year we were announcing our new strategy and customer-led operating model. We were clear that to build a sustainable future we needed to focus on three interconnected goals – Healthy People, a Healthy Environment and a Healthy Business.

"We went on to deliver a strong performance for the first half. However, what none of us could have ever predicted was what then played out – a world facing COVID-19. The flow-on effects of the pandemic did impact our performance in the second half, particularly in our Consumer and Foodservice businesses.

"2019/20 proved to be a year of two halves, but we delivered on all four of our priorities:

- We've **supported regional** New Zealand, contributing around $11 billion into New Zealand's rural economies through the milk price, and we've rethought our approach to community support, with the aim of helping out more where it's needed the most – such as, growing the KickStart Breakfast programme alongside Sanitarium and the New Zealand Ministry of Social Development and partnering with the New Zealand Food Network to help get dairy nutrition to those that need it the most.
- We've **built a great team** through a focus on our culture, and we've seen that in action in how we've responded to COVID-19.
- We've continued to **reduce our environmental footprint**, including hitting our 2020 target to reduce energy intensity across our New Zealand manufacturing sites by 20%, from a 2003 baseline – cumulatively, that's enough energy saved to power all the households in New Zealand for 1.5 years.
- We've **achieved our key financial targets** with normalised earnings of 24 cents per share, a Total Group normalised gross profit of $3.2 billion, a $181 million reduction in capital expenditure and a $1.1 billion reduction in debt so the ratio of Debt to EBITDA has now improved to be 3.4 times our earnings, down from 4.4 times.

"The work we've done to strengthen our balance sheet has allowed us to focus on managing COVID-19. So far, demand for dairy has proved resilient and our diverse customer base and ability to change our product mix and move products between markets has meant we can continue to drive value.

"We're at our best when we're clear on what we need to do, why and how, and the whole Co-op is focused on it. When I look back on last year, it's great to see how this clarity has helped us respond to challenges, adapt and deliver results."

Business Performance

Total Group normalised EBIT was significantly up on last year from a loss of $17 million to earnings of $1.1 billion. This includes gains from asset sales, and impairments and costs relating to the strategic review.

Once these are taken out, the Total Group normalised EBIT, which the Co-operative uses to show its underlying business performance, was also up from $812 million to $879 million, despite the financial impact of COVID-19 in many of its markets.

Mr Hurrell says the main drivers of the underlying business performance was a strong normalised gross profit in the Ingredients business and, although there was the disruption from COVID-19, the strong sales and gross margins from the Greater China Foodservice business in the first half of the year.

Ingredients' normalised EBIT improved from $790 million last year to $827 million this year, with normalised gross profit up $165 million to $1.6 billion.

Mr Hurrell says that at the Co-op's interim results, the normalised gross profit in Ingredients was relatively steady.

"As we moved through the second half, we saw restaurants, cafes and bakeries close and intermittent spikes in supermarket sales, creating uncertainty across the global dairy market. This uncertainty resulted in softening milk prices, which helped improve the gross margin and gross profit in Ingredients."

Greater China Foodservice's normalised EBIT increased from $114 million last year to $169 million this year.

Mr Hurrell says the business achieved strong year-on-year sales growth in the first half of the year but was then hit hard by COVID-19 when many food outlets were closed. Normalised gross profit started to quickly rebound in the third quarter – although he also points out it is still not at 100%.

"We have seen significant growth across the Anchor Food Professional product range in China. We have entered 50 new cities across China, taking our total to 350, and our products are now not only being used in Western style restaurants and bakeries but also those serving local cuisine.

"However, as per our guidance in our third quarter business update, our Foodservice businesses across Asia, Oceania and Latin America were impacted by COVID-19 in the fourth quarter. All three markets reported losses in the second half.

"Despite this, normalised EBIT for Foodservice overall was up 14% on last year to $209 million, which is a result of the strong performance by the Greater China business in the first half.

The Consumer business' normalised EBIT reduced to $149 million from $227 million, mainly as a result of impairments of $57 million relating to the Chesdale™ brand and New Zealand Consumer business' goodwill.

Normalised EBIT, excluding these impairments, of the Consumer businesses in Oceania and Asia improved, despite COVID-19. However, due to civil unrest and market disruptions in Hong Kong and Chile, the normalised EBIT, after excluding these impairments, of the Consumer business declined 10%.

Mr Hurrell says our Australian Consumer business performed strongly with sales continuing to increase thanks to its popular beverage, spreads and cheese products.

"Our New Zealand Consumer business focused on improving customer service and keeping supermarket shelves well stocked, particularly as New Zealanders were stock piling through COVID-19.

"Despite the better performance this year, due to the economic outlook post-COVID-19, our New Zealand Consumer business's future cashflow projections are lower than we estimated last year and, as a result, we have decided to write down its goodwill by $21 million. It now has a total value in our accounts of $699 million."

Mr Hurrell says, in addition to the improved earnings performance, Fonterra has followed through on its commitment to financial discipline and this has increased the financial strength of the Co-op.

"Our cash flow has improved and our debt has reduced by 19% or $1.1 billion compared to last year. Increased earnings, reduced capex, as well as the sale of DFE Pharma and foodspring® for cash proceeds of $623 million in the first half of the year, have all contributed to this improvement."

Dividend and Farmgate Milk Price for 2019/20

Fonterra announced a dividend for the 2020 Financial Year of 5 cents per share and final Farmgate Milk Price for the 2019/20 season of $7.14 per kgMS.

Fonterra Chairman John Monaghan says for a 100% share backed farm, this gave them a final cash payout of $7.19 per kgMS.

“This year marks a return to paying dividends, a position we expect to maintain in the future, assuming normal operating conditions.

“At 5 cents per share, the dividend is at the lower end of the 5-7 cent range calculated under the Board’s dividend policy guidelines.

“In the context of so much uncertainty, as COVID-19 continues to impact our key markets and customer confidence, distributing a 5-cent dividend is a prudent decision and one that balances our aims of further reducing debt and distributing earnings.”

Outlook

Fonterra has announced a 2020/21 earnings guidance range of 20-35 cents per share and has also reaffirmed its 2020/21 forecast Farmgate Milk Price range of $5.90-$6.90 per kgMS.

Mr Monaghan says the impact of COVID-19 is still playing out globally.

“From a Milk Price perspective, the supply and demand picture remains finely balanced and for that reason we are maintaining our previous forecast range for this season.

“In terms of our earnings, we are forecasting a full year normalised earnings per share range of 20-35 cents per share.

“There continues to be significant uncertainties – including how the global recession and new waves of COVID-19 will impact demand globally, and what will happen to the price relativities between the products that determine our Milk Price and the rest of our product range.

“As a result of these uncertainties and given that financial year has just begun, we are giving a forecast earnings range wider than we usually would.

“We will be monitoring the situation throughout the season and as the year progresses, we would expect the earnings range to narrow.

“The best way of coping with uncertainty is to stay on strategy and focus on what is within our control – delivering for our farmers, unit holders and customers, and maintaining our financial discipline.

“We need to stay agile and draw on our strengths across the supply chain to manage and adapt to the changing global situation.”

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. This reporting period Fonterra has introduced Total group earnings before tax and Total group normalised earnings before interest and tax non-GAAP performance measures that present the combined financial performance of the group’s continuing and discontinued operations.

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 45 and 46 and pages 149 to 151 of Fonterra's Annual Report 2020 that is available on Fonterra's website.

-ENDS-

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Fonterra
Dairy for life

Good Together

ANNUAL
REPORT
2020

Good Together

Two simple words that bring together our purpose, values and strategy.

This year we've been given a reminder of where our strength lies. It's in our people being Good Together and delivering on our purpose, values and strategy.

We're a New Zealand co-operative made up of everyday good people and we're at our best when we unite and go all in for a common purpose.

By focusing on three interconnected goals – Healthy People, a Healthy Environment and a Healthy Business – we are able to create goodness for generations for our farmer owners, employees, unit holders, customers, consumers and communities.

Ben & Bella-Rose, Auckland

Healthy Environment

Our farmer owners care for the land and their animals. And they are committed to farming in a way that regenerates their farms and environment for future generations.

In New Zealand we have a highly-efficient, pasture-based farming system and because of this we have one of the lowest on-farm carbon footprints in the world – approximately one-third of the global average. But we are not stopping there.

In collaboration with others, we are working on innovative solutions to improve water quality and reduce our carbon footprint even further – like the work we're doing with the Department of Conservation to find solutions to protect New Zealand's waterways, the actions the Co-op is taking to address climate change and reduce emissions on-site and on-farm, as well as our efforts to reduce waste across the business.

Kerry, Oxford North Canterbury

Healthy People

People are at the heart of our co-operative.

What makes for Healthy People? Farmers getting the support they need to look after their families, their animals and their land. Employees having the opportunity to do fulfilling work in a safe and healthy workplace. Customers and consumers getting safe, nutritious and innovative products. And local communities receiving support from us where we can, especially in times of need.

Jamie-Lee & Taylor, Crawford St

Healthy Business

We know the long-term sustainability of our business is more than just numbers.

It comes from successfully bringing our people together to do their best work, looking after our customers and caring for the environment and local communities. It also comes from challenging ourselves to innovate and do better – pushing ourselves to stay one step ahead so we unlock greater value for farmer owners, unit holders and customers.

How our people are managing Covid-19 has proven once more that good things come from being Good Together.

What else has driven our Healthy Business this year? Our relentless focus on doing what we said we will – delivering on our four priorities for the 2020 financial year: to build a great team, support regional New Zealand, hit our financial targets and improve our environmental footprint.

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Delivering on our commitments

"Our international scale is one of the Co-op's key strengths. Our people have worked hard to leverage that scale, shifting our New Zealand milk into the products and places where we can earn the highest possible value under the circumstances.

JOHN MONAGHAN
CHAIR

Our 2019/20 result is headlined by a return to sustainable earnings, with the Co-op posting total normalised earnings of $398 million, up $123 million on last year.

With these improved earnings and a stronger balance sheet comes a return to paying a dividend, which was one of the four Board priorities this year.

This year's dividend payment of 5 cents per share and final Farmgate Milk Price of $7.14 per kgMS means the total payout for a fully share-backed farmer was $7.19 per kgMS, the fourth highest for the Co-op.

These results show that the core of our strategy will deliver – even amid a global pandemic.

Cultural change has been a focus for our Co-op's leadership over the past two years. We can see that improvement reflected in the numbers, particularly our overall Debt[1] which reduced by $1.1 billion in a single year. In the past 2 years, we have reduced overall Debt by $1.5 billion.

Across the Co-op, our people have been calm and considered when responding to the new challenges that Covid-19 creates on a daily basis. We have stayed focused on our core business and delivered what we said we would, rather than let Covid-19 be an excuse to veer away from strategy.

Our international scale is one of the Co-op's key strengths. Our people have worked hard to leverage that scale, shifting our New Zealand milk into the products and places where we can earn the highest possible value under the circumstances.

With that scale comes a greater exposure to world events. This year, like most others, our Co-op has had to manage geo-political events, civil unrest and other non-Covid-19 disruptions in our key markets. Our consumer businesses in Hong Kong and Chile, for example, continue to be hit hard by long-running civil unrest.

Within that context, I'm pleased to report that the Board has delivered on its four priorities for the year: delivering the Milk Price, a return to respectable earnings, the continued implementation of our strategy, and governance succession and development.

A RETURN TO RESPECTABLE EARNINGS

We are not immune to Covid-19, but this year's results show the diversity of our earnings, which has helped us to manage the impact of the global pandemic.

Consumers have continued to seek out products backed by our New Zealand milk and the Ingredients business underpinned our performance again this year. When foodservice demand dropped away as a result of global lockdowns and social distancing rules, our Consumer business was able to pick up some of the slack.

Ingredients' normalised EBIT improved to $827 million, up 5% on last year. Normalised gross margins for New Zealand Ingredients was up to 9.3%. This result benefited from favourable price relativities between the products that determine our Milk Price, and the rest of our product range.

Our Foodservice performance was strong in Greater China where we had a good start to the year and the full-year impact of Covid-19 was less than anticipated. Greater China Foodservice's normalised EBIT increased to $169 million, up 49% on last year.

This growth was balanced out by our Foodservice operations in the rest of Asia, Latin America and Oceania, which bore the brunt of Covid-19.

Results in our Consumer business were also a mixed bag. Hong Kong continued to suffer from ongoing civil unrest, but our earnings performance in Oceania and Asia improved despite the disruption of Covid-19, after excluding FY20 impairments and earnings from FY19 divested businesses.

DELIVERING A DIVIDEND

This year marks a return to paying dividends, a position we expect to maintain in the future, assuming normal operating conditions.

At 5 cents per share, the dividend is at the lower end of the 5-7 cent range calculated under the Board's dividend policy guidelines.

Under those guidelines, we expect the dividend payment to be 40-60% of reported Net Profit After Tax and take into consideration our current and future Debt positions. Any abnormal gains, such as a gain on sale of an asset, are considered separately.

In the context of so much uncertainty, as Covid-19 continues to impact our key markets and customer confidence, distributing a 5-cent dividend is a prudent decision and one that balances our aims of further reducing Debt and distributing earnings.

1 Economic net interest-bearing debt.

Farmgate Milk Price
for the 2019/20 season

$7.14 per kgMS

New Zealand milk collections
for the 2019/20 season

1,517 million kgMS

Dividend

5 cents per share

Share price up 1.6% year/year*

$3.82**

*For the period 31 July 2020
**Fonterra Co-operative Group Limited (FCG) share price as at 31 July 2020

CONTINUING THE IMPLEMENTATION OF OUR STRATEGY

The Board continues to refresh the Co-op's risk appetite statement alongside refinements to our strategy and with a view to sustainable growth.

We have developed a more conservative approach to risk across the business, be it our balance sheet, investment decisions and general business operations.

It is a critical piece of work that gives us a much clearer view of the risk adjusted return, particularly for offshore investments, before we make our investment decisions.

We have also continued to review our asset base in line with our strategy. Within the financial year we completed the earlier announced sales of DFE Pharma and foodspring® with cash proceeds of $623 million.

Despite its improved earnings performance this year, we have looked at the future cash flow projections for our New Zealand Consumer business and made the call to write down that business by $21 million.

Our Fonterra-owned China farms made a modest EBIT of $11 million this year, but we have also written down those assets, along with our joint venture farm. Continued geo-political tensions in Latin America have impacted our DPA Brazil business and as a result, that asset has been impaired.

The total impact of write downs in the financial year was $289 million.

We measure the success of our strategy in three buckets: healthy people, healthy environment and a healthy business.

We have made good progress in all three areas, including a 20% reduction in energy intensity from our 2003 baseline at our New Zealand manufacturing sites. There is more work to be done in all three areas if we are to meet our long-term commitments.

STABLE GOVERNANCE SUCCESSION AND DEVELOPMENT

In June, the Board selected Peter McBride as our Chairman-elect as part of our commitment to planned governance succession. The early announcement was designed to provide Miles and his leadership team with the stability and confidence to push on with embedding our strategy and cultural change. Since June, Peter and I have worked together closely to ensure there is no disruption to the Co-op when he takes over the reins at the Annual Meeting in November.

Holly Kramer joined our Board in April as an independent director. Holly fills the position left by Simon Israel who retired in November 2019. Farmers will be asked to ratify Holly's appointment at the 2020 Annual Meeting.

DELIVERING FOR FUTURE GENERATIONS – THE OUTLOOK FOR THE 2021 FINANCIAL YEAR AND BEYOND

Looking to the 2021 financial year, there is a high level of uncertainty as to how the global recession and new waves of Covid-19 will impact demand globally. It is something the Co-op will be monitoring closely throughout the season.

The best way of coping with uncertainty is to stay on strategy and focus on what is within our control – our financial discipline and cost of quality for example.

We need to stay agile and draw on our strengths across the supply chain to manage and adapt to the changing global situation.

From a Milk Price perspective, the supply and demand picture remains finely balanced and for that reason we are maintaining our forecast Farmgate Milk Price range of $5.90 - $6.90 for the 2020/21 season.

In terms of our earnings, we are forecasting a full year normalised earnings per share range of 20-35 cents per share. This earnings range assumes a number of factors working in our favour, including that there is no heightened disruption from Covid-19 over what we currently face, and an improved trading performance driven out of Asia and Greater China.

Further out, the future of our Co-op is exciting.

We were match fit when Covid-19 struck, with a new strategy, structure, and culture. That has us well positioned to come out the other side where there will be new opportunities for us.

We're in the business of food, and it's an exciting industry to be a part of. Food trends are constantly changing, there's a lot of energy around new product development, and there's new and emerging markets in most parts of the world.

The provenance and quality behind New Zealand dairy will remain sought after internationally. People will always pay for quality, and we produce what I believe is the best milk in the world.

Finally, on a personal note, I'd like to thank the 10,000 farming families that jointly own our Co-op for their loyalty and support. It has been a privilege to be part of this Co-op's leadership, and its Chairman for the past two years.

As a Fonterra governor I'm retiring out to the back paddock, but I remain an active and proud farmer-owner of this great Co-op.

Tātou, tātou.
You. Me. Us together.

JOHN MONAGHAN
CHAIR

Q&A with our Chief Executive Officer

Miles Hurrell answers key questions on the Co-op's performance, the year ahead and the task of responding to Covid-19.

How is the Co-op handling Covid-19?

It's a tough environment for every market, industry and business right now. We've all felt the impact of Covid-19. For the global dairy market, Covid-19 has brought increased volatility and uncertainty. But despite this, Fonterra has performed well and delivered both a strong milk price and good earnings.

The work done over the last 18 months to strengthen our balance sheet is allowing us to focus on managing the Covid-19 situation. We're drawing on our global supply chain to minimise disruptions for our customers and we're using our diverse product and customer base to direct milk into those products and markets where there is the highest demand and the most value can be achieved.

When I look back on last year, it's great to see how well we can perform when our purpose, strategy and values are all aligned. We're at our best when we're clear on what we need to do and the whole Co-op is focused on it, and I want to thank Fonterra farmers and employees for their support and the hard work they did in 2019/20.

How have farmers and employees come through a tough year?

While the milk price was strong in 2019/20, farming conditions were pretty tough for many farmers. There were droughts and floods, but farming families did what they do well and looked after their cows, land and businesses, and kept the milk flowing.

In the business, we implemented a new customer-led operating model. It meant a lot of change for our employees as we reorganised teams and the way we work – but it was necessary because our future is about growing the value of New Zealand milk and that means understanding our customers much more than we have in the past. We need to make sure our products are going to the customers who value our New Zealand milk, innovation and sustainability the most – and our new structure and greater focus on our markets helps with that.

Covid-19 has also put a lot of pressure on both farmers and employees. Like so many others around the world, they've had to juggle the stress, uncertainty and the extra demands of living through the Covid-19 pandemic. But our employees have also focused on 'Good Together' – two simple words that describe how we are when we bring together our purpose, strategy and values; or in other words, it's about having clarity about what we need to do, why and how. That clarity has empowered our teams to get on and make the right calls to deliver results, as well as managing and adapting to Covid-19. They've also shown that they genuinely care about each other and want to make a difference for our farmer owners, unit holders, customers and local communities.

Has the Co-op hit its performance targets?

I'm pleased to say we have. We've delivered on all four of our priorities: hit our financial targets, reduce our environmental footprint, build a great team and support regional New Zealand. We increased our Profit after tax by more than $1 billion, reduced our Debt by more than $1 billion and our Free Cash Flow[1] was almost $2 billion. Doing this at the same time as responding to Covid-19 demonstrates the resilience of our business and strength of being a co-operative.

What are the main reasons for the lift in the Co-op's financial performance?

Our Total Group normalised EBIT, which we use to show our underlying business performance, was up $67 million to $879 million. This was driven by a strong normalised gross profit in the Ingredients business, and strong sales and gross margins from the Greater China Foodservice business in the first half.

Ingredients' normalised gross profit was up $165 million to $1.6 billion. At half year, the gross profit was relatively steady, but then improved during the second half as milk prices softened. It was a combination of factors – including restaurants being closed, intermittent spikes in supermarket sales, and EU and US Governments' support measures for farmers – that came together to create uncertainty in the global dairy market and caused prices to soften slightly. This meant that, while dairy demand proved resilient, buyers were a little more cautious than usual.

Greater China Foodservice's normalised EBIT increased from $114 million last year to $169 million this year. We had strong sales growth across our Anchor Food Professionals™ product range in the first half of the year. We entered 50 new cities across China, taking our total to 350, and gross margins increased from 13.8% to 16.3%. But we then felt the impact of Covid-19 as restaurants closed. Gross profit started to quickly rebound in the third quarter – although it is still not at 100%.

The fact that we have breadth and could lean on these two businesses in 2019/20 was important because, as we forecasted, our Foodservice businesses across our other markets were impacted by Covid-19 in the fourth quarter and, in fact, they have all reported losses for the second half.

1 Free Cash Flow is the cash flow that is available to pay interest, dividends and Debt. It is calculated as net cash flows from operating activities plus net cashflows from investing activities.

> "It's a tough environment for every market, industry and business right now. We've all felt the impact of Covid-19. For the global dairy market Covid-19 has brought increased volatility and uncertainty. But despite this, Fonterra has performed well and delivered both a strong milk price and good earnings.
>
> MILES HURRELL
> CHIEF EXECUTIVE OFFICER

Profit After Tax

$659m ↑

Up $1.3 billion

Total Group Normalised EBIT

$879m ↑

Up $67 million

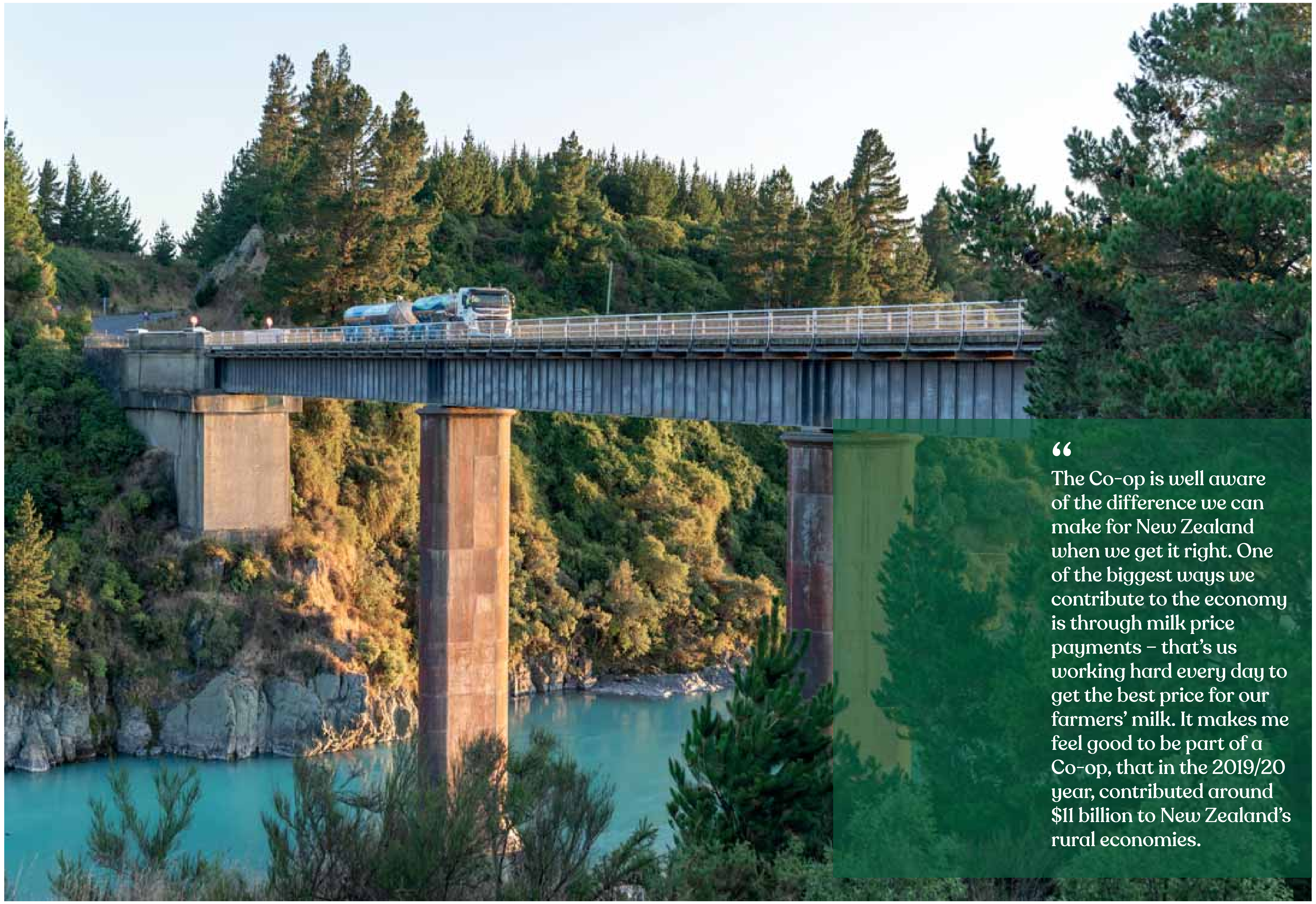
Debt down

$1.1 billion ↓

Free Cash Flow

↑ **$1.8 billion**

Up $733 million



> "The Co-op is well aware of the difference we can make for New Zealand when we get it right. One of the biggest ways we contribute to the economy is through milk price payments – that's us working hard every day to get the best price for our farmers' milk. It makes me feel good to be part of a Co-op, that in the 2019/20 year, contributed around $11 billion to New Zealand's rural economies.

In addition, our Consumer business' normalised EBIT had to absorb a number of non-cash items, like the goodwill impairments on the New Zealand Consumer business and the Chesdale brand. But overall, I was pleased with Consumer's performance as they were faced with not only Covid-19 but also market disruptions from civil unrest in various parts of the world.

It's worth noting that, if people are interested in seeing how each of the regions within our new customer-led operating model have performed, you can see this on page 88. We made the call to communicate our 2019/20 performance using our previous operating model because it allowed us to give a good comparison with last year.

Are you comfortable with the Co-op's Debt levels?

I'm pleased with the discipline that continues to be shown and the progress we're making with our Debt level, which has reduced by $1.1 billion, or 19%, compared to last year. Our Debt to EBITDA ratio of 3.4 times is in line with our three-year target range of 2.5 to 3.5 times, and is a significant reduction from 4.4 times last year.

We have achieved this by following through on our commitment to strong financial discipline. We have increased earnings, reduced capital expenditure, improved cash flow and benefited from the sale of DFE Pharma and foodspring® with cash proceeds of $623 million. Together these all contributed to the significant reduction in Fonterra's Debt.

How has the Co-op contributed to New Zealand?

We're starting to see the economic impact of Covid-19 in New Zealand and the Co-op is well aware of the difference we can make for New Zealand when we get it right. One of the biggest ways we contribute to the economy is through milk price payments – that's us working hard every day to get the best price for our farmer owners' milk. It makes me feel good to be part of a Co-op, that in the 2019/20 year, contributed around $11 billion to New Zealand's rural economies.

Our people also got stuck in and helped local communities manage Covid-19. For example, we made an additional two million litres of ethanol available to help with the initial hand sanitiser shortage in New Zealand, and we redirected Anchor milk from our in-school nutrition programme into communities throughout New Zealand as schools were closed during Alert Level 4 lockdown. We've also accelerated payments for small to medium-sized businesses here in New Zealand so they're paid within 10 days from us receiving their invoice because we know this will help their cash flow.

What has Fonterra done to reduce its impact on the environment?

We care for the environment and recognise it is critical to a sustainable future for the Co-op and New Zealand. That's why this year, even with all the distraction that comes with a global pandemic, we have continued to reduce our environmental footprint:

- *Hitting our 2020 target to reduce energy intensity at our manufacturing sites by 20%[2] – cumulatively, that's enough energy saved to power all the households in New Zealand for 1.5 years.*
- *Supporting over 1,000 farmers with putting Farm Environment Plans (FEPs) in place, which means 34% of our supplying farms now have an FEP.*
- *Completing farm-specific greenhouse gas emission reports for all our farmer owners so they will have the data to make informed decisions for their farms.*

But our most impactful change in 2019/20 was making the call to switch from coal to wood pellets at our Te Awamutu manufacturing site. I'm pleased, that despite logistical delays due to Covid-19, the site is now using wood pellets and this will see us reduce our national coal usage by almost 10% as a result.

What are your priorities for 2020/21?

We have three priorities – our Co-operative, Performance and Community.

'Co-operative' is all about being here for farmers and employees – that means having a competitive milk price, supporting farmers to have sustainable businesses through our Co-operative Difference programme and empowering employees pull together and make it happen.

'Performance' is about delivering on our financial commitments – in particular, continuing to drive earnings, reduce Debt and improve return on capital.

And 'Community' is about doing what's right for our customers, communities and the environment. That means exceeding customer expectations, making our low-carbon footprint model a powerful point of differentiation and sharing our dairy products with those that need them the most.

Good Together has put us in good stead during 2019/20. I've never seen our Co-op so united – we've got heart, we've got focus and we've got momentum. I'm looking forward to working with farmers and employees to make a difference for customers, communities and New Zealand in 2020/21.

2 Off a 2003 baseline.

A strong team responding to Covid-19

The impact of Covid-19 has been felt in every region and market we operate in, and as a result the global dairy market has been volatile and the outlook continues to be uncertain.

Despite the challenges, farmers and employees have come together as one team to keep our business running and supply chains operating. Farmers have relied on us to pick up and process their milk, and our customers have counted on us to deliver.

The work done over the last year to strengthen our balance sheet, and the Co-op's ability to respond quickly, has helped us focus on the Covid-19 situation.

Our scale, committed people, reliable global supply chain and ability to change our product mix and move products between markets meant we could continue to drive value, despite the disruption and uncertainty of Covid-19.

In February, our Foodservice business in China was hardest hit, as restaurants, cafes and bakeries closed due to lockdown. Once restrictions eased, and cities opened up again, demand in the sector came back reasonably quickly as our Foodservice customers looked to make up for lost sales volumes, although it is still not at 100%.

Having people on the ground in China was a huge benefit for us as we were able to get early, first-hand insights into what was happening.

Our teams were flexible and adaptable and were prepared to try new ways of doing things.

For example, our teams weren't able to visit customers during lockdown so they quickly set up virtual training sessions and livestreams. Our Anchor Food Professionals™ chefs demonstrated to customers and consumers how to cook recipes with our butter and cheese. Almost three million viewers tuned in – many of these were new business leads. Normally these sorts of sessions take a while to create, set up and execute but our team turned them around in a matter of days. And all while juggling the stress and extra pressures of a lockdown.

When one of our medical nutrition customers put in an urgent request for more hydrolysate, a fast absorbing whey protein used to provide nutrition for patients, including those suffering from Covid-19 in the US, our teams quickly rallied to find a way to extend production by one month to fill the request.

But acting quickly to keep our business going was not the only focus for our teams. They also took the initiative to help local communities as much as they could.

With hand sanitiser in short supply in New Zealand, our Co-op redirected two million litres of ethanol for use in sanitiser production by working with our customer, Gull, as well as increasing production.

We also recognised we could help our small and medium sized vendors in New Zealand with cash flow, and have accelerated payments to eligible vendors so they're paid within 10 days of invoice, instead of the standard 20th of the month term.

In Thailand, with department stores closed and sales of Anlene MovMax impacted, our local team saw an opportunity to donate Anlene MovMax UHT products to healthcare professionals who needed support.

And in New Zealand, with schools closed around the country, our teams moved quickly, partnering with various charitable groups to redirect nearly one million serves of Anchor milk from our in-school programmes to communities who needed it.

Covid-19 has shown the character of our people and resilience of our business.

Greg

Syed

As an essential business, our teams have drawn on all their strengths to keep the Co-op going. We're incredibly proud of how our people around the world have pulled together to support each other and ensure our operations are continuing to run. It showed us what being Good Together is all about.

Bhavisha & Neta

Maria & Shilpa

Melissa

Tonee

Our year in review

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

MAY 2019

- 2019/20 season opens with a forecast Farmgate Milk Price of $6.25 - $7.25 per kgMS

AUG 2019

- We announce our intention to sell a portion of our stake in Beingmate, which we view as a financial investment only
- We announce the decision not to pay a dividend due to significant write-downs

SEP 2019

- **WE OUTLINE OUR NEW STRATEGY AND MOVE TO A CUSTOMER-LED OPERATING MODEL**
- We announce the closure of our Te Roto site to consolidate our specialty cheese making facilities at our Eltham Bridge Street site
- We announce that six New Zealand manufacturing sites in water constrained regions will reduce their water use by 30% by 2030

OCT 2019

- Celebrate five year anniversary of Farm Source
- 2019/20 forecast Farmgate Milk Price range revised up to $6.55 - $7.55 per kgMS

NOV 2019

- Our reformulated Fresh 'n Fruity yoghurt, with 40% less added sugar, hits supermarket shelves in New Zealand
- Celebrate 10 years of KickStart Breakfast

DEC 2019

- Teh-han Chow is appointed as our interim CEO Greater China
- We are awarded the Rainbow Tick for commitment to diversity in the workplace
- We purchase minority interest in Prolesur, taking our ownership of the Chilean milk processor from 86.2% to 99.9%
- 2019/20 forecast Farmgate Milk Price revised up to $7.00 - $7.60 per kgMS

JAN 2020

- We announce our Te Awamutu site will be coal free next season
- We complete the sale of our 50% share of DFE Pharma and foodspring® with cash proceeds of $623 million
- We extend MyMilk to the North Island, making it easier for farmers to join and grow in the Co-op
- Our business in China impacted by Covid-19 outbreak

FEB 2020

- New Zealand faces significant weather disruption with floods in the South Island and drought conditions in the North – our Co-op offers support

MAR 2020

- After completing strategic reviews of China Farms and DPA Brazil, we announce that sales processes for both assets are well under way
- New Zealand goes into Covid-19 Alert Level 4 lockdown. Our Co-op continues to operate as an essential business
- Chairman John Monaghan confirms he will retire at the Annual Meeting in November

- Carly Robinson appointed as Director, Office of the CEO

APR 2020

- Fraser Whineray starts in role as Chief Operating Officer

MAY 2020

- 2019/2020 forecast Farmgate Milk Price narrowed to $7.10 - $7.30 per kgMS
- 2020/21 opening season forecast Farmgate Milk Price announced at $5.40 - $6.90 per kgMS

JUN 2020

- We announce a Co-operative Difference Payment of up to 10 cents per kgMS for farms that meet sustainability and value targets
- We accelerate payments for eligible small to medium-sized New Zealand businesses so they're paid within 10 days from the receipt of invoice
- Peter McBride selected as Chairman-elect

JUL 2020

- We launch Simply Milk New Zealand's first carbonzero milk in partnership with Foodstuffs North Island
- 2019/20 forecast Farmgate Milk Price revised down to $7.10 - $7.20 per kgMS
- 2020/21 forecast Farmgate Milk Price revised up to $5.90 - $6.90 per kgMS

Healthy Environment

Greenhouse Gas Emissions (GHG)*

1.9%

Reduction in GHG emissions from our global manufacturing sites.

Water Use*

6.4%

Reduction in water use at our manufacturing sites in water-constrained regions.

Solid Waste*

970 tonnes

Reduction in solid waste to landfill from our global operations.

* Compared to last year

We are working together to achieve a healthy environment for farming and society.

Ka ora te whenua, ka ora te tāngata. When the land is well, the people will thrive.

It is the land that protects and sustains us. The land gives us our unique dairy goodness that we share with people around the world.

By looking after land, water and animals, and using resources wisely, we are finding a path to regenerate the environment. It's all part of our transition to a more sustainable way of dairying.

“The individual greenhouse gas reports will provide farmers with insight and understanding about what is happening on farm. It will help farmers identify any strengths and weaknesses and allow them to prioritise their next improvement steps.

ANDREW KEMPSON
ENVIRONMENT PROGRAMME LEAD

Caring for the land today, so the land cares for us tomorrow

Tiakina te whenua i tēnei rā, hei oranga tangata mō ngā rā e heke mai nei.

The Roberts' Farm, Taranaki

HOW FONTERRA IS MAKING THIS HAPPEN

- **Improving the health and biodiversity of our land and waterways** by having a regenerative mindset, reducing the impacts of farming and manufacturing, and working in partnership with others.
- **Leading the transition to a low-carbon future** by investing in innovation and infrastructure to reduce greenhouse gas (GHG) emissions from our supply chain.
- **Meeting growing nutritional needs** through improvements in productivity and minimising waste from farm to consumer.

FY20 DELIVERY – KEY ITEMS:

- 34% of our farms in New Zealand now have Farm Environment Plans
- Switching from coal to wood pellets at our Te Awamutu site
- Finalising farm-specific greenhouse gas reports

KEY GLOBAL TARGETS:

- Reduce greenhouse gas emissions by 30% by 2030
- Reduce water use at sites in water constrained regions by 30% by 2030
- Zero solid waste to landfill by 2025

THE UN SUSTAINABLE DEVELOPMENT GOALS WE ARE CONTRIBUTING TO

GOAL ACHIEVED

HOW WE ARE TRANSITIONING TO LOW-CARBON

Improving energy efficiency

We've delivered on our target to improve energy efficiency in our New Zealand manufacturing sites from our 2003 baseline by 20%. Improving energy efficiency in our manufacturing operations remains a top priority. Not only does it directly reduce our greenhouse gas (GHG) emissions, it makes commercial sense and it helps with our transition to lower carbon fuels.

Hitting our 2020 energy efficiency target is a significant milestone – cumulatively, since 2003, that's enough energy saved to power all the households in New Zealand for 1.5 years.

Switching to renewable energy

We are also moving to energy sources which produce less GHG emissions and reducing our reliance on fossil fuels such as coal. We are taking a staged approach to renewable energy and this year we took a significant step with the conversion of our Te Awamutu site from coal to wood pellets.

In New Zealand, wood biomass is a by-product of forest harvesting and processing, making it a good low-carbon alternative to coal.

It's estimated that once fully operational, this change at our Te Awamutu site will reduce our GHG emissions by around 84,000 tonnes per year, equivalent to taking around 32,000 cars off New Zealand roads and taking a big step towards our target of 30% reduction by 2030.

Helping farmers reduce on-farm emissions

New Zealand farmers are already some of the most carbon-efficient in the world, so making significant further improvements isn't easy. The agriculture sector will need a comprehensive package of activities to address the challenge, and some are not yet technically or commercially viable.

For now, the main improvements our farmers can deliver will continue to come from adopting good management practices on-farm such as being efficient with feed and fertiliser, having the right number of cows for the specific area of land, reducing cow replacement rates and ensuring good animal health.

To support our farmers, we have been collaborating on the development of farm-specific greenhouse gas reporting. Following a successful pilot, we are now finalising the reports, which will be sent to farmers by October 2020.

“Achieving our energy efficiency goal has involved hundreds of projects and a daily focus from hundreds of staff over the years. Projects have ranged from changing how we run equipment, retro-fitting heat recovery systems, through to building new efficient factories.

LINDA THOMPSON
SUSTAINABLE ENERGY & UTILITY MANAGER

REDUCING OUR ENVIRONMENTAL FOOTPRINT

Prioritising on-farm improvements with Farm Environment Plans

Helping farmers establish a Farm Environment Plan (FEP) and build on their good farming practices is how we can make the biggest difference on-farm in areas such as water quality, soil health and biodiversity. Each FEP is unique and includes a detailed map of the farm, identifying areas of existing strengths and also improvement areas for action.

One of our Sustainable Dairying Advisors visits the farm and works with the farmer, to consider things such as the risk of nutrient or soil loss into waterways, maintaining soil structure, protecting biodiversity and, where applicable, the efficient management of irrigation systems. 34% of our farms in New Zealand now have an FEP. Our aim is for every New Zealand farm to have an FEP by 2025.

Collaborating on catchments

Protecting and regenerating the environment in our local communities is not something we can do on our own. It takes a collaborative effort.

Living Water is our 10-year partnership with the New Zealand Department of Conservation that brings together farmers, scientists, councils, communities and Mana Whenua to identify game-changing and scalable solutions that will enable farming and freshwater ecosystems to thrive side-by-side. It is focused on five key catchments, which all have ecological significance, as well as being in important dairying regions.

An example of the work we're doing is in the Waituna catchment where we have been investigating applying fertiliser in a targeted way. Fine particle application is a method of applying less fertiliser which potentially reduces its impact on freshwater and saves farmers money. This year we commissioned AgResearch to complete a review of data from 250 field trials around New Zealand. Their analysis found the results were promising and worth pursuing further. We are now looking at the next steps that would be required to make this approach more widely available to farmers.

Beyond the five Living Water catchments we've been working with iwi and local stakeholders across New Zealand. For example, recognising the important role wetlands can play in improving water quality, we have worked with the Waikato and Hawke's Bay Regional Councils and Landcare Trust to assess feasibility, and demonstrate and help landowners to reinstate wetlands.

Improving water efficiency

Water is a precious resource and we're committed to using it wisely.

Aligned with best-practice thinking, our water efficiency target prioritises improvements where water is potentially constrained. This year we reduced water use at our sites in water-constrained regions by 6.4%, which is a 3.1% reduction against our 2018 baseline and a significant step towards our target of a 30% reduction by 2030.

Our Stanhope site in Australia delivered most of the improvement, installing new treatment infrastructure which has significantly reduced the water it uses.

Responsible use of water is important for all our manufacturing sites, even where there is water abundance and overall across all sites our water use was down by 3.7% on the last financial year. That's almost two billion litres of water saved, which is equivalent to more than 750 Olympic-sized swimming pools.

34%

of supplying farms in New Zealand now have a Farm Environment Plan, up 23% from the start of the year

Reducing waste to landfill

We aspire to play our part in achieving 'zero waste' and last year we set a new target for our direct operations of sending zero solid waste to landfill by 2025. With a collective effort around the world, this year we have achieved a reduction of 970 tonnes.

At our Takanini site, working with Adhesifs, we have eliminated 33 tonnes of solid waste. The backings from the labels we use on large volume products are now turned into tissue paper.

In Indonesia, we worked with our waste contractor to change processes and the team now segregates all paper, plastic and food waste on site, achieving a 98% reduction (194 tonnes) for the year.

Mike, Kawaa Stream, Limestone Downs, Waikato

Healthy People

Anthony John & Luana, Reporoa

What is the most important thing in the world?
It is people, it is people, it is people.

He aha te mea nui o te ao?
He tāngata, he tāngata, he tāngata

We are working together to care for people and make a positive community impact.
That means looking after our team's safety and wellbeing, providing employees with motivating work opportunities and playing a role in supporting local communities.

It's also about helping people live healthier lives through the goodness of dairy.

The nutrients in dairy play an important role in growing and maintaining healthy bones, immunity, the functioning of your nervous system and so much more.

There's also power in some of the individual components of milk in helping manage and recover from injuries and illnesses.

We often talk about the untapped potential of milk because our scientists are finding new benefits from dairy all the time – we've only scratched the surface.


Lisa & Gordon, Darfield

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

HOW FONTERRA IS MAKING THIS HAPPEN

- **Provide positive employment for our people** by promoting a safe and healthy working environment and developing a diverse, skilled and agile workforce.
- **Address public health challenges** by improving the nutritional profile of our products and promoting healthy diets.
- **Improve the health of our communities** by doing business in the right way, sharing what we do best and playing our part to build resilient, sustainable communities.

FY20 DELIVERY – KEY ITEMS

- Create a culture that empowers our people
- Shift to customer-led operating model
- Support communities through nutritional programmes

KEY GLOBAL TARGETS

- World-class injury prevention
- World-class engagement
- 2022: 50% female representation in senior leadership
- 2025: 100% product portfolio meeting endorsed nutrition guidelines

THE UN SUSTAINABLE DEVELOPMENT GOALS WE ARE CONTRIBUTING TO

2 ZERO HUNGER · 3 GOOD HEALTH AND WELL-BEING · 5 GENDER EQUALITY · 8 DECENT WORK AND ECONOMIC GROWTH

GOAL ACHIEVED

CARING FOR OUR PEOPLE

We want all Fonterra people to go home from work safely every day. Unfortunately, this year our injury frequency rate has risen to 5.8, up from 4.9 last year. The number of serious harm injuries has significantly reduced, down 44% on last year. Overall, since 2010, our injury frequency rate has reduced 68%. Any work-related injury is one too many for us. As a result, we continue to look at ways to improve how we keep our people safe.

Indicator	Target	Performance		
		FY18	FY19	FY20
Work-related fatalities (attributable to Fonterra – staff, contractors, on-site public)	Zero harm	0	1	0
Total recordable injury frequency rate (TRIFR per million work hours)	World class for our industry group (<5)	6.1	4.9	5.8
Number of serious harm injuries	Zero harm	14	18	10

During Covid-19, the Co-op moved quickly to keep employees safe, cancelling all face-to-face meetings and domestic and international travel prior to New Zealand going into Alert Level 4 lockdown. As countries went into lockdown, strict social distancing and Personal Protection Equipment (PPE) guidelines were put in place globally to protect our essential workers and we had a dedicated IT team working around the clock to keep our systems running as all other employees worked from home. The Co-op has continued to keep health and safety measures in place and will continue to do so until we are confident employees won't be at risk.

RAINBOW TICK

Diversity in the work place is important to Fonterra, which is why we're proud to have been awarded the Rainbow Tick this year.

> "We know when we embrace different perspectives, we're more innovative, make better decisions and improve performance. There's also a growing body of research indicating that diverse and inclusive teams outperform their peers.
>
> HAYLEE PUTARANUI, HEAD OF DIVERSITY AND INCLUSION

WORKING WITH FARMERS

Farm Source™, the Co-op's farmer-facing team, marked their fifth year of working to help make farming easier by lowering on-farm costs, providing on-farm support and advice, and giving back to communities. Since Farm Source™ began, we've returned more than $160 million in Farm Source™ dollars, discounts and deals to farmers.

When Southland faced the worst floods in 30 years, teams across the Co-op came together to help farmers and the local community. Initially, teams worked alongside emergency services, and then Fonterra's Farm Source™ team and the Edendale site's Emergency Response Team went out on farm to help clear debris, repair fences and get farms up and running again.

CARING FOR CONSUMERS

We've reduced the amount of added sugar by 40% in Fresh 'n Fruity yoghurt and 30% in our Anchor CalciYum. This is another step towards our goal of having 100% of our everyday and advanced products meet our independently-endorsed nutritional guidelines by 2025.

CARING FOR COMMUNITIES

We celebrated 10 years of providing valuable nutrition to Kiwi kids through KickStart Breakfast. In partnership with the Ministry of Social Development and Santarium, over 1,000 schools are involved and more than 30,000 children attend a KickStart Breakfast Club every school day.

When schools closed after New Zealand went into Covid-19 lockdown, we switched our focus and redirected nearly one million serves of Anchor milk from our Fonterra Milk for Schools programme to those in the community most in need.


Kids enjoying KickStart Breakfast

> “
> **While our priority is and always will be collecting farmers’ milk, it’s really important that we step up and help communities in their time of need wherever possible.**
>
> BARRY MCCOLL,
> GM NATIONAL TRANSPORT AND LOGISTICS

200,000

litres of water delivered to help with Northland drought

DELIVERING MORE THAN MILK

When New Zealand’s Northland community was struggling with drought earlier this year, our Northland team stepped in to lend a hand.

Water deliveries were built into milk collection schedules so our tanker drivers could drop off water on their way up to collect milk from farms in the Far North.

Our teams in Northland worked with the local regional council to help deliver water to the towns of Kaikohe, Kaitaia, Rawene and Dargaville, delivering more than 200,000 litres of water.

But the work didn’t stop there. Our Co-op’s Waitoa tanker team also got a call up from Civil Defence when the township of Waihi, in New Zealand’s Hauraki District, ran dry after a burst water main – the team was more than happy to lend a hand.

SHIFTING TO A CUSTOMER-LED OPERATING MODEL AND BUILDING A GREAT TEAM

This financial year has been all about delivering on our new strategy, and one of the first things we did was shift to a new customer-led operating model and focus on building a great team.

We made this change because our future is no longer about volume. Instead, it’s about prioritising New Zealand’s unique milk and growing its value, which means we need to understand our customers in ways we haven’t in the past.

We now have three customer-facing businesses: Asia Pacific (APAC), Greater China, and Africa, Middle East, Europe, North Asia, Americas (AMENA). Having teams on the ground gives us early insights into what’s happening in market, and during Covid-19 this was invaluable. Our teams were able to work closely with customers to understand how Covid-19 was impacting their businesses, and in turn, what we could do to support them.

In addition to having the right organisational structure to deliver on our strategy, we recognised our teams needed to be 100% clear on what was expected of them. That’s why we introduced Good Together – two simple words that remind us that every day we have to be contributing to our purpose, living our values and delivering on our strategy. During Covid-19, the power of Good Together really shone through as our teams pulled together to keep the business running, care for each other and help local communities.


Kevin, Te Rapa


Victoria & Colleague, Auckland

Farmer and employee spotlight

This year, farmers and employees have done us proud, taking home several national and regional titles, while three were recognised in the Queen's New Year and Birthday Honours list.

New Zealand Dairy Industry Awards

New Zealand Dairy Industry Awards

23 of the 33 regional titles were won by Fonterra farmers, with three national titles going to Fonterra farmers.

Share Farmers of the Year – Waikato's Sarah and Aidan Stevenson, 50/50 sharemilking for Sue Williams on her 100ha, 330-cow Ngarua property since 2013.

Dairy Manager of the Year – Bay of Plenty's Andre Meier, Farm Manager on Ao Marama Farms 250ha Te Puke property, milking 800 cows.

Dairy Trainee of the Year – Waikato's Grace Gibberd, Farm Assistant on the DairyNZ 115ha property at Newstead, milking 360 cows.

Fonterra Responsible Dairying Award

Nick and Nicky Dawson

Hawke's Bay farmers Nick and Nicky Dawson won the 2020 Fonterra Responsible Dairying Award, receiving the 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.

Fonterra Dairy Woman of the Year

Ash-Leigh Campbell

Ash-Leigh Campbell was named 2020 Fonterra Dairy Woman of the Year. The 28-year-old Farm Manager has been working for Ngāi Tahu's South Island farming operation for more than three years. She is also Chair of the New Zealand Young Farmers Board and a previous Ahuwhenua Young Māori Farmer Award finalist.

Member of the New Zealand Order of Merit

Dr Jeremy Hill

Chief Science and Technology Officer Dr Jeremy Hill was recognised for his services to the dairy industry and scientific research. Jeremy has worked for Fonterra and its predecessors for over 30 years, and is internationally recognised for his dairy research, having published more than 100 works.

Officer of the New Zealand Order of Merit

Tony Wilding

South Waikato farming stalwart Tony Wilding was recognised for his services to the dairy industry and the community. Tony has made a significant contribution to conservation and agricultural education, and was a driving force behind fairer sharemilking arrangements.

© – Stuff

Officer of the New Zealand Order of Merit

Dr Harvey Indyk

Senior Research Scientist Dr Harvey Indyk was recognised for his services to analytical research and the dairy industry, having developed techniques which allow scientists to accurately measure the levels of vitamins in milk.

New Zealand Champion of Cheese

Sam Pokaitara (right)

Lichfield's Brine Salt Cheese Process Project Manager took out this year's supreme award after receiving the highest aggregate score across the three cheeses he entered for judging. Sam says the secret to making the best cheese is top quality milk and experienced operators who know what they're doing.

The Co-operative Difference

Scott, Kerry & Rodney, Canterbury

Working together for a strong and sustainable Co-op.

The Co-operative Difference is part of our Co-op's strategy to add more value to New Zealand milk and respond to increasing demand from customers here and around the world for sustainably produced dairy.

It supports farmers to produce high-quality, sustainable milk by making it easier for farmers to understand what is expected today and what they need to prepare for in the future. It also celebrates those who go the extra mile to make our Co-operative more sustainable.

From June 2021, farms meeting on-farm sustainability and value targets will be eligible for a new Co-operative Difference Payment of up to 10 cents per kg of milk solids.

HOW THE CO-OPERATIVE DIFFERENCE HELPS

- Brings together existing on-farm requirements and makes them easier to understand.
- Ensures standards are clear, making it easier for farmers to create the highest-quality milk.
- Recognises farmers who go beyond these standards to produce the highest quality milk, care for their animals, protect the environment, support their people and community, and engage in our Co-op.
- Keeps farmers informed and up-to-date about future changes so they can prepare for them.
- Saves time by streamlining reporting and auditing, minimising duplication and helping our Co-op protect its market position, strengthen its sustainability claims and drive demand for products that customers value most.
- Supports farms wanting to improve by providing tailored, industry-leading support.

IN ORDER TO PRODUCE SAFE, SUSTAINABLE DAIRY PRODUCTS THERE ARE SOME THINGS THAT WE CAN NEVER AFFORD TO COMPROMISE ON.

That's why we'll always:

- Meet the requirements of our regulators
- Comply with all market access requirements overseas
- Produce safe, high-quality milk
- Look after our people, animals and the environment.

We call this "Our Core"

Once the Core foundations are met, our farmers can grow further through three levels of achievement. To make it simple, we use the analogy of a journey up the mountain to reach greater things. Each level brings additional recognition.

Progress this year

The Co-operative Difference pulls together the best of what we do into five key focus areas.

Milk

5,029

FARMERS HELPED CREATE
goodness for generations by delivering Grade Free milk with an average Fat Evaluation Index of A or better and an average somatic cell count of 150,000 or less for at least 3 months of the season.

Environment

6,551**

FARM ENVIRONMENT PLANS
helping farmers care for the land and waterways by reducing greenhouse gas emissions, recycling waste and making the most of the precious resources we use to create nutritious milk.

Animals

4,571*

ANIMAL HEALTH PLANS
helping farmers to care for their cows. These are developed alongside vets and are reviewed at least every year.

Co-operative & Prosperity

4,144*

FARMERS
recognised as actively engaged members of the Co-operative contributing to the long-term value of New Zealand.

People & Community

6,332*

HEALTH & SAFETY PLANS
keeping hardworking and passionate people safe and well on farm.

* This data is self-reported by farmers and is then verified by Fonterra's independent on-farm auditors. The auditing process is currently underway.
** Includes farms with FEPs in the pipeline.

949 ACHIEVED LEVEL 3

Te Tihi
"THE SUMMIT OF THE MOUNTAIN" FOR THE ENTIRE SEASON

843 FARMERS ACHIEVED LEVEL 2

Te Puku
"THE MID POINT" SIX MONTHS

893 FARMS ACHIEVED LEVEL 1

Te Pūtake
"THE START OF THE JOURNEY" THREE MONTHS

REWARDING SUSTAINABLE, HIGH VALUE MILK

Farmers producing sustainable, high-quality milk will be eligible for a new payment.

From June 2021, we're introducing a Co-operative Difference Payment of up to 10 cents per kilogram of milk solids (kgMS) if the farm meets the Co-op's on-farm sustainability and value targets.

It's part of our Co-op's strategy to add value to New Zealand milk and respond to increasing demand from customers here and around the world for sustainably-produced dairy.

The more a farmer achieves in The Co-operative Difference programme, the higher the payment will be.

ONE-THIRD OF FARMS NOW HAVE FARM ENVIRONMENT PLANS

A key part of The Co-operative Difference is our offering of tailored Farm Environment Plans (FEPs) to our farmers.

These plans, delivered by our Sustainable Dairying Advisors at no additional cost, assess the environmental effects and risks associated with farming activities and provide tailored actions to help farms meet their regional requirements and sustainability goals.

As of 31 July, 34% of our farms have an FEP – up from 23% last year. We want every farm to have an FEP before 2025.

> "It's great to see these farmers recognised and rewarded for their efforts to produce and deliver a product that Fonterra can capture the highest value from. Through The Co-operative Difference, we can get better, together.
>
> TERENCE BROCX, NORTHLAND DAIRY FARMER

The Co-operative Difference

- MILK
- CO-OP & PROSPERITY
- ANIMALS
- ENVIRONMENT
- PEOPLE & COMMUNITY

> "They can see that you need to put everything into looking after the cows because that's what gets results – low somatic cell counts, good cow health and good calving rates.
>
> GLENYS BELL, TE AROHA DAIRY FARMER


Glenys & Graham, Te Aroha

FOCUS ON MILK QUALITY

The headline in one of the national newspapers said it all, 'Top cow care equals top milk quality'.

They were talking about the Bell family from Te Aroha, whose achievements of low somatic cell count and grade-free milk is the stuff of Fonterra legend. How do they do it? They love their cows.

Glenys and Graham Bell and their family have won national awards for their dedication and determination – but it hasn't come easy. "It's about observation. Everyone's watching out for a problem."

And that means lots of testing, lots of care, lots of attention… and making sure the cows are well-loved. In fact, every cow on their farm has a name, and they're able to trace entire family trees in the herd.

Now their daughter Tania is share milking on another farm, so they've got some competition for the top spot as she was number two last year! Proof, if it was ever needed, that our Co-op farmers really are best of breed.

Honour Roll for On-farm Excellence

Thank you to all our farmers who have worked hard in the 2019/20 season to provide safe, high-quality milk. In addition to the honour role, we acknowledge the efforts of all our farmers for their commitment to on-farm excellence and producing the best possible milk.

LEGEND

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

Kemra Farm Ltd
B L & Estate R J Mohring
K J & H Chalmers Ltd
Clutha Lea Ltd
F A & R C M Smits Ltd
C M & K M O'Donoghue
B M & B C & JH Geddes
Ashgrove Dairy Farms Limited
Waicola Holdings Ltd
A Holten & N Brown
Owhango Farms Limited
Serendipity Trust
R S & R D Gordon
J E & D M Cooper
Marua Partnership
Sim Family Farms Ltd
Sim Brothers Ltd
D C & V F Frew
J L & M A Cooke
L J & L M Still
W J & J G Pile Family Trust
Schorn Trust
G E & V E Cooper
C & H Mabey
C J & K L Ladd
F B Bonenkamp & J B Cunningham
Black & White Cow Company Limited
Riverside Farms (Taranaki) Limited
Shawlink Ltd
Miroc Limited
Caskey Farms
Fowler Family Prosperity Trust
R & P Woods Farms Ltd
Golden Mile Farms Ltd

TE TIHI

Farming entities that achieved The Co-operative Difference Te Tihi (Level 3)

41 Degree South Limited
46 South Limited
5 M Trust
69 on Bedford Partnership
96 South Limited
99 South Limited
A & A Renes Limited
A & C Allado Dairies Limited
A & C Hodges Family Trust
A & H Ahlers Limited
A & K Storey Limited
A & L Ag Enterprises Limited
A & M Wainman
A & R Marshall
A B & K J Zwagerman
A C Schouten Farms Limited
A D Harrison
A D Harrison Family Trust
A G & T A Rigter
A G L & L M Smith
A G L & L M Smith Family Trust
A H & A C Webster
A H Baxter Limited
A I & J G Sanford
A J & K L Murdoch
A L & M B Jumawid Partnership
A M & H E Kusabs
A M Bond & Estate of R G Bond
A R Hawkins & T M Finch
A R Maxwell Limited
A R Wards
A T & J L Hughes Trust
A W & M White
A.F.B Group Limited
Aaron and Marcia Flay Partnership
Abacus Dairy Limited
Abbey Farm Partnership
Abbott Trusts Partnership
ABH Trust
AC & KM Ruddenklau
Acacia Farms Limited
AD & HA Foote
ADDR Limmited
AFT Group
Aghern Holdings Limited
Agincourt Farms Limited
Agribaird Limited
AGVenture Farms Limited
Ahipene Farming Ltd
Airlie Lodge (Walton) Ltd
AK Dean Ltd
ALD Dairy Ltd
Alderbrook Farms Limited
Alesh & Sandhiya Devi
Alexandra Farms Ltd
Aljo Farm Ltd
Alley Farms Ltd
Allison Family Farms Ltd
Allout Investments Ltd
Alpine Farms Ltd
Alston Property Group Ltd
Altitude Farms Limited
Alton Pastures Limited
Altra Partnership
Altura Dairy
AM Farming
Amber Creek Limited
Amber Park Family Trust
Ambleside Dairy Farm Ltd
AMF Trust
Amlee Farming Partnership
Andrew Marshall Family Trust
Anglesea Consulting Ltd.
ANLM Limited
Annandale Farming Limited
Annaross Family Trust No 2
Antrim Farming Limited
Anvo Ag Limited
AP & TM Davis T/A Bushvalley Farm
AP Cowley & D K Riley
AQA Agriculture
Aramaunga Farms Ltd
Ararata Holdings Ltd
Aratika Holdings Limited
Ardendale Farm Trust
Ardmore Dairies Ltd
Ardmore Farm Trust
Ardoyne Farm Dairies Ltd
Armour Dairying Ltd
Arnold Dairy Farming Limited
Ashdale Enterprises Ltd
Ashers Farm Ltd
Ashgrove Dairy Farms Limited
Askin Plains Dairy
Atlas Farms Ltd
Auchtercairn Farm Limited
AUI Farms
Avondale Dairies Ltd
Awaiti Trust
Awapuketea Farming Company Limited
B & C Anderton Limited
B & D Dodunski
B & L Bailey Ltd
B & S Mathys Partnership
B A Virbickas & L M Presow
B C & H J McLellan
B D & B A Mora
B F & S J Gordon
B G & M C Litchfield
B H & L J Bourne
B H Redgate & S M Thomas
B J & D A Verryt Family Trust
B J & J Abernethy Partnership
B J & P Brisco
B J & R A Lawn
B J & T G Fernyhough
B J Laing
B K Came & K M Came Family Trust
B L & D J Haylock
B L & Estate R J Mohring
B M & B C & JH Geddes
B M & J A Ahlers
B M & J L Chick Family Trust
B M Thompson
B N & P A Jones
B R & S C Lee
B S & B K Young
B S & S M Winter
B W & C A McNeil
BAA Family Trust
Baggott Farming Limited
Balcombe Investments
Baldrick Farms Ltd
Ball Patch Ltd
Ballindalloch Farm Ltd
Balrath Partnership
Bandara & Pavi
BAN-OIR Ltd
Barcia Dairies Ltd
Barker Farms Limited
Barmac Dairies Ltd
Barnsdale Farms 2014 Limited
Barridge Farms
BASE Pair Dairy
Bashford-Nicholls Chartiable Trust
Baylins Trust
Beckett Family Trust
Bel Group Limited - Cloverlea
BEL Group Ltd - Kowhai Terrace
Belrari Farm Ltd
Ben Callum Dairies Limited
Benjamin Burmeister Trust
Berry Dairy Farming Limited
Berwick Holdings Ltd
Beyond The Gate Limited
Bibberne Farms Ltd
Bill Bella Ltd
Bill Hedley Limited
Birch-holme Holdings Ltd
BJ & DM Ahlers
BJ & TM Verryt Ltd
BJ Caird Ltd
BL & TL Davie Farming
Black & White Cow Company Limited
Blom Family Farm Limited
BM & GI Watson Ltd
BM Farms Ltd
Bobcat Trust
Borst Holdings Ltd
Boswell Dairy Ltd
Bouton Farming Ltd
Bowman Farm Limited
Bradley Gore Trust
Braemer Dairies
Brats Farms Ltd
Brent Wallace Ltd
Brentworth Dairy Farm Limited
Broadford Dairies Limited
Broadview Farms (2018) Ltd
Brooksdale Dairy Ltd
Brookside Holdings Limited
Broughshane Farm Limited
Brown Kiwi Farms Limited
Brownsville Farms Ltd
Brunswick Downs (2014) Limited
Buckley Farm Limited
Budnutkins Family Trust
Buhler Paton Partnership
Bullot Family Trust
Burgham Partnership
Burke Farming Development Ltd
Burnside Farms Ltd
Burtlea Limited
Burton Farm Trust
Bushmills Trust
Butler Family Trust
BW Dairy Ltd
C & A Dairies Limited
C & D Padrutt Trust
C & J Rowe Ltd
C & M Tippett
C & S Guyton Farms Ltd
C & T Dovey
C A Mansell & Son Ltd
C A Rowe
C and J Piggott Ltd
C B & M F Dempsey Trust Partnership
C D Jacobsen
C D Will & A E Hunter
C F & M T Muller
C G & R A MacFarlane
C G Bailey
C H Land Limited
C J & C J McKenzie Ltd
C J & L M Houghton Ltd
C L J & R M Vollebregt
C L N Limited
C N R Farming Ltd
C R & D E Cloke
C R & J J Dixon
C R & K L Ruiterman
C T & K M L Chase
C T & W L Harper
C W & J Redshaw
C W & L A Peckham
C W & M Y Matthews Family Trust
C.A & A.C Dairies Ltd
Cairndale Dairy Limited
Cambridge Dairies Limited
Carpe Diem Dairies Limited
Caskey Farms
Catalina Farms
Causeway Trust
Ceylandia Dairies Limited
Chardan Farms Ltd
Chatton Lea Holdings Ltd
Cherrylane Jerseys Limited
Chikasa Trust
Christensen Farms Ltd
Ciel Trust
Circle K Farms Limited
Clapcott Farms Ltd
Claremont Trusts Partnership
Clarks Potteries Ltd
Clausen Contracting Ltd
Clausen Farms Ltd
Clearwell Limited
Cleaver Farms Limited
Cliff Donald
Climie Road Farms Ltd
Clover Sun Limited
Cloverdene Dairy Ltd
CM Farming Ltd
CMC 2000 Ltd
CME Farming Ltd
Cochar Dairies Limited
Cody Cowley Ltd
Collis Farms Ltd
Confederate Farm Ltd
Contract STEL
Cookson Trust Farms Ltd
Copeland Farming 2012 Ltd
Copeman Family Trust
Cornerstone East Limited
Cotlands Ltd
Cotter Farming Ltd
Coull Farms Ltd
Cowley Ltd
Craig Group Limited
Craigower Farms Ltd
Cravan Farms Limited
Crayfish Trust
Creekside Pastures Ltd
Cressey Dairies Ltd
Crockers Ranch Ltd
Crown Ridge Partnership
Crowsnest Farming Limited
CW Taunt & HM Baldock
D & D M Coupe Trust
D & E Beckett Limited
D & E J Pringle
D & K & M Kavanagh
D & K Miles Limited
D & M Earl Ltd
D & R Van Straalen Family Trust
D & S Farms
D A & S M Crawford
D B & T A Wyber
D B H Farming 2012 Limited
D Baeyertz 2013 Ltd
D C & V F Frew
D D & D M Galletly
D E & A M Jacobsen
D G Harker Family Trust & W A Harker Family Trust
D H & A J Speirs Family Trust
D H J & J J Hughes
D J & F J Lynch Ltd
D J & G M Hooper
D J & S A McMillin
D J Noble & K M Jones
D L & P Wilson
D L & S M Cochrane Ltd
D Lindsay & D Manu
D P & C M Flood
D P & C M Flood Family Trust
D P & T G Schumacher
D P & T M Stephens
D R & E M Henman
D R & J E Gilchrist
D R & L A Marshall Ltd
D R & L M Locke Ltd
D R & N R Ellis
D R & S K McKay
D W & P A Wood
D White
D&D Bosch Ltd
Dacrow Ltd
DAGCO Limited
Dairy Farms Partnership
DairyPlus Limited
Dairytrac Trust
Dajo Trust
Daker Ridge Trusts No.1 & No.2
Danatava Holdings Ltd
Dandarrigan Trusts Partnership
Daniel Cullen Family Trust
Daniel Symons
Daradowns Holdings Ltd
Darnnco Agri Limited
David & Angela Kennedy
David & Corina Youle Trust
David Leng
Davis 5 Limited
Dawn Dairies Ltd
Daybreak Farms Limited
DB & MJ Kalma Ltd
DB & N Young
DC & KR Fraser Partnership
DDB Dairy Enterprises Limited
Dean Semmens Ltd
Dekker Farms Ltd
Delarbe Farm Ltd
Delca Faith Dairy Limited
Denis J Crookenden & Bronwyn F Bax
Dennis & Donna Gill Family Trust
Dennley Farms Ltd
Derrys Farm Limited
Derryvale Ltd
Des Landes Dairies Ltd
Dingle Trust Partnership
Dinnae Ken Ltd
DNA Contracting Partnership
DNR Farms
Donagh Farm Trust
Drakes Hill Farming Ltd
Drysdale Dairies Ltd
Dungarvan Farms Limited
Dunmilkin Ltd
Dunrobin Farm Partnership
DW & JM Harris Partnership
Dyfed Farming Ltd
E A & J A Rolfe
E B & J L Day
E F & J A Allcock
E G & N H Scott
E Hut & A Jongmans
E J & K J Field Trust
E J Ritchie
E L & D J Brook
E S & J M Rattray
E S Dairy 2008 Ltd
E.K. & M.J. Chisnall Ltd
Eastwick Farm Limited
Edale Farms Ltd
Eiffelton Contractors Ltd
Eiffelton Dairy Ltd
Ellis-Lea Farms (2000) Ltd
Emerald Dairy Farm Ltd
Est. M Q J Van Bysterveldt
Estate Charles Bailey
Estate D E G Swadling
Estate of K Sminia
Estate of N R Dilks
Esternwest Farms Limited
Eudunda Dairy Ltd
Evans & Co Ashburton Limited
Evans Partners Ltd
Eyre View Dairies Ltd
Eyrewell Dairy Ltd
F & P Dawson Limited
F A & D N Ahlers
F G White & Estate of MM White
F J & E A O'Connor
F J Mullan & J A Mullan Family Trust
F Stevens & S McCoy
Fairfax Stonehouse Farm Ltd
Fairhaven Farms Ltd
FAM Limited
Far South Farms Ltd
Fareway Holdings Ltd
Farmbuild Milk Company Ltd
Farmer Fred Ltd
Farming Tee Jay Ltd
Farnley Tyas (2018) Limited
Fast Track Dairies Ltd
Felgate Farm Limited
Ferguson Family Trust
Fernglade Farm Ltd
Fernhill Farms Koru Ltd
Firdale Farms Limited
Flag Farms Ltd
Flaxmill Dairy Ltd
Flaxwood South
Fleming Family Trust
Flett Pastures Limited
Fonic Farms Limited
Fonterra -Te Rapa Farm
Fonterra -Tui Farm
Foster Dairying Limited
Four Seasons Contracting
Four Seasons Farming Limited
Fowler Family Prosperity Trust
Freely Farms Ltd
Frisia Farm Trust
Fuller Dairy Limited
Funny Farm Waikato Limited
Fyvie Meadows Limited
G & A Parker
G & C Came Ltd
G & K Kingston Family Trust
G & P Russenberger
G & S Carran Family Trust
G A & J A Wright
G A & J M Hall Ltd
G A & K T Lynch
G A & V M Weir
G A W & M C Van Rossum
G B & D G Hodges Trust
G C & A M Williamson
G Cronin & G M Impey Limited
G D & P M Jackson
G E & V E Cooper
G E Sutherland Trust
G I Norgate
G K & D J Landon Family Trust
G K S Cows Ltd
G L & G D Love
G L & G F Bell
G M & A J Gower
G M & B M Gillard
G M & D L Yates
G R & B L Irwin
G R & D M Edge
G R & I Griffiths
G S & L J Rowe
G T Came Family Trust
G V & H P Wall Family Trust
Galloway Enterprises Ltd
GAPA Ltd
Garn Farms Ltd
Garstein Ltd
GC & JO Appleby Ltd
Gen Set Ltd
George Finch (Farmers) Ltd
George Scurr & Co Limited
GG Partnership
Gibson Pastoral Ltd
Giggs Farming Limited
Gill Farms Limited
Given Farming Limited
GJ & SP Carran Ltd
GJ Buhler Farms Trust
GJ Toner & Stacey Coward
GKS Farms Limited
GKW Farms Ltd
GL & SM Martin Ltd
Glasgarton Farm Ltd
Glen Eden Otago Ltd
Glen Rata Farm Partnership
Glendine Ltd
Glenmarie Dairies Ltd
Glenmore Farm
Glennevis Dairies Ltd
Glenrowan Trust
Glenspec Holdings Ltd
GM & AM Woolley
Golden Mile Farms Ltd
Gopperth Family Trust
Gordon Dale Farms (2006) Ltd
Goreland Partnership
Goud Milk Limited
Graceland Farm
Grant Allen Ltd
Grant Gargan Trust
Grantlea Dairy Ltd
Grassmere Dairy Farm Ltd
Grat Farms Ltd
Green Light Farming Limited
Green Pastures Dairy Ltd
Green Sky Dairies Limited
Greenbank Pastoral Ltd
Greenwell Farms Ltd
Greg Cowley Ltd
Greg Low Limited
Groundwater Holdings Ltd
H & C Underwood
H & K Farms Ltd
H & M by de Ley
H L & J E Wallace
H Q Partnership
H S Hancock
Hahn Trading Limited
Hall's Enterprises Limited
Hamill Family Trust
Hamilton & Keene Sharemilking Ltd
Hamkee Dairies Limited
Hammens Limited
Hammond Limited
Hancock Farms Ltd
Hanging Rock Dairies Ltd
Hanson & Barnes Partnership
Harakeke Dairy Ltd Partnership
Hard Road Dairies
Hardwick-Smith Partners
Harrick Limited
Hartland Pastoral Limited
Hastings Farms Ltd
Hastings Group Ltd
Haurere Farms Ltd
Hawkes Pastoral Ltd
HBG Agri Ltd
Heartland Holdings (2008) Ltd
Hejlea Dairies Ltd
Henmar Trust
HG & RE McFarlane
Hikuai Pastures
Hillbrook Dairies Limited
Hillcrest Culverden Farming Limited
Hillpark Dairy
Hillview Trust
Hinemoa Dairying Ltd
HLM Partnership
HMW Farms Limited
Hoe-o-Tainui Farms Ltd
Hollands Farm Limited
Hoogeveen Farms Ltd
Hopcroft Farms Ltd
Horomanga Holdings Ltd
Horseclose Dairies Limited
Howell Farming Limited
HS & KM MacPhail
Huia Trust
Huirangi Valley Farms Limited
Huntersview Farm Ltd
Huntly Road Dairies Ltd
Hurunui Ltd Partnership
HWH Farming Ltd
Hwitan Tune Holdings Ltd
I & M Selak Ltd
I & T Megaw Partnership
I D & S D Read
I H & D J Bryant
I J Connor
I R & V E Wilcox
I T & M G Semmens
I W & K D Shearer Family Trust
Ian & Joyce Noble Limited
Ihenga Holdings
IM & RV Glenn Ltd
Incline Farm Ltd
Ingram Farming (2003) Limited
Instone Trust Partnership
Intensive Agriculture Ltd
Irving Family Trust
Ivy Plains Ltd
J & C Anderson
J & C Dairies Limited
J & C Paterson Trust
J & D Cullen Partnership
J & H Schuurmans
J & J Anderson Family Trust Partnership
J & LM Van Burgsteden
J & P S Malcolm
J A & A A Patino
J A & N J Anderson Partnership T/A Jonik Farming
J B & K A Lord
J B & L M Suisted Limited
J B Fleming Family Trust
J Buckley & D VanDenBeuken T/A Jaydee Partnership
J C & C A Rossiter
J C & P A Low Ltd
J C & V G Wells
J Duncan Farming Ltd
J E & A E Watson
J E & D M Cooper
J E & S G Pike Family Trust
J H & R Cotman
J Haultain & K McCartin Partnership
J L & L A G Adam
J L Hooper & A L Robertson
J L Murray & Sons Ltd
J L Vollebregt Limited
J M & K L Sneddon Partnership
J M & M R Foster
J M Mellow
J McKay & A Brown
J W & A M Steeghs
J W & M J Osborne
J W J & M K King
Jabulaan Limited
Jacob Abbott
James Brown
James Lyttle
Jamze Trust
Jascas Trust
Jaska Farm Trust
Jaunay Farms Ltd
JAVAN Cream Company Ltd
JB Mucca Farms Ltd
JBT Farming Limited
JCDAF Dairy Farms Ltd
JE & KL Gilbert
Jeremy Swain
Jetstream Farms Ltd
Jeyes Farming NZ Ltd
JL & NA Wolff Partnership
JM Cross & LA Hazelton
JM McLaughlin & JM McLaughlin Family Trust Partner
Joel & Jessica Brown
John Armstrong Family Trust
John Finlayson Ltd
Johnston Family Trust
Jojax Ltd
JOLO Grace Ltd

Honour Roll for On-farm Excellence

TE TIHI (Cont.)

Jomar Farm Ltd
JP & AL Bourke Partnership
JR & L M Stevenson Ltd
Junior Turnbull Trust
Jusswodeva Limited
Just Holding Ltd
JW Pouls Limited
K & A Wilson Limited
K & LG Pickett Limited
K B Olesen & R J Stephens
K C & L M Berry
K D & T M Yates
K E & V J Bond
K G Reeve
K J & H Chalmers Ltd
K J & L F Christensen
K J Coe
K J Thompson & M Sataka
K R Vollebregt
K W & D M Blackstock
K W & D R Lowe Family Trust
K&M C Farms Limited
Kahika Farming Limited
Kaimai Dairy Ltd
Kaimara Trust No 3 & 4
Kaipara View Farming Limited
Kaiper Partnership
Kaitake Farms Trust
Kaiuma Reach Ltd
Kaiwhio Dairies Limited Partnership
Kakariki Valley Trust
Kanuka Syndicate Ltd
Kanuka Terrace Limited
Kathdan Trust Limited
Kauri Karaka Ltd
Kauri Moor Farms Limited
KC Cows Ltd
Keelinn Farms Limited
Kellydale Partnership
Kemra Farm Ltd
Kendre Farms Ltd
Kereru Trust T/A Kereru Dairies
Keritapu Farm Ltd
Kerr Road Dairies Limited
Kerr Road Dairies Ltd
Keswick Farm Dairies Limited
Kevin & Rhonda Belling Trust
Kevin Fleming Ltd
Kiekie Farms Ltd
Kilkenny Farm Ltd
Kilvarock Farming Company Ltd
Kingsden Dairies Ltd
Kingsway Farms Limited
Kinkora Farm Ltd
Kintore Farm Ltd
Kiwi X Farmers Ltd
KiwiDutch Dairies Ltd
KJ&HL Uhlenberg(Waitui) Fam Tr. P'Ship
KM & BM Muller
Knightlands Ltd
Knockinnon Farm Trust
Kohi Partnership
Kohique Farms Limited
Kokako Road Ltd
Kokoamo Farms Limited
Koning Limited
Konini Family Trust
Koroa Group Ltd
Kowalski Farms Ltd
Kowhai Bush Family Trust
Kowhai Farms Partnership
Kraakman Farms Ltd
Kreignook Trust
KTAC Farms Limited
Kuranui Farm Limited
Kywaybre Farms Ltd
L & A Verstappen
L & P Dairies Ltd
L & P Smets
L 2 B Lands Trust
L A Ruthe
L D & R M Barry
L J & S L Wallace
L J Bleakley
L J Hodges
L P & C L McClintock Limited
L S & K A Phipps
Lakeflats Limited
Lakeside Ayrshires Ltd
Landcorp Farming Ltd
Lanseair Limited
Lavender Dairies limited
Lavic Partnership
Law Family Farms Ltd
Le Emari Trust - Morven
Leningrad Farm Ltd
Lesdale Friesians Ltd
Letham Farms Ltd
Levett Farming Limited
Lillburn Valley Dairies Ltd
Lincoln University
Liquid Au Limited
Lismore Dairy Limited
Living Waters Dairy Ltd
Lizlyn Dairies Ltd
LJB Contracting Ltd
Lobblinn Farms Ltd
Lochlea Partnership
Lockerbie Farms 2001 Ltd
Locking Farms Ltd
Longacre Properties Limited
Lonmeck Dairy Limited
Looman Dairies Ltd
Loves Cows Limited
LP & CL McClintock Ltd
LR and SJ Hammond Limited
Lynbrook Farm Ltd
Lynburn Dairy Ltd
Lynwood Dairies Limited
M & A Hinricks
M & A Schrader Family Trust
M & C Brophy Family Trust
M & C Mogg Ltd
M & J Courage
M & J Cudmore Limited
M & L Wood Partnership
M & M Kidd Partnership
M & S Noord Contracting Ltd
M A & J F Doherty
M A & S M Zillwood
M A Watt Family Trust
M C & M Davey
M Carlson & Co Limited
M D & K L Deane
M D Hammond
M E G & D A Polyblank Family Trust
M G & A K Earl Partnership
M G & S A Hughes
M G and B J Deane Limited
M Gloyn
M H & D E Nater
M H Pastoral Limited
M I & P M Stevenson Family Trusts P/ship
M J & C Blagrove Ltd
M J & D R McFetridge
M J & M J Manley
M J & M Scarlett
M J & T M Davies
M J & T M Lord
M J & T R Schumacher
M K Gummer Farm Partnership
M M & L Baxter
M M Brophy Family Trust
M N & D Brown
M Nesbit & A Absalom
M P & V M J Joyce Trusts P/Ship
M R & F L Hines
M R & K J Luke Ltd
M R & W Rowe
M R Bennett
M S & H Hammond
M S & P M Davey
M T & A J O'Connor
M T & K J Taylor
Maandonks Farm Limited
Maandonks Pastoral
Mac Chap No.3 Limited
Macken Farm Ltd
Maco Dairying Ltd
Maerewhenua Investments Limited
Mahoe Trust
MAK Dairies Ltd
Maka Ltd
Maken Milk Ltd
Makowhai Trust
Manchester Dairy Limited
Mangahuia Farms (Hawera)
Mangaone Farms
Mangatoki Partnership
Mangawhiri Farms Ltd
Manuka Downs Farm Limited
Manuka Ridge Limited
Marchant Farms Trust
Mark & Nerida Dodge Ltd
Marua Partnership
Marusden Limited
Massey University Farms
Matai Trust
Matakuri Ltd
Matham Family Farm Ltd
Mathieson@Rongomai Limited
Matoka Farms Ltd
Matricksen Ag Holdings Ltd
Mavora Farms Ltd
Maxlands Farms Limited
Maybrooke Limited
MB O'Hearn Limited
MC Holland Farming Ltd
McCarty Farms Ltd
McCheesey Farming Limited
McClelland Daiies Ltd
McDonald Farming Limited
McGee Partnership
McHardy Farms Ltd
McKay Creek Farms Limited
McLachlan Farms Ltd
McLean Farms Limited
McLeod Farms Ltd
McMillan Finnigan Partnership
McNab Farms Limited
Meadowbank Farm 2017 Ltd
Mejeri Farms Ltd
Melrose Dairy Ltd
MERJ Investments Ltd
Merrybent Ltd
Merryfield Dairy Ltd
MESK Farming Partnership
Michael Clark Ltd
Mid Island Farms Ltd
Midfield Farm Ltd
Milk Power Ltd
Milkoad Limited
Milkwell Ltd
Millar Farm Ltd
Milldale Farm No 2 Limited
Mills Farms Ltd
Millydale Pastures Ltd
Minus 1 Ltd
Minus 1 Trust
Miroc Limited
Mitchells Milky Way Limited
MJ & CD Beattie
MJ & KL Family Trust
Molehill Farm Ltd
Moneymore Dairies Ltd
Monte Vista Farms
Montland Limited
Moo2U Ltd
Mooi Dairies Ltd
Moolah (2014) Limited
Moorbyvale Farm Ltd
Morana Farms Ltd
Morelands Pastoral Ltd
Morris Ag Ltd
Morrison Farms Limited
Morrow Holdings 2018 Limited
Mosa Farming Ltd
Motu Lodge Stud Ltd
Mount View Trust
MR & TJ Frost Ltd
Mt Winchmore Farm Limited
Mu Kau Ltd
Muir Dairies Limited
Mulbuk Farm Limited
Mullerwhero Farming Ltd
Mullford Trust Partnership
Murdock Investments Ltd
Murphy Farms Limited
Murrayfield Dairy Limited
Mutu Trust
MW & KA Olsen
N A & J J Higgins
N C & J A Kelly
N C & N Ruygrok
N D & A J Rout
N G & B D Simmons
N J & C T Kane
N J & M Bleakley
N J & W A Vollebregt
N J N Ormsby & T J Connellan
N K & A M Fox
N P Tull & N A Shelley
N R & A H Berry
N R & L A Fox
Nadash Partners
Newton Farms Limited
Ngahape Valley Farm Ltd
Nicholls Family Trust
Nicholson O'Rourke Ltd
Nithesdale Ltd
Nomad Services Ltd
NP Van Straalen Family Trusts Partnership
NR Ensor Limited
NS Farms Limited
NT Lee & A Spethmann
NYMIC Dairies Limited
NZSF Canterbury Farms Limited - The Forks
Oak Valley Farm
Oaks Dairy Limited
Oasis Farm Ltd
Oberwil Farms Ltd
O'Connor Rural Limted
Ohoka Meadows Limited
Ohtawa Farms Ltd
Oliver K Limited
Onstream Dairies Ltd
Oporo Farms Ltd
Orchard East Limited
Orini Downs Station Limited
Orongo Meadows Ltd
Orton Downs Farm Partnership
Orwell Dairies Limited
Otaitai Dairys Trust
OTO Trust
Our Dairy Farm Limited
Owhango Farms Limited
Oxford Farming Limited
P & A Farming Ltd
P & C Farming Ltd
P & J Dickson
P & J Jamieson Family Trusts
P & S Bryan Limited
P A & J E Taylor
P A Hoogeveen
P B & E J Chick
P C & R A Grey
P D & S S Sharpe
P D & S Wykes Family Trust
P F & H S Sturt
P G & D M Dombroski
P G & M A Cashmere
P H & C K Partnership
P H J & M A Brown
P H S & P C Byford
P Hall & C M Duignan-Hall
P J & R E Roberts Family Trusts
P J & T L Walsh Family Trusts
P Jones Family Trust
P L & R E Berryman
P N & D L Waite Family Trust
P R & R F Mossman
P S & B K Rai
P S & H J Wilson
P T & R D Williams Family Trust
P T & V M Youngman
P V & P G Mullin Trust
P V & V L Risi
P W & N J Bavin
Pacey Farming Ltd
Paengaroa North B10A Trust
Pahau Dairy Ltd
Pahtuna Farms Ltd
Palmdale Farms Ltd
Papawai Dairies Ltd
Paramount Dairies Limited
Parkhill Farms Ltd
Pastoral Holdings Ltd
Paterson AG Services Ltd
Paton Trading Company Ltd
Patterson Farming Limited
Paul Clausen Limited
Peel View Ltd
Pekanga o te awa Farms Ltd
Penrith Trust
Peter Reeve
Peter Templeton
Petfield Farming Ltd
Pheasantridge Ltd
Phimister Farming Limited
Piako (Middle Farm) Limited
Pikowai Transport Ltd
Pinefields Ltd
Pineridge Partnership
Piriaka Farms Ltd - M & C Ferris
Pirie Farms Limited
Piriti Dairies Limited
PJ Hilhorst Ltd
PJ Mayall Limited
PKW Farms LP
Placement Services Limited
Platinum Dairies Ltd
Platinum Farming Ltd
PN & DA Botica Limited
Poc Ar Buille Limited
Pohuenui River Limited
Poldrissick Farms Ltd
Port Molyneux Dairies Limited
Praire Farm Ltd
Price Trusts Partnership
Prima Farms Ltd
Progressive Dairies Ltd
Puketi Farming Enterprises Ltd
Purdy Farm Ltd
Pynewood Farm Ltd
Quatre Farming Company Ltd
R & A Tait T/A Black Cow Dairies
R & L Dunn Partnership
R & L J Simms
R & S Singh
R A & J L Hamilton
R B & S M Grant Farming Limited
R B Duncan
R B Gooding Investments Ltd
R C & K M Ormsby
R F & C L Lansdaal Ltd
R F & D M Sowerby
R G King Ltd
R J & C A Stevenson
R J & J R Thomas
R J & V M Bourke Trusts
R J & Y L Le Fleming
R L & F M Hurley
R L & H J Colson Trust
R M & S A Grayling
R M O'Sullivan & P J Jones
R N & D P Bridgeman
R P & M G Frank
R P Hunter & S G Wallace Partnership
R S & R D Gordon
R V & M M Martelli
R W & F W Muller Trust
R W & R D Kane
Rai Farm Limited
Rainbowcreek Farms Limited
Rakaia Dairy Ltd T/A Railside Dairy
Rakaia Island Limited
Ranginui Station Limited Partnership
Rangitata Island Dairy Partnership Ltd
Raukapuka Farm Ltd
Ravelston Farm Limited
RD & MA Wilson Limited
RD & TS Buchanan Ltd
Reaymore Farming Limited
Red Cow Farms Ltd
Red Dragon Systems Limited
Redpark Farm Limited
Redwood Farm Trust
Reed & Arden Farms Limited
Reith Dairy Ltd
Reuver Limited
Rhodes Farming Partnership
Ribbonwood Dairy Ltd
Richview Limited
Ridgedale Limited
Risi Farms Limited
River Heights Limited
Riverhill Farming Limited
Riverside Dairy Farm Ltd
Riverview Oaks Limited
RJ & MMJ Gardner Family Trusts Pnship
RJ & NA Meade
RJ Dairies 2018 Ltd
RK & A Hines Limited
RKBS Horne Ltd
RM &AD Singgo
RMH Dairy Limited
Roaring View Farms Limited
Robinson Farming Ltd
Rockburn Dairy Ltd
Rockford Holdings 2015 Ltd
Rockwood Kaikoura Ltd
Rocky Farms Joint Venture Ltd
Rocky Point Enterprises Ltd
Rodgers Farms Limited
Rodney G & S J Joblin
Rolfe Farms Limited
Rooney Farms Limited
Rose Farm Ltd
Rosebrae Farm Ltd
Rossco Farming Ltd
Rosser Holdings Ltd
Roswin Farm Limited
Roto Farms Ltd
Rotongata Dairies Ltd
Rout Dairies Limited
Ruakiwi Dairies Limited
Ruapeka Farms Ltd
Rukuhia Farm Ltd
Rukuhia Holdings Ltd
Ruthe Farms Ltd
RVS Farming Ltd
Ryelands Farm Company Ltd
RYEM Partnership
S & G Chick
S & G Muggeridge
S & K Garland Ltd
S & K Phillips
S & R Partnership Ltd
S & R Pastoral Ltd
S A & J M Roberts
S B & Y M Thompson
S England & P Walker
S G & B L Thirkell
S Huta & T Tawhiao Partnership
S J & L M Colson
S J & M R Dravitzki
S J Bruce Family Trust
S L & M P L Fergusson
S M & S A Field
S M Duynhoven & Estate of JB Duynhoven
S M Muller & N K Buckthought
S M Shead
S Petterson Family Trust
S Richards & L Coetzee
S W & F M Settle
Sailing Away Family Trust
Sandbrook Farm Ltd
Sanford Farming at Paradise Trust
Sangro Farm Limited
Sani Farms Limited
Sanson Farms
Sarwan Singh Farms Limited
SBR Livestock Limited
Scarlett-Brown Partnership
Schayes Enterprises Ltd
Schorn Trust
Schouten & Reneti Farms Ltd
Scott Evans Sharemilking Limited
Sea Breeze Farms
Seagrove Farms Ltd
Seamist Dairies Ltd
Searle Dairy Farming Ltd
Seath Limited
Semmens Holdings Limited
Seven Mile Dairy Limited
Seven of Nine Ltd
Sfarmer Partnership Limited
SG & A Donovan Ltd
Shaan Gopperth Trust
Shawlink Ltd
Sherwood Farming Co Limited
Silverbank Enterprises Limited
Silverdene Farms (2000) Ltd
Sim Brothers Ltd
Sim Family Farms Ltd
Sisley Farms Ltd
Six O Farms
SJ Bond & DJ Phillips
SJ Pastures Limited
SK Holdings (2017) Limited
Smiling Dairies Limited
Smith Enterprises Limited
Snaplulu Ltd
Snow View Dairy Ltd
South Dairy Limited
South Two Chain Limited
Southern Meadows 2011 Ltd
Southern Pastures (Tatua Farm) Ltd Partnership
Spark Brothers Ltd
Spring Peak Ltd
Springdale Farms Trust
St Andrews Dairy Ltd
Staple Homestead Limited
Steeghs Limited
Steward Dairy Ltd
Stichbury Farms Limited
Stitcho Ltd
Stone Country Dairies Ltd
Stoney River Farm Ltd
Stonyglen Dairies Ltd
Stornaway Farm Ltd
Straloughs Ltd
Streamline Limited Partnership
Stromness Group Ltd
Summerglow Dairies Limited
Swim Farms Ltd
Sybton Farm Limited Partnership
T and M Wrigley Ltd
T I & J K Bishop Family Trust
T M Mcdowall
T M Rawson & Est D B Palmer
T P & R D Trail
T P & R Sneddon
T P Payton
T S Curtis
T W & G Y Sneddon
Taikatu Plains Limited
Tainui Group Holdings Limited
Takapau Trust
Tanner Dairies Trust
Taradise Farm
Taralea Farms Ltd
Taramea South Ltd
Taranga Town Supply
Tauhara North Farming & Co LP
Tauhei Farms Ltd
Tawa Ridge Farms Ltd
Tayco Farm Limited
Te Awa Farms Limited
Te Pohutukawa Farm Limited
Te Repo Farms Ltd
Te Tua Farm Ltd
Te Whanake Enterprises Ltd
Te Whanake Joint Venture
Te Whenua O Matata Limited
Tennant Farms Ltd
Ternstone Ltd
Terrace Top Dairy Ltd
The 7C's Limited
The Bush Trust
The D & A Roberts Family Trust
The Flavall Trust
The Grange Ltd
The Harkaway Trust
The Hendriks Family Trust
The Herewahine Trust
The Proprietors of Rakaia Incorporation
The Vaughan Family Trust
Theland Tahi Farm Group Limited
Thomas Family Farming Ltd
Thorp Dairying Ltd
Three Daughters (2018) Ltd
Three Springs Dairies Ltd
Tierracrece Ltd
Tihiroa Dairies Ltd Partnership
Tihiroa Farms Ltd
Tilbrook Farm Trust
Timata Farming Company Ltd
Tiptree Limited
Tiro Roa Ltd
Tiroroa Farms Limited
TK & MG Wright
TL & NL Bryant Holdings Ltd
TL & SL Taylor Ltd
TN & GL Gray Ltd
TNN Holdings Ltd
Tobruk Farms Ltd
Todd Agri Ltd
Todd Bavin
Tokerau A5 Incorporation
Tokoroa Pastoral Ltd
Top Grass Farm Limited
Torran Moor Ltd
Totara Park Farms Limited
Totoro Dairy Limited
TP & TL Siffleet
Trec Trust
Tremewan Agriculture Limited
Trevanion Farms Limited
True Blue Trusts
Tubs Agri Ltd
Tui Company Limited
Tui Glen Nikau Farm Limited
Tunaview Trust Partnership
Turnbull Family Trust
Turney Farms Limited
Turney Farms Ltd - 2
Tutukau East Z Trust
Twenty Forty Farms Ltd
Two Name Farming Limited
Underwood Enterprises Ltd
V & J Ralph Ltd
V A & J J Nicholls
V B Durham Farm Limited
V J & C E Stevenson
V T & S J Brophy
Vale Green Services Limited
Valley Road Farm Ltd
Valverde Enterprises Limited
Van Der Heyden Farms Ltd
Van Vugt Brothers Limited
Vat Farming Ltd
VBI Ltd
Ventsha Farms Ltd
Vos Farms Ltd
W & K Rolton
W & L Harwood (Golden Acres)
W E & T L Kowalski
W H Lynn
W J & A F Bridson
W J & J G Pile Family Trust
W J & V M Donald
W J A & L J West
W M & K B Bolt
W M & S M Riepen
W M & S R Fisher
W R & D J Little
W T J Waetford & H M Wallace Ptnshp
W W Olsen
W&N Hamers Partnership
W.A & H.R Simpson Farming Ltd
Waiari Dairies Ltd Partnership
Waihapa Trusts Partnership
Waikatland
Waikirikiri Farm Partners LP
Waimak Dairies Limited
Waimanu Dairy Ltd
Waimarama Farming Ltd
Waimarie Pastoral Ltd
Waimatuku Dairies Ltd
Wainui Dairies
Waionehu Farm Ltd
Waiotu Farms Ltd
Waiparu Farm Ltd
Waiparu Holdings Limited
Waipiata Trust
Wairakau Farm Trust
Waireka Dairy Farms Ltd
Waitanui Dairy Farm Ltd Partnership
Waituna Investments Ltd
Waiwhakaata Trust
Waiwira Holdings Ltd
Wallace Johnstone Ltd
Walsh Enterprises Limited
Walter Gold Ltd
Walton Park Farm Limited
Wangapeka Holdings Limited
Wardville Dairies Limited
Warnock Park Ltd
Watershed Ventures Ltd
Waterstone Farm Limited
Wattle Downs Ltd
WBF Limited
WE & TS Greene Partnership
Wekanui Farming Ltd
Wekanui Farming Ltd (No. 2)
Welsh Family Farms Limited
Wendon Dairies Ltd
Westmorland Estate Ltd
Westridge Farm Ltd
Whakahora Farm Ltd
Whakatohea Maori Trust Board
Wheyland Farms Limited
White Gold Enterprise Limited
White Gold Ltd
White Stone Holdings Limited
Whitefield Partnership
Wide Farms Ltd
Wilgul Reds
Willcox Farms Ltd
Willmor Pastures Ltd
Willowbank Farms 2015 Ltd.
Willowfields Ltd
Wilriskit Limited
Windy Ridge Dairy Farm Limited
Wiremu Trusts
Wolff Farms Ltd
Wonderland Pastures Ltd
Woodheys Farm Limited
Woody's Charters Limited
WP & A Moore
Wyatt Farming (2017) Ltd
Wyllies Farm Partnership
Wyndarra Farm Ltd
Wynyard Family Trust
Y Wuri Trust
Y.O.T. Farms Ltd
Yaxleys Yard Ltd
Yellow View Trust
Yeroc Farm Trust
YTT Farms Ltd
Yuretich Ltd
Zarden Ltd
Zug Farms Limited

Healthy Business

Reported profit after tax — Up $1.3 billion

$659m

Normalised profit after tax[1] — Up 44%

$382m

24 cents per share

Return on Capital — Up from 5.8%

6.7%

Debt reduction[2]

$1.1 bn

1 Attributable to equity holders of the Co-operative.
2 Economic net interest-bearing debt.

Nā tō rourou, nā taku rourou ka ora ai te iwi.

With your contribution and my contribution, we'll all thrive together.

We are working together to deliver a sustainable business. Through science and innovation we can respond to people's changing needs, attitudes and lifestyles to deliver a strong and stable payout to our farmers and a good return on capital for our investors. It's all part of ensuring our Co-operative is here for generations to come.

Our Performance

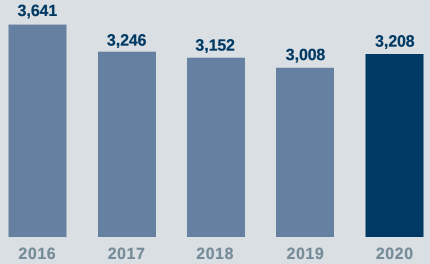
Group Financial Metrics

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

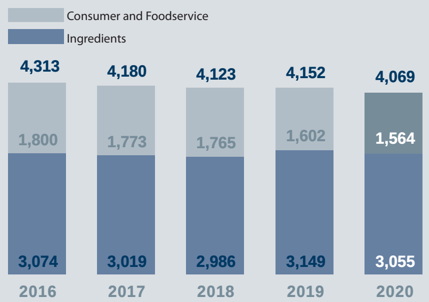
Kathryn, Central Taranaki

New Zealand Milk Collection kgMS (millions)

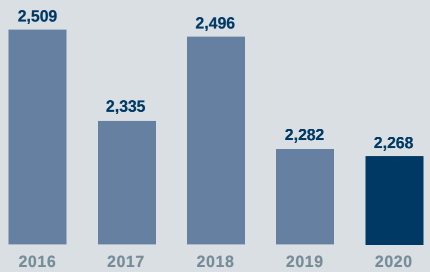
Normalised Gross Profit ($ millions)[4]



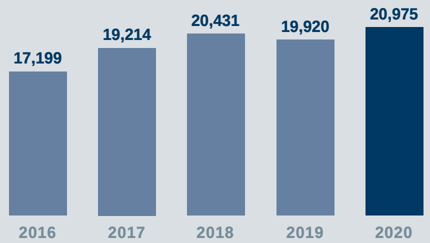
Sales Volume MT ('000s millions)[1,4]



Normalised OPEX ($ millions)[4]

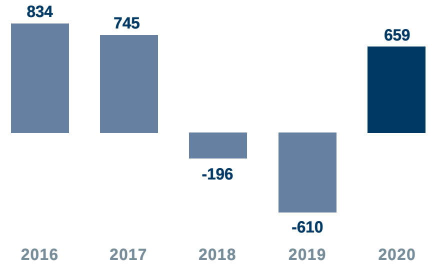


Normalised Revenue ($ millions)[4]

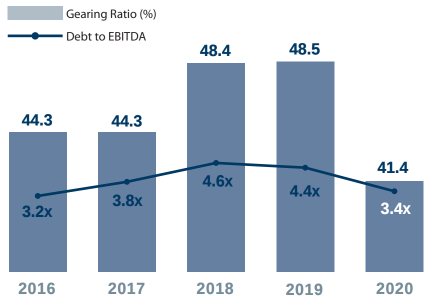


Normalised EBIT ($ millions)[4]

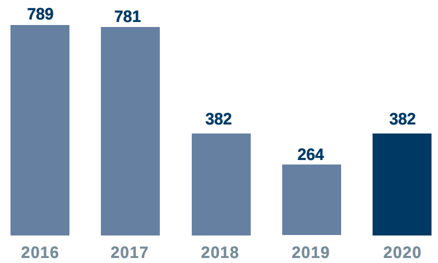
Reported Profit after tax ($ millions)[2,4]



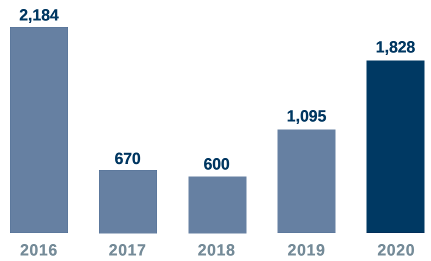
Leverage



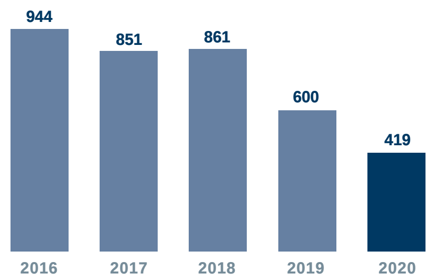
Normalised Profit after tax ($ millions)[4,6]



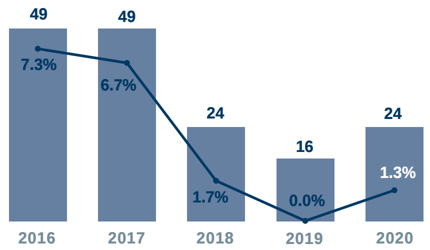
Free Cash Flow ($ millions)



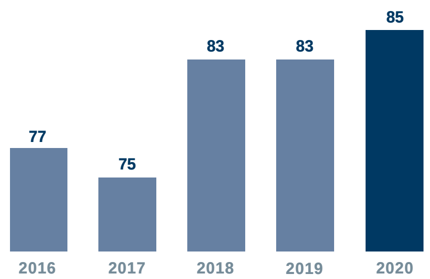
CAPEX ($ millions)[3]



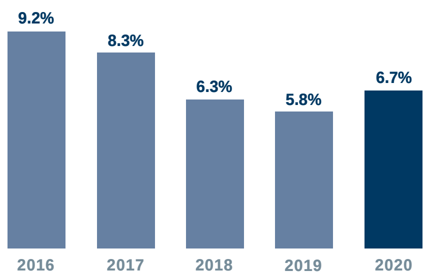
Dividend Yield and Normalised EPS[4]



Working Capital Days



Return on Capital (including intangibles and EAI)[5]



1 Does not add to total due to inter-group eliminations. Consumer and Foodservice and Ingredients exclude Discontinued Operations.
2 Includes non-controlling interests.
3 Capital expenditure comprises purchases of property, plant and equipment and intangible assets, net purchases of livestock, and includes Discontinued Operations.
4 FY19 has been restated. Refer to Note 28 in the FY20 Financial Statements.
5 Capital employed is calculated as the average for the period of: net assets excluding net interest-bearing debt and deferred tax balances, and including brands, goodwill and equity accounted investments (EAI).
6 Normalised profit after tax attributable to equity holders of the Co-operative.

Group Overview

HOW FONTERRA IS MAKING THIS HAPPEN

- **We are working together** to deliver a sustainable business.

TO DO THIS WE WILL

- Support healthy, sustainable livelihoods for our farmers by returning the most value from every drop of milk.
- Build a strong co-operative by ensuring our business, including investments, delivers long-term value.
- Meet the changing needs of customers and consumers by leveraging our unique strengths and innovating to create sustainable value for them and us.

EXCEEDED OUR 2020 FINANCIAL TARGETS

Debt to EBITDA

3.4x

Better than our target of no more than 3.75x

Total Group capital expenditure

$419m

Better than our target of no more than $500 million

Normalised Total Group gross profit

$3.2bn

Better than our target of in excess of $3 billion

Normalised EPS

24 cents

Top end of 15-25 cents per share earnings guidance range

We exceeded our financial targets for the year. Our reported profit after tax was $659 million, up $1.3 billion over last year. We significantly reduced our economic net interest-bearing debt, down $1.1 billion, improved our cash flow, and recommenced dividends.

To provide a complete view of our performance for the 2020 financial year, the Total Group figures presented in this Group Overview section are inclusive of both Continuing and Discontinued Operations. During the 2020 financial year we implemented a new customer-led operating model. However, the following business performance section has been prepared on the same basis as previous communications to allow for better comparability.

Our Total Group EBIT was $1,147 million for the 2020 financial year, an increase of $1,164 million compared to last year. This included a net amount of $268 million from items relating to the asset portfolio review and from other normalisations. Taking out the normalised items to provide a better comparative view of earnings, our Total Group normalised EBIT was $879 million, an increase of $67 million compared to the prior year. Improved performance from Ingredients and Foodservice contributed to this increase.

Our Foodservice business had a significantly improved first half of the year, in particular in Greater China, but this was partially offset by the disruption of Covid-19 during the second half. Our Ingredients' earnings were down for the first six months relative to the prior year. However, the second half of the year benefited from favourable product price movements and our offshore Ingredients businesses benefited from continued implementation of cost efficiencies.

Our normalised Consumer EBIT was down compared to the prior year. This decrease was mainly due to business disruptions in Hong Kong and Chile plus $57 million of costs that relate to impairments of our Chesdale™ brand value and goodwill in our New Zealand Consumer business.

We have reduced our economic net interest-bearing debt by $1.1 billion and our ratio of Debt to EBITDA from 4.4 times to 3.4 times. We have achieved this through improved business performance, continued financial discipline and the divestment of non-core assets. In the first half of the 2020 financial year we completed the sale of DFE Pharma and foodspring® and received cash proceeds of $623 million.

The divestments have also resulted in a gain on sale of $467 million. Our Free Cash Flow has improved by $733 million to $1.8 billion.

We have maintained our focus on strong financial discipline. In addition to reducing Debt, our Total Group normalised operating expenses were down from $2,282 million to $2,268 million. Total Group capital expenditure for the year was $419 million, $181 million down on last year and $81 million under our target of no more than $500 million for the year.

We continue to make progress on implementing our portfolio review. The sales processes are continuing for the Fonterra-owned China Farms and our interest in DPA Brazil.

Based on the additional information and further insights we have gained through the sales process and strategic reviews for the Fonterra-owned China Farms and DPA Brazil, we have reduced the valuation of these two assets and the China Farming joint venture by a total of $232 million.

The proposed divestments of our Fonterra-owned China Farms and DPA Brazil have impacted how the financial statements are presented. The sales processes for these businesses are at the point that they meet the accounting requirements to be classified as 'held for sale' on the Statement of Financial Position, on the basis that a sale is considered highly probable. Furthermore, because both businesses are considered to be major businesses in one of our segments and/or geographical regions, their results are classified as 'Discontinued Operations' within the Income Statement. The segment note within our financial statements excludes these businesses, and therefore reflects the Group's Continuing Operations only. Therefore, the business segments in the following pages reflect only the Continuing Operations with further detail on page 62 on the performance of our Fonterra-owned China Farms.

The normalised EBIT of our businesses classified as Discontinued Operations improved from a loss to a profit of $32 million.

Reported profit after tax Up $1.3 billion

$659m

Total Group normalised gross profit Up $200 million

$3,208m

BREAKDOWN OF TOTAL GROUP PERFORMANCE

	31 JULY 2019			31 JULY 2020		
NZD MILLION	CONTINUING OPERATIONS[1]	DISCONTINUED OPERATIONS[1]	TOTAL GROUP	CONTINUING OPERATIONS[1]	DISCONTINUED OPERATIONS[1]	TOTAL GROUP
Volume ('000 MT)	3,938	214	4,152	3,842	227	4,069
Revenue	19,255	665	19,920	20,282	693	20,975
Cost of goods sold	(16,349)	(563)	(16,912)	(17,236)	(531)	(17,767)
Gross profit	2,906	102	3,008	3,046	162	3,208
Operating expense	(2,143)	(139)	(2,282)	(2,139)	(129)	(2,268)
Other[2]	70	16	86	(60)	(1)	(61)
Normalised EBIT	833	(21)	812	847	32	879
Normalisations[3]	(483)	(346)	(829)	435	(167)	268
EBIT	350	(367)	(17)	1,282	(135)	1,147
Gross margin	15.1%	15.3%	15.1%	15.0%	23.4%	15.3%

1 Refer to Note 1a and 2c of the FY20 Financial Statements.
2 Consists of other operating income and expenses, which include net foreign exchange gains and losses, share of profit or loss on equity accounted investees and impairment of intangible assets not included in the strategic review.
3 Refer to the Non-GAAP Measures section in the FY20 Annual Statements.

Our reported profit after tax was $659 million, up $1,269 million compared to last year. After adjusting for non-controlling interests, this represents a reported earnings per share of 43 cents. Our normalised profit after tax attributable to equity holders of the Co-operative was $382 million, an increase of $118 million over the same period last year, which represents normalised earnings per share of 24 cents.

Our financial performance has improved – earnings have increased, cash flow has improved and leverage has reduced. As a result, the Board has confirmed a 5-cent dividend.

TOTAL GROUP PERFORMANCE[1]

	31 JULY 2019[2]	31 JULY 2020	CHANGE[3]
EBIT	(17)	1,147	–
Net finance costs	(418)	(332)	21%
Tax Expense	(175)	(156)	11%
Reported profit/(loss) after tax	(610)	659	–
Less: Loss attributable to non-controlling interest	(48)	(27)	45%
Reported profit/(loss) attributable to equity holders of the Co-operative	(562)	686	–
Reported earnings per share (cents)	(35)	43	–
Normalisation adjustments[4]	826	(304)	
Normalised profit after tax attributable to equity holders of the Co-operative	264	382	44%
Normalised earnings per share (cents)	16	24	44%
Dividend per share (cents)	–	5	
Return on Capital[5]	5.8%	6.7%	–
Debt to EBITDA[6]	4.4x	3.4x	–
Gearing ratio[7]	48.5%	41.4%	–
Free Cash Flow (NZD Million)[8]	1,095	1,828	67%
Capital expenditure (NZD Million)[9]	(600)	(419)	30%

1 Includes Continuing and Discontinued Operations.
2 FY19 has been restated. Refer to Note 28 in the FY20 Financial Statements.
3 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.
4 Refer to the Non-GAAP Measures section in the FY20 Annual Report.
5 Return on Capital is calculated as normalised EBIT less a notional tax charge, divided by capital employed including brands, goodwill and equity-accounted investments.
6 Debt to EBITDA is calculated as total borrowings, plus bank overdraft, plus the effect of debt hedging, less a cash allowance of 75% of cash and cash equivalents, divided by normalised earnings before interest, tax, depreciation and amortisation (normalised EBITDA) excluding share of loss/profit of equity accounted investees and net foreign exchange losses/gains. Both Debt and EBITDA are adjusted to include amounts relating to businesses classified as held for sale and Discontinued Operations. Prior years restated to align with credit rating methodology.
7 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. It excludes the borrowings attributed to Discontinued Operations.
8 Free Cash Flow is the total of net cash flows from operating activities and net cash flows from investing activities and includes proceeds from asset divestments.
9 Capital expenditure comprises purchases of property, plant and equipment and intangible assets, net purchases of livestock, and includes Discontinued Operations.

Our Total Group sales volumes were down 2% to 4.07 million MT. This was mainly due to a small decrease in volume in our Ingredients business. Our Total Group sales revenue increased by 5% or $1.1 billion to $21 billion, mainly due to improved Ingredients pricing and the product mix we sold. Our Greater China Foodservice business also contributed an additional $166 million in revenue despite the disruption of Covid-19.

Our Total Group normalised gross margin increased from 15.1% last year to 15.3%, predominantly due to improved pricing in our Ingredients business, an improvement in our Greater China Foodservice business' margins, and improved performance of the discontinued businesses.

Total Group normalised gross profit increased by 7%, or $200 million, to $3,208 million driven by improved gross margins in the Ingredients and Foodservice businesses. Ingredients' normalised gross profit increased by $165 million due to the improved pricing across all of our Ingredients businesses – New Zealand, Australia and Prolesur in Chile. Our Greater China Foodservice normalised gross profit increased by $62 million to $259 million, mainly due to a recovery in butter sales and margins as well as selling more products with higher gross margins, such as Anchor Food Professionals™, whipping cream and Anchor Food Professionals™ cream cheese. Overall, our total Foodservice normalised gross profit was up $17 million, with Greater China's improved performance being partially offset by the other regions' performances being impacted by Covid-19 in the fourth quarter.

Our normalised gross profit for our Consumer business was down $77 million to $1,001 million, predominantly due to the sale of Tip Top and our Venezuelan business during the 2019 financial year. When we adjust for these divestments and take them out of our 2019 financial performance for comparative purposes, our Consumer normalised gross profit reduced to $28 million and this was mainly due to the disruption of sales from the civil unrest in Hong Kong and Chile during the year.

Debt reduction

$1.1 bn

Free Cash Flow up $733 million

$1,828m

Debt to EBITDA

3.4x Improved

from 4.4x

The businesses classified as Discontinued Operations and not included in our reported segments, China Farms and DPA Brazil, had a total normalised gross profit improvement of $60 million to $162 million.

Overall, our Total Group normalised operating expenses have decreased $14 million, or 1%, to $2,268 million, and this reflects our continued focus on strong financial discipline, particularly as the comparative numbers in the previous financial year benefited from not paying employee performance incentives. Our Foodservice and Consumer businesses reduced operating expenses by 3% and 9%, respectively. Australia Ingredients and Prolesur also reduced operating expenses from a continued focus on cost efficiencies. These improvements were partially offset by an increase in New Zealand Ingredients' operating expenses, which increased our total Ingredients' operating expenses by 3% relative to the prior year, mainly due to 2019 financial year benefiting from not paying employee performance incentives.

Our improved gross profit in Ingredients, Foodservice and our businesses classified as Discontinued Operations, combined with a small reduction in our operating expenses resulted in our Total Group normalised EBIT increasing $67 million to $879 million compared to the prior year.

Strong financial discipline continues to be a priority. In the financial year this resulted in improved cash flows and lower leverage. Our Free Cash Flow, being the cash flow that is available to pay interest and dividends and to reduce economic net interest-bearing debt, increased by $733 million to $1,828 million. We achieved this significant increase through improved earnings, lower capital expenditure, the sale proceeds from divesting DFE Pharma and foodspring® and reducing our Beingmate shareholding. Our Total Group Capital expenditure of $419 million this year was $181 million lower than last year.

As at 31 July 2020, our economic net interest-bearing debt was $4.7 billion, down $1.1 billon on the same period last year, and we have improved our gearing ratio to 41.4% from 48.5%. This measure of Debt includes the capitalised amount of operating leases following changes to the accounting standard, and transitioning to this new accounting standard added $581 million to our measurement of Debt. This was partially offset by the transfer from economic net interest-bearing debt to disposal groups held for sale of $266 million relating to DPA Brazil and China Farms, as a result of being classified as Discontinued Operations. We decreased our Total Group net finance costs 21% from the prior year due to lower average Debt and lower interest rates.

Our working capital days increased from 83 to 85 days. Our receivables days decreased as a result of more sales to customers on shorter payment terms as we prudently manage receivables in the current environment, but this improvement was offset by reduced payables days reflecting the lower payables associated with the reduction in capital expenditure.

Our main measure of leverage is the ratio Debt to EBITDA, where the measure is adjusted to include amounts relating to businesses classified as Discontinued Operations. This leverage measure improved from 4.4 times to 3.4 times and reflected the combination of increased earnings and less economic net interest-bearing debt.

During the year we shifted to a new customer-led operating model. Our new operating model reflects our new strategy and has resulted in three regional customer-facing businesses: APAC, Greater China and AMENA.

Our commentary in this section reflects our previous operating model, which centered around our Global Ingredients and Consumer and Foodservice businesses. This approach is consistent with how we have communicated the performance of the business during the 2020 financial year and also allows for better comparability with prior year commentary.

We intend to provide commentary based on the new operating model for the 2021 financial year and onwards.

To provide greater transparency of the performance of our Consumer and Foodservice business, we have provided an overview of the individual performance of Consumer and Foodservice separately.

Our Performance

Ingredients

Ingredients' normalised gross profit up $165 million

$1,611m

Ingredients' normalised EBIT up $37 million

$827m

Our Ingredients' normalised gross profit increased $165 million to $1,611 million, predominantly due to New Zealand and Australia normalised gross profit increasing $131 million and $21 million, respectively. The improved gross profit was partially offset by lower other operating income and increased operating expenses, resulting in normalised EBIT increasing $37 million to $827 million.

Our Ingredients' sales volumes declined by 3% to 3.06 million MT. This was mainly due to our Australia Ingredients' milk collections declining 12%, which impacted Australia Ingredients sales volumes and New Zealand Ingredients' Global Sourcing sales volumes. In addition, we decided to hold slightly more year-end inventory to align with our customers' demand profiles over year-end and into the first quarter of the next year.

INGREDIENTS PERFORMANCE[1,2]

NORMALISED BASIS[3] NZD MILLION	31 JULY 2019	31 JULY 2020	CHANGE[4]
Volume ('000 MT)	3,149	3,055	(3)%
Sales revenue	16,291	17,365	7%
Cost of goods sold	(14,845)	(15,754)	(6)%
Gross profit	1,446	1,611	11%
Operating expense	(762)	(782)	(3)%
Other[5]	106	(2)	–
Normalised EBIT	790	827	5%
Gross margin	8.9%	9.3%	
Discontinued Operations EBIT[6]	(14)	–	

1 FY20 Ingredients performance represents Continuing Operations. It excludes any performance derived from the Fonterra-owned China Farms. China Farms is classified as a Discontinued Operation. FY19 has been restated to provide a year-on-year comparative.
2 Includes sales to other strategic platforms.
3 Refer to the Non-GAAP Measures section in the Annual Report.
4 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.
5 Consists of other operating income and expenses, which includes net foreign exchange gains and losses, share of profit or loss on equity accounted investees and impairment of intangible assets not included in the strategic review.
6 Represents losses from selling China Farms milk. China Farms is classified as a Discontinued Operations and is presented separately in the Discontinued Operations section.

Total Ingredients' gross margin increased from 8.9% to 9.3%, due to favourable product mix and pricing in the second half of the financial year. This led to our Ingredients' normalised gross profit increasing $165 million to $1,611 million, with all three businesses, New Zealand Ingredients, Australia Ingredients and Prolesur, contributing to this increase.

Australia Ingredients and Prolesur reduced their operating expenses through improved cost efficiencies but Total Ingredients' normalised operating expenses increased 3% to $782 million due to an increase in New Zealand Ingredients' operating expenses as the prior year benefited from not incurring employee performance incentives.

Ingredients' other income was down on the prior year, with last year's performance including earnings of $44 million from the divested business DFE Pharma.

INGREDIENTS GROSS PROFIT PERFORMANCE[1]

NORMALISED BASIS NZD MILLION	31 JULY 2019	31 JULY 2020	CHANGE
New Zealand			
Reference products	626	648	4%
Non-reference products	701	727	4%
Other	24	107	346%
New Zealand Ingredients	1,351	1,482	10%
Australia Ingredients	10	31	222%
Other	85	98	16%
Total Ingredients	1,446	1,611	11%

1 Represents Continuing Operations.

Total Ingredients' normalised EBIT increased $37 million to $827 million due to the improved gross profit. DFE Pharma has been sold so its earnings are not included in the current year. Removing DFE Pharma from our 2019 financial performance for comparative purposes. Total Ingredients' normalised EBIT would have increased by $81 million.

Australia Ingredients reduced its EBIT loss by $27 million on last year, reporting a full year normalised loss of $25 million. This improvement came through continued focus on managing product mix, price realisation and cost leadership through an integrated business model under the new customer-led operating model. Prolesur improved its normalised EBIT by $16 million to break even through cost efficiencies and an improvement in its price agreement with Soprole. New Zealand Ingredients' normalised EBIT was stable at $842 million, compared to $843 million the prior year. Removing DFE Pharma from New Zealand Ingredients' 2019 financial performance for comparative purposes, it improved its EBIT performance by $43 million.

Our New Zealand milk collections for the 2019/20 Season, 1 June 2019 to 31 May 2020, were 1,517 million kgMS, which was 0.4% down on last season. North Island collections were down 2.1% due to pasture growth rates impacted by dry weather. South Island collections were up a similar percentage due to favourable weather conditions across Canterbury resulting in good pasture growth and strong milk production.

Our New Zealand Ingredients business' sales volumes were down 70,000 MT, or 2%, to 2.88 million MT. Our sales volumes from our New Zealand Ingredients' Global Sourcing business were down mainly due to lower milk collections in Australia. In addition, we decided to hold slightly more year-end inventory to align with our customers' demand profiles over year-end and into the first quarter of the next year.

NEW ZEALAND INGREDIENTS VOLUME[1,2]

	31 JULY 2019	31 JULY 2020	CHANGE
Production volume ('000 MT)			
Reference products	1,881	1,839	(2)%
Non-reference products	768	807	5%
Sales volume ('000 MT)			
Reference products	1,864	1,820	(2)%
Non-reference products	774	794	3%

1 Includes sales to other strategic platforms.
2 Table excludes bulk liquid milk. The bulk liquid milk volume for the year ended 31 July 2020 was 69,000 MT of kgMS equivalent (year ended 31 July 2019 was 73,000 MT of kgMS equivalent).

Our New Zealand Ingredients' normalised gross profit increased $131 million, or 10%, to $1,482 million, made up of a $48 million increase from our New Zealand Ingredients' products and an $83 million increase from our non-New Zealand product and bulk liquid milk.

Our New Zealand Ingredients business manufactures five ingredient products that inform the Farmgate Milk Price range. These are referred to as reference products, while all other products are referred to as non-reference products. The strong growth in our Foodservice sales volumes over the first half of the year impacted our product mix of our Ingredients' products. New Zealand Ingredients' production volumes and sales volumes from New Zealand sourced milk for non-reference products increased 5% and 3%, respectively. This was offset by lower production and sales for New Zealand sourced milk for reference products. As the five reference products drive the cost of milk used to make non-reference products, the relative price differences and movements of the two sets of products is an important contributor to our EBIT performance.

NEW ZEALAND INGREDIENTS REVENUE AND PROFIT MARGIN[1,2]

	31 JULY 2019		31 JULY 2020	
	$ MILLION	$ PER MT	$ MILLION	$ PER MT
Revenue				
Reference products	8,833	4,739	9,540	5,192
Non-reference products	4,202	5,427	4,770	6,006
Cost of milk				
Reference products	(6,673)	(3,580)	(7,207)	(3,959)
Non-reference products	(2,398)	(3,098)	(2,829)	(3,562)
Gross profit				
Reference products	626	336	648	356
Non-reference products	701	905	727	916

1 Includes sales to other strategic platforms.
2 Table excludes bulk liquid milk sales.

Compared to the prior year, non-reference product revenue per metric tonne has increased by $126 per MT more than reference product revenue increased, reflecting the strong demand and higher market pricing for Casein, Milk Protein Concentrate (MPC) and Whey Protein Concentrate (WPC).

Whilst non-reference gross profit per metric tonne has improved on the prior year, the milk cost of protein has increased by proportionally more than the milk cost of fat. This has impacted the gross profit of the non-reference products' portfolio, as this portfolio is weighted to protein products such as Casein, MPC and WPC. Likewise, the lower relative milk cost of fat has had a favourable impact on the gross profit for the reference products' portfolio.

In addition to the increased cost of milk, we also had higher operational costs this year at our manufacturing sites. In total, our gross profit contribution from our New Zealand Ingredients' products increased $48 million, $22 million and $26 million from our reference and non-reference products, respectively.

The gross profit contribution from non-New Zealand product increased by $83 million due to favourable phasing of logistic costs, higher margins within our Global Sourcing business and our bulk liquid margins improved as a result of declining milk costs during the second half of the financial year relative to the prior year.

Our New Zealand Ingredients' business' operating expenses were up on last year, due to 2019 benefiting from not paying employee performance incentives.

Our Fonterra-owned China Farms are classified as a Discontinued Operation. Therefore, our China Farming joint venture performance is reported in our New Zealand Ingredients' results. The China Farming joint venture has reduced its full year loss from a $19 million loss last year to a loss of $12 million for the current year. Reduced animal husbandry costs have assisted this improvement.

The favourable pricing impact to gross profit received in the second half was offset by the increase in operating expenses, resulting in a stable New Zealand Ingredients' normalised EBIT performance, at $842 million compared to $843 million the prior year. Adjusting 2019 EBIT for the earnings received from the divested DFE Pharma business, our New Zealand Ingredients' normalised EBIT improved $43 million year-on-year.

Australia Ingredients' sales volumes declined 18% to 269,000 MT predominantly as a result of reduced milk supply. Milk collections have been impacted by a combination of drought, high on-farm input costs and a highly competitive milk supply market which has seen losses primarily to milk brokers. Fonterra Australia has also made the conscious decision to purchase less third-party milk and to prioritise a value-add product mix from its own milk collections. Overall, our Australian milk collections from all sources declined 12% to 107.8 million kgMS.

We increased our Australia Ingredients' gross profit from $10 million to $31 million through reduced costs as a result of closing the Dennington site, better utilisation of our Stanhope site, and allocating more milk to higher-returning cheddar and mozzarella products, rather than the lower-returning liquid and whole milk powder products. Relative to the prior year, the Australian dollar has declined against the US dollar, which is favourable for our US dollar denominated export sales. Coupled with improved product pricing, it has offset the increased milk price in Australia.

Despite the ongoing challenges in Australia, our Ingredients business has reduced its full year loss by $27 million from a loss of $52 million to a loss of $25 million, through continued focus on managing product mix, price realisation and cost reductions.

In December 2019, we purchased Fundación Isabel Aninat's 13.6% shareholding in Prolesur, our Chilean Ingredients business, and this took our ownership to 99.9%. The acquisition of the Fundación shareholding cost $29.3 million and has enabled us to integrate our two Chilean businesses (Prolesur and Soprole) to generate operating efficiencies across the supply chain from milk collection, processing and administration. Prolesur has also achieved additional cost efficiencies from increasing its milk collections. Like Soprole, Prolesur's recent performance has been impacted by challenging market conditions in Chile.

Our Performance

Consumer & Foodservice

The combined normalised earnings performance of our Consumer and Foodservice businesses were stable despite the disruption of Covid-19, and after excluding impairments of $57 million included in our Consumer business.

The combined normalised EBIT of our Consumer and Foodservice businesses for the first six months of the year was $263 million, up 105% on the prior year. After adjusting for the impairments included in Consumer, the combined normalised EBIT in the second half was $151 million. The strong first half was due to growth in our Greater China and Asia Foodservice businesses and reduced operating expenses in our Consumer business. Our Foodservice business was significantly impacted by the emergence of Covid-19 during the second half. Our gross profit in Greater China rebounded quickly during the third quarter, but Asia, Oceania and Latin America were impacted in the fourth quarter. In addition, challenging trading environments throughout the year in Chile and Hong Kong have impacted our Latin America Consumer and Foodservice and Greater China Consumer businesses.

In the subsequent pages, 54-61, we have presented the performance of the Consumer and Foodservice businesses separately and by region to provide greater transparency and understanding of the key performance drivers in each of the businesses.

CONSUMER AND FOODSERVICE PERFORMANCE[1,2]

NORMALISED BASIS[3] NZD MILLION	31 JULY 2019	31 JULY 2020	CHANGE[4]
Volume ('000 MT)	1,602	1,564	(2)%
Sales revenue	6,896	6,902	0%
Cost of goods sold	(5,398)	(5,465)	(1)%
Gross profit	1,498	1,437	(4)%
Operating expense	(1,089)	(1,009)	7%
Other[5,6]	2	(71)	–
Normalised EBIT	411	357	(13%)
Gross margin	21.7%	20.8%	
Discontinued Operations EBIT	(8)	21	–

1 FY19 has been restated. Refer to Note 28 of the FY20 Financial Statements.
2 FY20 Consumer and Foodservice performance represents Continuing Operations. It excludes any performance derived from DPA Brazil. DPA Brazil is classified as a Discontinued Operation. FY19 has been restated to provide a year-on-year comparative.
3 Refer to the Non-GAAP Measures section in the FY20 Annual Report.
4 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.
5 Consists of other operating income and expenses, which includes net foreign exchange gains and losses, share of profit or loss on equity accounted investees and impairment of intangible assets not included in the strategic review.
6 Includes impairments of $57 million. Refer to Note 17 of the FY20 Financial Statements.

Consumer and Foodservice normalised gross margin
20.8%

Consumer and Foodservice normalised gross profit
$1,437m

Consumer and Foodservice normalised EBIT
$357m

Our Performance

Foodservice

Our Foodservice normalised EBIT increased 14% to $209 million. After a strong first half performance, our Foodservice business was significantly impacted by the emergence of Covid-19 during the second half. Greater China's normalised gross profit rebounded quickly during the third quarter, but Asia, Oceania and Latin America were impacted in the fourth quarter.

Overall, our Foodservice sales volumes decreased 5% to 444,000 MT due to the impact of Covid-19 related lockdowns in Asia and Oceania. Greater China was impacted by Covid-19 early in the third quarter but its gross profit rebounded quickly, and as a result this only partially offset its improved performance in the first half from the strong demand for our products from bakery and beverage house customers. The impact of Covid-19 in the second half of the year in Asia, Oceania and Latin America partially offset Greater China's overall improved performance, with all three regions making EBIT losses in the second half and finishing the year down on the prior year as the tourism and hospitality industries were significantly impacted by the restrictions put in place to manage the pandemic.

FOODSERVICE PERFORMANCE[1]

NORMALISED BASIS[2] NZD MILLION	31 JULY 2019	31 JULY 2020	CHANGE
Volume ('000 MT)	465	444	(5)%
Sales revenue	2,673	2,652	(1)%
Cost of goods sold	(2,253)	(2,215)	2%
Gross profit	420	437	4%
Operating expense	(233)	(226)	3%
Other[4]	(3)	(2)	43%
Normalised EBIT	184	209	14%
Gross margin	15.7%	16.5%	
Discontinued Operations EBIT	–	–	–

1 FY19 has been restated. Refer to Note 28 of the FY20 Financial Statements.
2 Refer to the Non-GAAP Measures section in the FY20 Annual Report.
3 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.
4 Consists of other operating income and expenses, which includes net foreign exchange gains and losses, share of profit or loss on equity accounted investees and impairment of intangible assets not included in the strategic review.

Our Foodservice normalised gross margin improved from 15.7% to 16.5% and normalised gross profit increased $17 million to $437 million. This was mainly due to Greater China's improved butter sales volumes and margins, combined with growth in the sales of higher margin products.

Overall, Foodservice operating expenses were down $7 million, or 3%, and normalised EBIT was up $25 million to $209 million.

FOODSERVICE REGIONAL PERFORMANCE[1]

	SALES VOLUME ('000 MT)			NORMALISED EBIT[2] (NZD MILLION)		
	31 JULY 2019	31 JULY 2020	CHANGE[3]	31 JULY 2019	31 JULY 2020	CHANGE[3]
Foodservice	465	444	(5)%	184	209	14%
Greater China[4]	237	257	9%	114	169	49%
Asia	93	81	(12)%	36	23	(35)%
Oceania	104	76	(27)%	28	16	(43)%
Latin America	32	30	(8)%	6	0	(91)%

1 Summing of individual numbers from the regional and divisional breakdown may not add up to the totals in each category due to rounding.
2 Refer to the Non-GAAP Measures section in the FY20 Annual Report.
3 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.
4 FY19 has been restated. Refer to Note 28 of the FY20 Financial Statements.

Asia Foodservice normalised gross margin

14.9% from 15.8%

Greater China Foodservice normalised gross margin

16.3% from 13.8%

GREATER CHINA

Our Greater China Foodservice normalised EBIT increased 49% to $169 million, comprising $101 million in a strong first half performance and $68 million in the second half. Sales volumes increased 9% on last year to 257,000 MT. Despite the disruption of Covid-19, China's Foodservice business grew as we continued to target dairy conversion into traditional Chinese foods. Our continual development of applying dairy in traditional foods created approximately 270 new food applications over the last 12 months, expanding our product offerings into food types such as cream for Daifuku and chilled cream buns, cream cheese into cheese moon cakes and beverage macchiatos, and mozzarella into cheese shrimp balls.

We have entered into new Chinese dining channels, such as hot pot restaurants and continued our city expansion, now in 350 cities compared to 300 cities last year. This has driven strong market demand for our Anchor Food Professionals™ UHT whipping cream and Anchor Food Professionals™ cream cheese in Mainland China.

Covid-19 related restrictions in Mainland China impacted our gross profit in the early part of the third quarter. Our team reacted quickly to these restrictions by introducing live streaming of product demonstrations with 20 live sessions created on our own platforms that attracted approximately 1.9 million viewers and ensured a connection of our Anchor Food Professionals™ team with our customers.

Normalised gross margin increased significantly from 13.8% to 16.3%, due to a recovery in butter margins as well as selling more products with higher gross margins, such as Anchor Food Professionals™ whipping cream and Anchor Food Professionals™ cream cheese. The improved margins are reflected in the $62 million, or 31%, increase in normalised gross profit to $259 million. Our operating expenses in Greater China were stable.

ASIA

Our Asia Foodservice business recorded growth in several key markets during the first three quarters of the financial year. However, towards the end of the third quarter as Covid-19 spread through Asia and governments closed borders and put restrictions in place to manage the outbreak, the foodservice sector was significantly impacted in the fourth quarter.

Our sales volumes in Asia Foodservice decreased 12% to 81,000 MT on the prior year after being 13% up in the first half, with fourth quarter sales volume down 50% on the same period last year. Gross profit in the Middle East, Philippines and Thailand was impacted the most, as the tourism trade is an important part of these businesses and the Covid-19 related border closures impacted tourism significantly.

First half gross profit was 58% up on the prior year predominantly due to improvements from Indonesia and the Philippines. Indonesia had grown its gross profit with a focus on high margin products and revenue growth management, and the Philippines had improved gross profit mainly through growing volumes as a result of winning new customers in the bakery and beverage channels. These strong first half performances were impacted in the fourth quarter due to Covid-19 lockdowns.

Our full year normalised gross profit for our Asia Foodservice business was down $13 million, or 14%, to $80 million due to the lower sales volumes and to a lesser extent reduced pricing to move short shelf-life stock that had aged during the period of complete Covid-19 lockdown. The need to reduce pricing impacted our normalised gross margin, which had previously been ahead of the prior year for the first three quarters, from 15.8% in the prior year to 14.9%. Our normalised gross profit for the fourth quarter was a loss of $1 million.

Despite the impact of Covid-19, our Indonesia Foodservice business was able to grow its gross profit and earnings due to focusing on higher margin foodservice products such as Anchor Food Professionals™ butter sheets.

Operating expenses in Asia were relatively stable with lower costs associated with the lower sales volumes offset by increased provisions for doubtful Debt due to Covid-19. As a result of these sales volumes and reduced gross margins, our Asia Foodservice normalised EBIT decreased $13 million to $23 million.

Our Asia markets remain challenging as many borders remain closed due to Covid-19. Our teams continue to optimise their product portfolios to suit the current market and work closely with customers to understand demand and manage inventory. We expect the recovery in our Asia markets will be slower than what we experienced in our Greater China Foodservice business.

OCEANIA

Our Oceania Foodservice sales volumes decreased 27% to 76,000 MT year on year. First half sales volumes were down 6%, predominantly due to reduced sales volumes of low margin bulk product following industry consolidation in New Zealand. Second half sales volumes were down 44% as New Zealand and Australian borders were closed to international tourism and varying levels of country-wide restrictions were implemented within each country to manage the Covid-19 outbreak, and these restrictions significantly impacted the hospitality and tourism industry.

Oceania Foodservice normalised gross profit was down 26% to $72 million, reflecting the decline in sales volume and higher dairy input costs in New Zealand. New Zealand was able to partially offset the impact of lower volumes and increased input costs through reduced distribution costs and other operating efficiencies, and Australia's operating expenses remained stable. Overall Oceania Foodservice normalised EBIT declined $12 million, or 43%, to $16 million. Our Oceania Foodservice businesses worked closely with their customers during this challenging period, which was reflected in the Australian business being recognised by distributors for best in class and industry leading customer engagement in the Independent Advantage customer satisfaction survey.

Greater China Foodservice normalised gross profit

$259m up 31%

Greater China Foodservice normalised EBIT

$169m up 49%

LATIN AMERICA

Our Latin American Foodservice business normalised EBIT was less than $1 million for the year, down $6 million on the prior year. At the end of the third quarter normalised EBIT was up $5 million on the prior year, at $7 million. However, the impact of Covid-19 in the last quarter was significant, with the loss for the quarter offsetting the earnings of the first nine months.

Soprole is the largest contributor to our Latin America Foodservice business with dairy desserts being the main category. In the first half the profitability of this business was impacted by the civil unrest relating to the increased cost of living, privatisation and social inequality. The civil unrest escalated to vandalism of city infrastructure, including supermarkets, and impacted sales. The third quarter had seen growth, but this was offset by the loss recorded in the fourth quarter as the Government took measures to manage the outbreak of Covid-19.

FOODSERVICE NORMALISED EBIT[1]: KEY PERFORMANCE DRIVERS

NORMALISED BASIS[2] NZD MILLION	31 JULY 2019	31 JULY 2020	CHANGE[3]
EBIT prior year	168	184	10%
Volume	43	(19)	–
Price	(81)	102	–
Cost of goods sold	70	(66)	–
Operating expenses and other	(16)	8	–
EBIT	184	209	14%

1 FY19 has been restated. Refer to Note 28 of the FY20 Financial Statements.
2 Refer to the Non-GAAP Measures section in the FY20 Annual Report.
3 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.

Our Performance

Consumer

Jess, Auckland

Consumer normalised revenue Up $28 million

$4,251m

Consumer normalised gross profit Down $77 million

$1,001m

Consumer normalised operating expenses Down $73 million

$783m

Our Oceania and Asia Consumer normalised EBIT improved despite the disruption of Covid-19, after excluding 2020 impairments and earnings from 2019 divested businesses. Latin America continues to be impacted by challenges in Chile, and Greater China earnings were down due to challenges in Hong Kong offsetting earnings growth in Mainland China.

Overall, Consumer sales volumes were down 1% on last year to 1.12 million MT. This was mainly due to lower sales in Soprole where the civil unrest and vandalism of supermarkets in Chile impacted Soprole's dessert, yoghurt and mature cheese sales volumes. The sales in the 2019 financial year included Tip Top and our Venezuelan business which we have since sold. Removing the Tip Top and Venezuelan sales volume in 2019 for comparative purposes, shows the year-on-year total Consumer sales volume increased 1%.

Total Consumer normalised gross profit was down 7% on last year to $1,001 million. Consumer normalised gross margin decreased by 2% year-on-year from 25.5% to 23.5%. This was predominantly due to reduced sales of our high margin products in Hong Kong, and Soprole's gross margin reducing in the second half due to increased input costs after a realignment of the price agreement it has with Prolesur for ingredient products.

The normalised operating expenses were down a total of $73 million to $783 million. For comparative purposes, removing the Tip Top and Venezuelan operating expenses from the 2019 financial year sees Consumer's reduction in normalised operating expenses go from $73 million to $28 million year-on-year.

Our Consumer normalised EBIT includes $57 million of costs that relate to impairments of intangible assets. Our New Zealand Consumer business had a goodwill impairment of $21 million, and our Asia and Greater China Consumer businesses each incurred half of a $36 million impairment to our Chesdale™ brand. This impairment was not normalised.

If these impairments were not included, our Consumer normalised EBIT would have shown a decrease of 10% year-on-year, with the decrease mainly due to the challenges in Hong Kong and Chile. Tip Top's earnings and the Venezuelan business' losses offset at a total Consumer EBIT level so adjusting for the divestments undertaken in the 2019 financial year has minimal impact. Including the impairments results in our Consumer normalised EBIT decreasing 35% from $227 million to $149 million.

The Consumer segment results do not include the Discontinued Operations of DPA Brazil, which improved its EBIT from a loss of $8 million to a profit of $21 million. This is presented on page 62.

CONSUMER PERFORMANCE[1]

NORMALISED BASIS[2] NZD MILLION	31 JULY 2019	31 JULY 2020	CHANGE
Volume ('000 MT)	1,137	1,120	(1)%
Sales revenue	4,223	4,251	1%
Cost of goods sold	(3,144)	(3,250)	(3)%
Gross profit	1,078	1,001	(7)%
Operating expense	(856)	(783)	9%
Other[4]	5	(69)	–
Normalised EBIT	227	149	(35)%
Gross margin	25.5%	23.5%	
Discontinued Operations EBIT	(8)	21	–

1 FY20 Consumer performance represents Continuing Operations. It excludes any performance derived from DPA Brazil. DPA Brazil is classified as a Discontinued Operation. FY19 has been restated to provide a year-on-year comparative.
2 Refer to the Non-GAAP Measures section in the FY20 Annual Report.
3 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.
4 Consists of other operating income and expenses, which includes net foreign exchange gains and losses, share of profit or loss on equity accounted investees and impairment of intangible assets not included in the strategic review.

Asia normalised EBIT down $15 million

$103m

ASIA

Asia Consumer sales volumes were down 3% to 198,000 MT, predominantly due to the timing of shipments to Sri Lanka. We improved our gross profit in the Middle East through improved gross margins on our consumer powders, and in Thailand due to lower import costs and improved revenue management in the second half of the year. These gains were offset by the other markets reporting small declines on the prior year due to the disruption caused by Covid-19 in the fourth quarter. Overall, our normalised gross profit was down $2 million, or 1%, to $357 million.

Most markets within our Asia Consumer business reduced operating expenses. However, the Asia Consumer businesses incurred half of a $36 million impairment to our Chesdale™ brand, as the latest forecast earnings attributable to the brand are lower than previously forecast. The other half was incurred in our Greater China business.

Adjusting for the impairment, normalised EBIT increased $3 million to $121 million. Not adjusting for the impairment our Asia Consumer normalised EBIT decreased $15 million to $103 million.

OCEANIA

Our Oceania Consumer business performance was largely unimpacted by the Covid-19 outbreak in the region and our teams in both New Zealand and Australia worked closely with their customers to help reduce the impact on their businesses. This was recognised by our New Zealand business being ranked number one supplier to New Zealand grocery outlets out of 28 suppliers in the Independent Advantage customer satisfaction survey. This is a significant improvement from previous rankings, where in 2018 and 2019 we were ranked 26 and 13, respectively.

Our Oceania Consumer sales volume increased 3% to 527,000 MT after adjusting the 2019 financial year for the sale of Tip Top. Our Australia business improved sales volumes predominantly due to demand growth in private label beverages, spreads and across all our cheese brands. Our New Zealand Consumer business has chosen to operate a leaner product mix focusing on higher margin products. Not adjusting for the sale of Tip Top, our sales volume increased 3,000 MT, or 1%.

Our Australian Consumer business improved its gross margin due to a focused revenue growth strategy in all categories, particularly in chilled spreads, where Western Star™ continues to lead the market in both volume and value market share. Australia's improved performance was offset by our New Zealand Consumer business as it adjusts to a leaner business model focusing on our core brands and working with our customers to execute a more profitable range. After adjusting for the sale of Tip Top, our Oceania Consumer normalised gross profit increased $23 million to $298 million due to Australia's increased volume and improved pricing effectiveness. Not adjusting for the sale of Tip Top, our normalised gross profit decreased $26 million. Rationalising our operations within our New Zealand business, as part of managing a leaner product mix, resulted in operating expenses in our Oceania Consumer business decreasing. Operating expenses in Australia were slightly higher due to the prior year benefiting from not incurring employee performance incentives. In addition, our New Zealand business results included a $21 million impairment of Fonterra Brands New Zealand's goodwill.

Adjusting for Tip Top and the goodwill impairment, Oceania Consumer normalised EBIT increased $14 million, or 31%, to $59 million. The improved performance reflects the strong growth in Australia gross profit. Not adjusting the 2019 financial year for the sale of Tip Top or the New Zealand Brands' goodwill impairment in the current year, shows that our Oceania Consumer normalised EBIT decreased $16 million to $38 million.

CONSUMER REGIONAL PERFORMANCE[1,2]

	SALES VOLUME ('000 MT)			NORMALISED EBIT[3] (NZD MILLION)		
	31 JULY 2019	31 JULY 2020	CHANGE[4]	31 JULY 2019	31 JULY 2020	CHANGE[4]
Consumer	1,137	1,120	(1)%	227	149	(35)%
Asia	204	198	(3)%	118	103	(12)%
Oceania	524	527	1%	54	38	(28)%
Latin America[2]	333	322	(3)%	36	28	(22)%
Greater China	76	73	(4)%	19	(21)	–

1 Summing of individual numbers from the regional and divisional breakdown may not add up to the totals in each category due to rounding.
2 FY20 Consumer performance represents Continuing Operations. It excludes any performance derived from DPA Brazil. DPA Brazil is classified as a Discontinued Operation. FY19 has been restated to provide a year-on-year comparative.
3 Refer to the Non-GAAP Measures section in the FY20 Annual Report.
4 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.

LATIN AMERICA

At half year we reported the sale process for DPA Brazil, our Consumer business in Brazil, was well underway, and had advanced to the point that the business met the requirements to be classified as 'held for sale' in our financial statements. Furthermore, it met the definition of a Discontinued Operation because it is a separate major geographical area of operation. The outbreak of Covid-19 in Brazil has slowed the sale process but the business remains a Discontinued Operation, and as a result, the segment note within our financial statements has been prepared excluding DPA Brazil.

Our Latin America Consumer performance continues to be impacted by the challenging trading conditions in Chile. In the last quarter of the 2019 financial year, Soprole, our Consumer business in Chile, showed signs of recovery from a 'buy local' marketing campaign, which impacted the sales and earnings of a number of foreign-owned companies. However, civil unrest and vandalism of supermarkets, mainly during the first half of this financial year, has meant a reduction in Soprole's dessert, yoghurt and mature cheese sales volumes.

Overall, Latin America sales volume compared to the prior year decreased 11,000 MT to 322,000 MT. Our sales volumes last year include those from our Venezuelan business, which we have since sold. Removing the Venezuelan volumes from our 2019 financial performance for comparative purposes, the year-on-year decline is 4,000 MT.

Our Latin America Consumer normalised gross profit decreased $19 million to $232 million because of lower Soprole sales volumes in the first half and a decline in gross margin in the second half. The decline in Soprole's gross margin in the second half is due to higher input costs from a weakening of the Chilean peso to the US dollar and a realignment of the price agreement between our now integrated Chilean businesses, Soprole and Prolesur. The change in the price agreement is neutral at a Group level because Prolesur's increased income offsets the increased expense to Soprole.

In the 2019 financial year, Soprole made a $15 million payment to Prolesur, our Ingredients business in Chile. This related to a prior year one-off milk cost. At a Group level this one-off payment between the two business units had minimal impact. This payment was lower in this year, which was the main reason for reduced operating expenses in our Latin America Consumer business. Latin America Consumer normalised EBIT decreased $8 million to $28 million, due to the lower Soprole sales volume and increased input costs. Adjusting the 2019 financial performance for the Venezuelan business increases the year-on-year decrease to $18 million.

FONTERRA BRANDS NEW ZEALAND RANKED

#1

IN INDEPENDENT ADVANTAGE CUSTOMER SURVEY

GREATER CHINA

Our Greater China Consumer performance continues to be impacted by the challenging trading conditions in Hong Kong, and performance has been impacted further by the travel restrictions put in place to manage Covid-19, which impacted sales volume that are usually generated through Chinese tourism. In addition, Greater China Consumer included half of the $36 million impairment of the Chesdale™ brand. This impairment was not normalised.

Our Mainland China and Taiwan Consumer businesses focused on value growth strategies. China Consumer had a quick turnaround from the initial disruption of Covid-19, leveraging strong connections through our e-commerce platforms, whilst Taiwan delivered gross profit similar to last year despite the Covid-19 disruption. Overall, Greater China sales volumes declined 4% to 73,000 MT, partly due to the challenges in Hong Kong but also due to lower sales in Mainland China as we changed distribution models in some channels to align with our new strategy.

Our normalised gross profit decreased $31 million to $114 million. The majority of the decline is due to reduced sales of our higher margin Anlene™ and Anmum™ products in Hong Kong, which is reflected in our Greater China normalised gross margin decreasing from 40.1% to 32.8%.

Operating expenses were favourable to last year as we responded to challenging conditions in Hong Kong and the Covid-19 pandemic.

Adjusting for the impairment of the Chesdale™ brand, our Greater China normalised EBIT declined $22 million to a loss of $3 million. Not adjusting for the brand impairment, our Greater China Consumer normalised EBIT decreased $40 million to a loss of $21 million.

CONSUMER NORMALISED EBIT[1]: KEY PERFORMANCE DRIVERS

NORMALISED BASIS[2] NZD MILLION	31 JULY 2019	31 JULY 2020	CHANGE[3]
EBIT prior year	316	227	(28)%
Volume	(15)	(16)	(6)%
Price	(122)	91	–
Cost of goods sold	53	(152)	–
Operating expenses and other	(5)	(1)	60%
EBIT	227	149	(35)%

1 FY20 Consumer performance represents Continuing Operations. It excludes any performance derived from DPA Brazil. DPA Brazil is classified as a Discontinued Operation. FY19 has been restated to provide a year-on-year comparative.
2 Refer to the Non-GAAP Measures section in the FY20 Annual Report.
3 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.

Our Performance

Discontinued Operations

Discontinued Operations normalised gross profit[1]

$162m

from $102 million

Discontinued Operations normalised EBIT[1]

$32m

from $(21) million

1 Accounting standards require that we cease deducting depreciation costs when China Farms and DPA Brazil were classified as 'held for sale' as at 31 January 2020. For the six months to 31 July 2020, this was $6 million and $5 million, respectively, for China Farms and DPA Brazil.

The normalised EBIT from our two businesses classified as Discontinued Operations improved from a loss of $21 million to a profit of $32 million.

The proposed divestments of our Fonterra-owned China Farms and our interest in DPA Brazil have impacted how the financial statements are presented. The sales processes for these businesses are at the point that they meet the accounting requirements to be classified as 'held for sale' on the Statement on Financial Position, on the basis that a sale is considered highly probable. Furthermore, because both businesses are considered to be major businesses in one of our segments and/or geographical regions, their results are classified as 'Discontinued Operations' within the Income Statement. The segment note within our financial statements excludes these businesses, and therefore reflect the Group's Continuing Operations only.

As at 31 January 2020, when China Farms and DPA Brazil were classified as 'held for sale' the accounting standards required that we cease deducting depreciation costs. This meant that from 1 February 2020 to 31 July 2020 normalised EBIT for the China Farms and DPA Brazil businesses was $6 million and $5 million higher, respectively, than if they had not been classified as 'held for sale'.

The sales processes are continuing for China Farms and our interest in DPA Brazil. Based on the additional information and further insights we have gained through the sales process and strategic reviews for China Farms and DPA Brazil, we have reduced the valuation of these two assets by a total of $167 million.

DPA BRAZIL

In the first half of this year, the DPA Brazil business had increased sales volumes due to the local economy improving and increasing its market share in both value and volume. The disruption of Covid-19 during the second half of the year impacted sales, and sales volume and revenue ended the year down on the prior year. DPA Brazil has been able to maintain the 1% increase in market share value it gained during the first half to 17.5%. DPA Brazil's gross profit benefited from lower input costs, and combined with lower operating expenses, normalised EBIT improved from a loss of $8 million to a profit of $21 million.

Despite the improved performance, Brazil continues to remain a challenging market to operate in. In the 2019 financial year, we wrote down the value of the business by $143 million and the divestment process has resulted in a further impairment of $104 million before tax. This business in Brazil is a joint venture and the loss is shared with our joint venture partner. Therefore, at the level of profit after tax attributable to equity holders of the Co-operative, the impact of the impairment is $45 million.

CHINA FARMS

As a result of our Fonterra-owned China Farms being classified as a Discontinued Operation, the China Farms segment note in our financial statements is no longer presented. To provide a complete view of our performance during the 2020 financial year, we have continued to report China Farms' performance in this section.

Our sales volumes increased 8% to 22,000 MT due to last year's volumes being impacted by continuous rainstorms and flooding in Yutian. Improved feed management and increased productivity per cow has also helped increase sales volumes.

CHINA FARMS FINANCIAL PERFORMANCE

NORMALISED BASIS[1] NZD MILLION	2019	2020	CHANGE[2]
Volume[3] ('000 MT)	20	22	8%
Revenue	247	282	14%
Cost of goods sold	(261)	(249)	5%
Gross profit	(14)	33	–
Operating expenses	(16)	(23)	(46)%
Other[4]	16	1	(91)%
China Farms normalised EBIT	(14)	11	–
Gross margin	(5.7)%	11.9%	

1 Refer to the Non-GAAP Measures section in the FY20 Annual Report.
2 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.
3 Includes sales to other strategic platforms.
4 Consists of other operating income and expenses, which includes net foreign exchange gains and losses, share of profit or loss on equity accounted investees and impairment of intangible assets not included in the strategic review.

Our China Farms' normalised gross profit improved $47 million from a loss of $14 million to a profit of $33 million. This was driven by strong market demand and a focus on customer portfolio optimisation, enabling us to achieve higher external milk prices. During the 2020 financial year, the average milk price was RMB 3.91 per kg, up from RMB 3.67 the prior year and the highest achieved annual average price over the past five years.

The higher milk prices achieved were also supported by a more focused breeding program enabling a flatter milk supply curve through the year.

Operating expenses increased $7 million to $23 million due to rightsizing our herd. Livestock removed from the herd were sold below fair value. Last year our China Farms livestock increased in value and this increased value was reported in other income. It was not repeated this year and Other, which includes other income, was down $15 million to $1 million.

China Farms' EBIT increased $25 million from a loss of $14 million to a profit of $11 million, driven by the improved gross profit.

Our Performance

Historical Financial Summary

Market Statistics

	JULY 2016	JULY 2017	JULY 2018	JULY 2019	JULY 2020
Fonterra Seasonal Statisitics[1]					
Total New Zealand milk collected (million litres)	17,585	17,051	16,932	17,123	16,876
Highest daily volume collected (million litres)	86.9	80.1	82.0	85.4	82.6
New Zealand shareholder supply milk solids collected (million kgMS)[2]	1,453	1,417	1,404	1,430	1,429
New Zealand contract supply milk solids collected (million kgMS)[2]	113	109	101	93	87
New Zealand milk solids collected (million kgMS)	1,566	1,526	1,505	1,523	1,517
Total number of shareholders at 31 May	10,579	10,267	10,162	9,887	9,461
Total number of sharemilkers at 31 May	3,098	2,722	2,712	2,602	2,451
Total number of shares on issue at 31 May (million)	1,602	1,607	1,612	1,612	1,612
Shareholder Supplier Returns					
Farmgate Milk Price (per kgMS)[3]	3.90	6.12	6.69	6.35	7.14
Dividend (per share)	0.40	0.40	0.10	–	0.05
Dividend yield (%)[4]	7.3	6.7	1.7	–	1.3
Cash payout (per share)[5]	4.30	6.52	6.79	6.35	7.19
Retentions (per share)[6]	0.11	0.06	–	–	0.38
Weighted average share price ($ NZD)[7]	5.48	5.96	5.84	4.63	3.79
Weighted Average Commodity Prices ($ USD per MT FOB)					
Whole Milk Powder[8]	2,111	2,855	3,091	2,907	3,110
Skim Milk Powder[8]	1,803	2,216	1,968	2,216	2,755
Butter[8]	2,830	4,221	5,575	4,448	4,140
Cheese[9]	2,766	3,763	3,853	3,772	4,011
Fonterra's average NZD/USD conversion rate[10]	0.71	0.70	0.71	0.69	0.66
Staff Employed					
Total staff employed (000s, permanent full-time equivalents)	21.3	21.4	21.5	20.0	19.6
New Zealand	11.4	11.7	11.9	11.4	11.5
Overseas	9.9	9.7	9.6	8.6	8.1

Total Group Overview[11,12,13]

	JULY 2016	JULY 2017	JULY 2018	JULY 2019	JULY 2020
Income					
Volume (000s MT)	4,313	4,180	4,123	4,152	4,069
Normalised sales revenue ($ million)	17,199	19,214	20,431	19,920	20,975
Normalised EBITDA ($ million)[14]	1,928	1,681	1,446	1,373	1,506
Normalised EBIT ($ million)[15]	1,358	1,155	902	812	879
Normalised profit after tax ($ million)[16]	789	781	382	264	382
Reported earnings per share	0.51	0.46	(0.14)	(0.35)	0.43
Normalised earnings per share	0.49	0.49	0.24	0.16	0.24
Revenue Margin Analysis					
EBITDA[17]	11.2%	8.7%	7.1%	6.9%	7.2%
EBIT[18]	7.9%	6.0%	4.4%	4.1%	4.2%
Profit after tax[19]	4.6%	4.1%	1.9%	1.3%	1.8%
Cash Flow ($ million)					
Operating cash flow[20]	3,278	1,376	1,548	1,123	1,492
Free Cash Flow[20]	2,184	670	600	1,095	1,828
Net working capital[21]	2,159	3,055	3,432	3,122	3,417
Capital Measures					
Total equity excluding hedge reserves ($ million)	6,883	7,056	6,616	6,102	6,602
Economic net interest-bearing Debt ($ million)[22]	5,473	5,601	6,199	5,749	4,659
Gearing Ratio[23]	44.3%	44.3%	48.4%	48.5%	41.4%
Debt to EBITDA[24]	3.2x	3.8x	4.6x	4.4x	3.4x
Capital employed (including intangibles and EAI) ($ million)[25]	13,188	12,717	13,052	12,872	11,961
Capital employed (excluding intangibles and EAI) ($ million)[26]	9,392	9,093	9,552	9,617	9,806
Capital expenditure ($ million)[27]	944	851	861	600	419
Return on capital (including intangibles and EAI)[28]	9.2%	8.3%	6.3%	5.8%	6.7%
Return on capital (excluding intangibles and EAI)[29]	12.4%	11.1%	8.0%	7.6%	7.3%

Historical Group Summary CONTINUED

Ingredients[11,12,30]

	JULY 2017	JULY 2018	JULY 2019	JULY 2020
Ingredients				
Volume (000s MT)[31]	3,019	2,986	3,149	3,055
Normalised sales revenue ($ million)	15,266	16,306	16,291	17,365
Normalised gross profit ($ million)	1,473	1,472	1,446	1,611
Normalised gross margin %[32]	9.7%	9.0%	8.9%	9.3%
Normalised earnings ($ million)	943	879	790	827
Normalised earnings margin %[33]	6.2%	5.4%	4.8%	4.8%

Divisional Breakdown – Ingredients[11,12,34]

	JULY 2017	JULY 2018	JULY 2019	JULY 2020
New Zealand Ingredients				
Sales Volume (000 MT)[35]				
Reference Products	1,841	1,794	1,864	1,820
Non-reference Products	696	620	774	794
Total Volume (000s MT)[31]	2,879	2,778	2,951	2,881
Revenue ($/MT)[35]				
Reference Products	4,262	4,851	4,739	5,192
Non-reference Products	5,567	5,637	5,427	6,006
Total Revenue ($ million)	14,087	14,564	14,896	15,858
Gross Profit ($/MT)[35]				
Reference Products	232	309	336	356
– Margin	5.4%	6.4%	7.1%	6.9%
Non-reference Products	1,165	1,275	905	916
– Margin	20.9%	22.6%	16.7%	15.2%
Normalised gross profit ($ million)	1,333	1,297	1,351	1,482
Normalised gross margin %[32]	9.5%	8.9%	9.1%	9.3%
Fonterra Ingredients Australia				
Volume (000s MT)[31]	305	350	328	269
Revenue ($ million)	1,522	1,877	1,760	1,509
Normalised gross profit ($ million)	78	77	10	31
Normalised gross margin %[32]	5.1%	4.1%	0.6%	2.1%
Other and Eliminations				
Volume (000s MT)[31]	(165)	(142)	(130)	(95)
Revenue ($ million)	(343)	(135)	(365)	(2)
Normalised gross profit ($ million)	62	98	85	98

Regional Breakdown – Consumer and Foodservice[11,12,13,34,36]

	JULY 2017	JULY 2018	JULY 2019	JULY 2020
Oceania				
Volume (000s MT)[31]	636	623	627	603
Revenue ($ million)	1,952	2,159	2,159	2,093
Normalised gross profit ($ million)	438	433	422	371
Normalised gross margin %[32]	22.4%	20.1%	19.5%	17.7%
Normalised earnings ($ million)	87	67	81	54
Normalised earnings margin %[33]	4.5%	3.1%	3.8%	2.6%
Asia				
Volume (000s MT)[31]	300	298	297	279
Revenue ($ million)	1,810	1,865	1,862	1,833
Normalised gross profit ($ million)	501	456	451	436
Normalised gross margin %[32]	27.7%	24.5%	24.2%	23.8%
Normalised earnings ($ million)	194	176	153	126
Normalised earnings margin %[33]	10.7%	9.4%	8.2%	6.9%
Greater China				
Volume (000s MT)[31]	237	266	313	330
Revenue ($ million)	1,277	1,564	1,787	1,937
Normalised gross profit ($ million)	359	335	342	372
Normalised gross margin %[32]	28.1%	21.4%	19.2%	19.2%
Normalised earnings ($ million)	204	165	133	149
Normalised earnings margin %[33]	16.0%	10.5%	7.4%	7.7%
Latin America[37]				
Volume (000s MT)[31]	600	578	365	352
Revenue ($ million)	1,478	1,534	1,088	1,039
Normalised gross profit ($ million)	446	459	283	258
Normalised gross margin %[32]	30.2%	29.9%	26.0%	24.9%
Normalised earnings ($ million)	91	117	44	28
Normalised earnings margin %[33]	6.1%	7.6%	4.0%	2.7%
Total Consumer and Foodservice[13,37]				
Volume (000s MT)[31]	1,773	1,765	1,602	1,564
Revenue ($ million)	6,517	7,122	6,896	6,902
Normalised gross profit ($ million)	1,744	1,683	1,498	1,437
Normalised gross margin %[32]	26.8%	23.6%	21.7%	20.8%
Normalised earnings ($ million)	576	525	411	357
Normalised earnings margin %[33]	8.8%	7.4%	6.0%	5.2%

Historical Group Summary CONTINUED

Regional Breakdown – Foodservice[11,12,13,34,36]

	JULY 2017	JULY 2018	JULY 2019	JULY 2020
Oceania				
Volume (000s MT)[31]	98	98	104	76
Revenue ($ million)	444	515	518	416
Normalised gross profit ($ million)	83	93	98	72
Normalised gross margin %[32]	18.8%	18.1%	18.9%	17.3%
Asia				
Volume (000s MT)[31]	90	98	93	81
Revenue ($ million)	526	627	586	534
Normalised gross profit ($ million)	99	79	93	80
Normalised gross margin %[32]	18.8%	12.6%	15.8%	14.9%
Greater China				
Volume (000s MT)[31]	179	195	237	257
Revenue ($ million)	1,008	1,221	1,426	1,592
Normalised gross profit ($ million)	239	186	197	259
Normalised gross margin %[32]	23.7%	15.2%	13.8%	16.3%
Latin America				
Volume (000s MT)[31]	32	28	32	30
Revenue ($ million)	115	116	143	110
Normalised gross profit ($ million)	32	30	32	27
Normalised gross margin %[32]	27.8%	25.9%	22.7%	24.1%
Total Foodservice[13]				
Volume (000s MT)[31]	399	419	465	444
Revenue ($ million)	2,093	2,479	2,673	2,652
Normalised gross profit ($ million)	453	388	420	437
Normalised gross margin %[32]	21.7%	15.7%	15.7%	16.5%

Regional Breakdown – Consumer[11,12,13,34,36]

	JULY 2017	JULY 2018	JULY 2019	JULY 2020
Oceania				
Volume (000s MT)[31]	538	525	524	527
Revenue ($ million)	1,508	1,644	1,641	1,676
Normalised gross profit ($ million)	355	340	324	298
Normalised gross margin %[32]	23.5%	20.7%	19.7%	17.8%
Asia				
Volume (000s MT)[31]	209	201	204	198
Revenue ($ million)	1,284	1,238	1,276	1,299
Normalised gross profit ($ million)	402	377	359	357
Normalised gross margin %[32]	31.3%	30.5%	28.1%	27.5%
Greater China				
Volume (000s MT)[31]	58	71	76	73
Revenue ($ million)	269	343	361	346
Normalised gross profit ($ million)	120	149	145	114
Normalised gross margin %[32]	44.6%	43.5%	40.1%	32.8%
Latin America[37]				
Volume (000s MT)[31]	569	550	333	322
Revenue ($ million)	1,363	1,418	945	929
Normalised gross profit ($ million)	414	429	251	232
Normalised gross margin %[32]	30.4%	30.3%	26.6%	25.0%
Total Consumer[37]				
Volume (000s MT)[31]	1,373	1,347	1,137	1,120
Revenue ($ million)	4,424	4,643	4,223	4,251
Normalised gross profit ($ million)	1,291	1,295	1,078	1,001
Normalised gross margin %[32]	29.2%	27.9%	25.5%	23.5%

Historical Group Summary CONTINUED

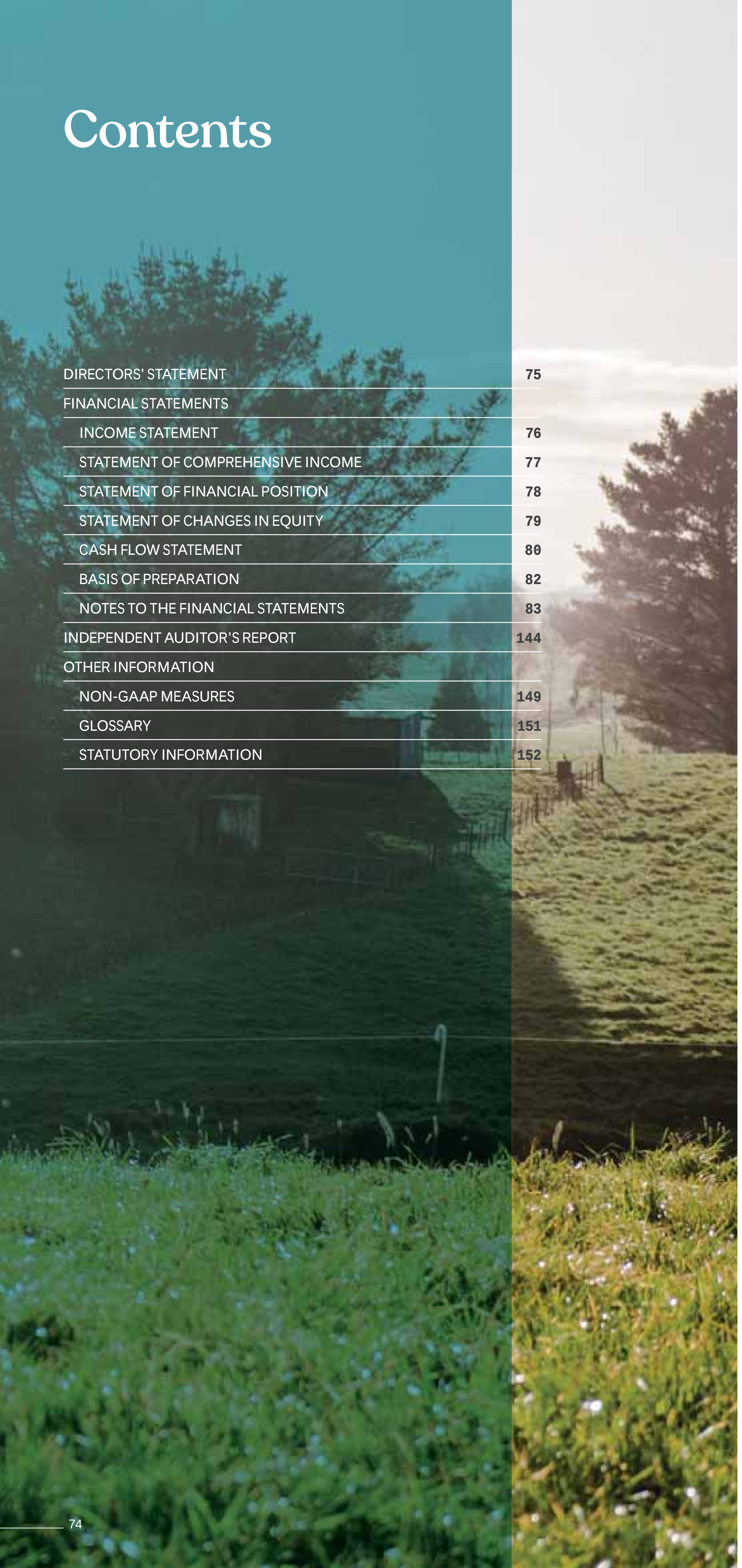
Discontinued Operations[11,12,38]

	JULY 2017	JULY 2018	JULY 2019	JULY 2020
China Farms				
Volume (000s MT)[31]	26	22	20	22
Revenue ($ million)	268	248	247	282
Normalised gross profit ($ million)	21	(23)	(14)	33
Normalised gross margin %[32]	7.8%	(9.5)%	(5.7)%	11.9%
Normalised earnings ($ million)	4	(33)	(14)	11
DPA Brazil				
Volume (000s MT)[31]	193	191	194	205
Revenue ($ million)	468	435	419	411
Normalised gross profit ($ million)	135	132	116	128
Normalised gross margin %[32]	28.8%	30.3%	27.7%	31.2%
Normalised earnings ($ million)	(13)	1	(8)	21

1. All season statistics are based on the 12-month milk season of 1 June to 31 May.
2. FY19 has been restated to correct supply milk solids collected.
3. 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.
4. Dividend yield is dividend (per share) over volume weighted average share price for the period 1 August to 31 July.
5. Average payout for a 100% share-backed supplier.
6. Retentions (per share) are calculated as profit after tax attributable to equity holders of the Co-operative 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.
7. 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 to 31 July.
8. Source: Fonterra Farmgate Milk Price Statement representing the weighted-average United States Dollar contract prices of Reference Commodity Products.
9. Source: Oceania Export Series, Agricultural Marketing Service, US Department of Agriculture.
10. 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.
11. 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.
12. Includes normalisation adjustments.
13. FY19 has been restated. Refer to Note 28 in the FY20 Financial Statements.
14. Normalised EBITDA is calculated as profit for the period before net finance costs, tax, depreciation and amortisation, adjusted for normalisations.
15. Normalised EBIT is calculated as profit for the period before net finance costs and tax, adjusted for normalisations.
16. Normalised profit after tax attributable to equity holders of the Co-operative.
17. Normalised EBITDA divided by normalised sales revenue.
18. Normalised EBIT divided by normalised sales revenue.
19. Normalised profit after tax attributable to equity holders of the Co-operative, divided by normalised sales revenue.
20. Refer to Cash Flow Statement for detail on Operating cash flow. Free Cash Flow is the total of net cash flows from operating activities and net cash flows from investing activities.
21. 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.
22. Economic net interest-bearing debt reflects total borrowings plus bank overdraft less cash and cash equivalents and non-current interest-bearing advances, adjusted for derivatives used to manage changes in hedged risks on Debt instruments. It excludes net borrowings attributed to Discontinued Operations.
23. 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. It excludes net borrowings attributed to Discontinued Operations.
24. Debt to EBITDA is calculated as total borrowings, plus bank overdraft, plus the effect of debt hedging, less a cash allowance of 75% of cash and cash equivalents, divided by normalised earnings before interest, tax, depreciation and amortisation (normalised EBITDA) excluding share of loss/profit of equity accounted investees and net foreign exchange losses/gains. Both Debt and EBITDA are adjusted to include amounts relating to businesses classified as held for sale and Discontinued Operations. Prior years restated to align with credit rating methodology.
25. Capital employed is calculated as the average for the period of: net assets excluding net interest-bearing debt and deferred tax balances, and including brands, goodwill and equity accounted investments.
26. Capital employed is calculated as the average for the period of: net assets excluding net interest-bearing debt, deferred tax balances, brands, goodwill and equity accounted investments.
27. Capital expenditure comprises purchases of property, plant and equipment and intangible assets, net purchases of livestock, and includes Discontinued Operations.
28. Return on capital is calculated as normalised EBIT less a notional tax charge, divided by capital employed including brands, goodwill and equity accounted investments.
29. Return on capital is calculated as normalised EBIT less a notional tax charge, divided by capital employed excluding brands, goodwill and equity accounted investments.
30. FY20 Ingredients performance represents Continuing Operations. It excludes any performance derived from the Fonterra-owned China Farms. China Farms is classified as a Discontinued Operation. FY19 has been restated to provide a year-on-year comparative.
31. Includes sales to other strategic platforms.
32. Normalised gross margin divided by normalised sales revenue.
33. Normalised earnings divided by normalised sales revenue.
34. Summing of individual numbers from the regional and divisional breakdown may not add up to the totals in each category due to rounding.
35. Figures exclude bulk liquid milk. The bulk liquid milk volume for the year ended 31 July 2020 was 69,000 MT of kgMS equivalent (year ended 31 July 2019 was 73,000 MT of kgMS equivalent).
36. Regions include share of Consumer and Foodservice overhead allocations, the total impact of which is $104 million for FY20.
37. FY20 Latin America Consumer performance represents Continuing Operations and excludes DPA Brazil performance. DPA Brazil is classified as a Discontinued Operation. FY19 has been restated to provide a year-on-year comparative.
38. The proposed divestments of our Fonterra-owned China Farms and DPA Brazil have impacted how the financial statements are presented. The sales processes for these businesses are at the point that they meet the accounting requirements to be classified as 'held for sale' on the Statement on Financial Position, on the basis that a sale over the next 12 months is considered highly probable. Furthermore, because both businesses are considered to be major businesses in one of our segments and/or geographical regions, their results are classified as 'Discontinued Operations' within the Income Statement. The segment note within our financial statements excludes these businesses, and therefore reflects the Group's Continuing Operations only.

Annual Financial Results

FOR THE YEAR ENDED 31 JULY 2020 FONTERRA CO-OPERATIVE GROUP LIMITED



Contents

Directors' Statement

FOR THE YEAR ENDED 31 JULY 2020

The Directors of Fonterra Co-operative Group Limited (Fonterra) present to Shareholders the Annual Report and financial statements for Fonterra and its subsidiaries (together the Group) and the Group's interests in its equity accounted investments for the year ended 31 July 2020.

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 the year.

The Directors consider that 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 2020. For and on behalf of the Board:

John Monaghan
Chairman

17 September 2020

Bruce Hassall
Director

17 September 2020

Income Statement

FOR THE YEAR ENDED 31 JULY 2020

		GROUP $ MILLION	
	NOTES	31 JULY 2020	31 JULY 2019[1] RESTATED
Continuing Operations			
Revenue from sale of goods	3	20,282	19,255
Cost of goods sold	4	(17,236)	(16,349)
Impact of strategy review	2	16	(32)
Gross profit		3,062	2,874
Other operating income		62	74
Selling and marketing expenses		(551)	(543)
Distribution expenses		(482)	(514)
Administrative expenses		(835)	(748)
Other operating expenses		(377)	(338)
Impairment of intangible assets not included in strategic review	17	(55)	(29)
Share of (loss)/profit of equity accounted investees	18	(6)	25
Impact of strategy review:			
– Gain on sale of investment in DFE Pharma	2	401	–
– Gain on sale of investment in Goodminton	2	66	–
– Falcon China Farms joint venture impairment	2	(65)	–
– New Zealand consumer and foodservice business impairment and Tip Top disposal		–	(237)
– Disposal of Venezuelan operations		–	(134)
– Other impact of strategic review	2	62	(80)
Profit before net finance costs and tax	6	1,282	350
Finance income	10	13	15
Finance costs	10	(317)	(407)
Net finance costs		(304)	(392)
Profit/(loss) before tax		978	(42)
Tax expense	20	(175)	(80)
Profit/(loss) after tax from continuing operations		803	(122)
Discontinued Operations			
Loss after tax from discontinued operations	2	(144)	(488)
Profit/(loss) after tax		659	(610)
Profit/(loss) after tax is attributable to:			
Loss attributable to non-controlling interests		(27)	(48)
Profit/(loss) attributable to equity holders of the Co-operative		686	(562)
Profit/(loss) after tax		659	(610)

		GROUP $	
		31 JULY 2020	31 JULY 2019[1] RESTATED
Earnings per share:			
Basic and diluted earnings/(loss) per share from continuing operations	5	0.48	(0.09)
Basic and diluted loss per share from discontinued operations	5	(0.05)	(0.26)
Basic and diluted earnings/(loss) per share	5	0.43	(0.35)

1 The Income Statement for the year ended 31 July 2019 includes re-presentations and restatements. Please see Note 28 *Re-presentations and prior period restatements* for further details.

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 JULY 2020

	GROUP $ MILLION	
	31 JULY 2020	31 JULY 2019[1] RESTATED
Profit/(loss) after tax	659	(610)
Items that may be reclassified subsequently to the Income Statement:		
Cash flow hedges and other costs of hedging, net of tax	354	(1)
Net investment hedges and translation of foreign operations, net of tax	(67)	(12)
Hyperinflation losses attributable to equity holders	–	(10)
Foreign currency translation reserve losses transferred to the Income Statement	21	193
Hyperinflation reserve gains transferred to the Income Statement	–	(12)
Share of equity accounted investees' movement in reserves	(6)	–
Other reserve movements	(35)	–
Total items that may be reclassified subsequently to the Income Statement	267	158
Items that will not be reclassified subsequently to the Income Statement:		
Net fair value gains/(losses) on investments in shares	2	(1)
Foreign currency translation gains attributable to non-controlling interests	3	1
Non-controlling interest other reserve movements	(13)	–
Total items that will not be reclassified subsequently to the Income Statement	(8)	–
Total other comprehensive income recognised directly in equity	259	158
Total comprehensive income/(expense)	918	(452)
Total comprehensive income/(expense) is attributable to:		
Equity holders of the Co-operative	955	(420)
Non-controlling interests	(37)	(32)
Total comprehensive income/(expense)	918	(452)
Total comprehensive income/(expense) arises from:		
Continuing operations	1,054	28
Discontinued operations	(136)	(480)
Total comprehensive income/(expense)	918	(452)

1 The Statement of Comprehensive Income for the year ended 31 July 2019 includes re-presentations and restatements. Please see Note 28 *Re-presentations and prior period restatements* for further details.

Statement of Financial Position

AS AT 31 JULY 2020

		GROUP $ MILLION	
	NOTES	31 JULY 2020	31 JULY 2019[1] RESTATED
ASSETS			
Current assets			
Cash and cash equivalents		788	550
Trade and other receivables	11	1,832	1,871
Inventories	12	3,268	3,165
Tax receivable		44	45
Derivative financial instruments		452	48
Investment in Beingmate	2	157	–
Other current assets		73	116
Assets of disposal groups held for sale	2	1,005	229
Total current assets		7,619	6,024
Non-current assets			
Property, plant and equipment	15	6,006	6,512
Right-of-use assets	16	569	–
Equity accounted investments	18	96	202
Livestock		6	295
Intangible assets	17	2,240	2,597
Deferred tax assets	20	421	610
Derivative financial instruments		664	440
Investment in Beingmate	2	–	234
Long-term advances		220	142
Other non-current assets		75	228
Total non-current assets		10,297	11,260
Total assets		17,916	17,284
LIABILITIES			
Current liabilities			
Bank overdraft		31	34
Borrowings	9	764	1,175
Trade and other payables	13	2,004	2,107
Owing to suppliers	14	1,588	1,534
Tax payable		88	61
Derivative financial instruments		113	215
Provisions	21	68	63
Other current liabilities		54	71
Liabilities of disposal groups held for sale	2	603	–
Total current liabilities		5,313	5,260
Non-current liabilities			
Borrowings	9	5,277	5,380
Derivative financial instruments		483	537
Provisions	21	64	117
Deferred tax liabilities	20	20	99
Other non-current liabilities		56	57
Total non-current liabilities		5,900	6,190
Total liabilities		11,213	11,450
Net assets		6,703	5,834
EQUITY			
Subscribed equity		5,887	5,887
Retained earnings		933	313
Foreign currency translation reserve	19	(229)	(183)
Hedge reserves	19	101	(268)
Other reserves		–	8
Total equity attributable to equity holders of the Co-operative		6,692	5,757
Non-controlling interests		11	77
Total equity		6,703	5,834

1 The Statement of Financial Position as at 31 July 2019 includes re-presentations and restatements. Please see Note 28 *Re-presentations and prior period restatements* for further details.

Statement of Changes in Equity

FOR THE YEAR ENDED 31 JULY 2020

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE CO-OPERATIVE							
GROUP $ MILLION	SUBSCRIBED EQUITY	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION RESERVE	HEDGE RESERVES	OTHER RESERVES	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
As at 1 August 2019	5,887	313	(183)	(268)	8	5,757	77	5,834
NZ IFRS 16 transition adjustment (Note 27)	–	(20)	–	–	–	(20)	–	(20)
As at 1 August 2019 adjusted	5,887	293	(183)	(268)	8	5,737	77	5,814
Profit/(loss) after tax	–	686	–	–	–	686	(27)	659
Transferred between reserves	–	(15)	–	15	–	–	–	–
Other comprehensive (expense)/income	–	(31)	(46)	354	(8)	269	(10)	259
Total comprehensive income/(expense)	–	640	(46)	369	(8)	955	(37)	918
Transactions with equity holders in their capacity as equity holders:								
Dividend paid to non-controlling interests	–	–	–	–	–	–	(29)	(29)
As at 31 July 2020	5,887	933	(229)	101	–	6,692	11	6,703
As at 1 August 2018	5,887	934	(364)	(267)	29	6,219	130	6,349
Prior period restatement[1]	–	(42)	–	–	–	(42)	–	(42)
As at 1 August 2018 adjusted (restated)	5,887	892	(364)	(267)	29	6,177	130	6,307
Loss after tax (restated)[1]	–	(562)	–	–	–	(562)	(48)	(610)
Other comprehensive (expense)/income	–	(17)	181	(1)	(21)	142	16	158
Total comprehensive (expense)/income (restated)	–	(579)	181	(1)	(21)	(420)	(32)	(452)
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 (restated)	5,887	313	(183)	(268)	8	5,757	77	5,834

1 For details on the impact of prior period restatements refer to Note 28 *Re-presentations and prior period restatements*.

Cash Flow Statement

FOR THE YEAR ENDED 31 JULY 2020

The Cash Flow Statement presents total Group cash flows including continuing and discontinued operations.

	GROUP $ MILLION	
	31 JULY 2020	31 JULY 2019[1] RESTATED
Cash flows from operating activities		
Profit before net finance costs and tax from continuing operations	1,282	350
Loss before net finance costs and tax from discontinued operations	(135)	(367)
Profit/(loss) before net finance costs and tax	1,147	(17)
Adjustments for:		
– Foreign exchange losses/(gains)	37	(29)
– Depreciation and amortisation	627	561
– Gain on sale of investment in DFE Pharma	(401)	–
– Gain on sale of investment in Goodminton	(66)	–
– Falcon China Farms joint venture impairment	65	–
– China Farms impairment	63	203
– New Zealand consumer and foodservice business impairment and Tip Top disposal	–	214
– Brazil consumer and foodservice business impairment	104	149
– Disposal of Venezuelan operations	–	134
– Other	95	42
	524	1,274
(Increase)/decrease in working capital:		
Trade and other receivables	(105)	341
Inventories	(180)	126
Trade and other payables	100	(211)
Owing to suppliers	54	(222)
Other movements	25	(112)
Total	(106)	(78)
Cash generated from operations	1,565	1,179
Net taxes paid	(73)	(56)
Net cash flows from operating activities	1,492	1,123
Cash flows from investing activities		
Cash was provided from:		
– Proceeds from sale of businesses	624	396
– Proceeds from disposal of property, plant and equipment	36	32
– Proceeds from sale of livestock	40	28
– Proceeds from sale of investments	127	7
– Co-operative support loan repayments	–	177
– Other cash inflows	–	25
Cash was applied to:		
– Acquisition of non-controlling interest	(29)	–
– Acquisition of property, plant and equipment	(355)	(541)
– Acquisition of livestock (including rearing costs)	(36)	(37)
– Acquisition of intangible assets	(49)	(82)
– Acquisition of investments	(8)	(10)
– Advances to and investments in equity accounted investees	(13)	(6)
– Other cash outflows	(1)	(17)
Net cash flows from investing activities	336	(28)

1 The Cash Flow Statement for the year ended 31 July 2019 includes restatements. Please see Note 28 *Re-presentations and prior period restatements* for further details. The adjustments had no impact on net cash flows.

	GROUP $ MILLION	
	31 JULY 2020	31 JULY 2019[1] RESTATED
Cash flows from financing activities		
Cash was provided from:		
– Proceeds from borrowings	2,286	4,286
– Interest received	11	14
Cash was applied to:		
– Interest paid	(395)	(427)
– Repayment of borrowings	(3,381)	(4,689)
– Dividends paid to non-controlling interests	(29)	(22)
– Other cash outflows	(31)	(12)
Net cash flows from financing activities	(1,539)	(850)
Net increase in cash	289	245
Opening cash	516	285
Effect of exchange rate changes	(25)	(14)
Closing cash	780	516
Reconciliation of closing cash balances to the Statement of Financial Position:		
Cash and cash equivalents	788	550
Bank overdraft	(31)	(34)
Cash balances included in held for sale	23	–
Closing cash	780	516

Basis of Preparation

FOR THE YEAR ENDED 31 JULY 2020

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 interests in its equity accounted investments.

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 (FMCG) 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 Generally Accepted Accounting Practice applicable to for-profit entities.

These financial statements are prepared on a historical cost basis except for assets and liabilities of disposal group held for sale which are measured at the lower of fair value less costs to sell and carrying value, and the following items which are measured at fair value:

- Livestock
- Investment in shares
- Derivative financial instruments
- Hedged risks on certain debt instruments

These financial statements are presented in New Zealand dollars ($ or NZD), which is the Group's functional currency, and rounded to the nearest million, except where otherwise stated.

Certain comparative period information has been re-presented and restated. Refer to Note 28 *Re-presentations and prior period restatements* for further details.

C) SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies which are relevant to an understanding of the financial statements are provided throughout the notes in teal shading.

D) SIGNIFICANT JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies and the application of accounting standards, a number of judgements and estimates have been made. Accordingly, actual outcomes may differ to these estimates.

Information about judgements, estimates and assumptions which are relevant to an understanding of the financial statements are disclosed in the relevant notes as follows.

- Recoverable amount assessments (Note 2 *Strategy review update* and Note 17 *Intangible assets*)
- Classification of disposal groups held for sale and discontinued operations (Note 2 *Strategy review update*)
- Revenue recognition (Note 3 *Revenue from sale of goods*)
- Measurement of deferred tax assets and liabilities (Note 20 *Taxation*)
- Provisions and contingent liabilities (Note 21 *Contingent liabilities, provisions and commitments*)

E) COVID-19 PANDEMIC

The Group's global supply chain has remained resilient throughout the Covid-19 pandemic. The Group's diverse product range and customer base have helped to minimise the impact on the business. Milk has continued to be collected and processed in New Zealand, Australia and Chile.

To ensure ongoing impacts of Covid-19 have been appropriately reflected in the financial statements, Fonterra has assessed the impact of Covid-19 on the Group's assets and liabilities.

- The assumptions about the future impacts of the Covid-19 pandemic have been considered when measuring investments classified as held for sale.
- The forecasts used for impairment testing include Fonterra's best estimates of the potential future impacts from the Covid-19 pandemic. Cash flow projections have been adjusted to reflect a range of possible outcomes, weighted by their expected occurrence.
- As part of the New Zealand Government's Covid-19 relief package tax depreciation deductions have been reintroduced for certain qualifying buildings owned by the Group. This has resulted in an increase to the deferred tax assets of $30 million. It has also resulted in a reduction to tax expense of $30 million.
- Debtor collectability continues to be closely monitored. A material change in the provision for impairment of trade receivables as a result of Covid-19 has not been identified.
- No onerous contracts or additional provisions have been recognised as a direct impact of Covid-19.
- Fonterra has not applied for the wage subsidy scheme available from the New Zealand Government.

The Group continues to monitor the risks and the ongoing impacts from Covid-19 on the business.

F) 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 (FCTR). 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.

G) NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Impact of adopting NZ IFRS 16 Leases

The Group adopted NZ IFRS 16 on 1 August 2019. NZ IFRS 16 requires a lease liability reflecting future lease payments, and a right-of-use asset, to be recognised for most lease contracts where the Group is a lessee. This includes many of the Group's leases that were previously classified as operating leases. No asset or liability was reflected in the Statement of Financial Position under previous accounting requirements for operating leases.

The adoption of NZ IFRS 16 does not have a significant impact on the Group's net profit after tax. However, there is an increase in profit before net finance costs and tax, because a portion of the lease costs that were previously reported in cost of goods sold or operating expenses are now recorded as finance costs. Following adoption of NZ IFRS 16, the presentation of lease payments in the Cash Flow Statement changed from Operating activities to Financing activities, except for short term and low value leases which are included within Operating activities.

On transition to NZ IFRS 16 at 1 August 2019, the Group recognised right-of-use assets of $621 million and a lease liability of $652 million. The lease liability is recognised within Borrowings in the Statement of Financial Position.

Disclosures relating to leases are located in the following notes:

- Note 6 *Profit before net finance costs and tax*
- Note 9 *Borrowings*
- Note 10 *Net finance costs*
- Note 16 *Right-of-use assets*
- Note 27 *Impact of transition to NZ IFRS 16 Leases*

Impact of adopting NZ IFRIC 23 Uncertainty over Income Tax Treatments

NZ IFRIC 23 clarifies how to recognise and measure tax balances when there is uncertainty over income tax treatments. The Group's uncertain tax positions predominantly relate to judgements regarding transfer pricing.

The Group adopted NZ IFRIC 23 from 1 August 2019 and has applied the interpretation retrospectively. In applying the interpretation there was no impact on the measurement of tax balances. However, the presentation of the provision for taxes in the Statement of Financial Position changed from Provisions to Tax payable. The impact of this change was to reclassify the tax provision of $24 million from Provisions to Tax payable as at 31 July 2019.

Accounting standards issued but not yet effective

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2020

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

PERFORMANCE

This section focuses on the Group's financial performance and the returns provided to equity holders. This section includes the following notes:

Note 1: *Segment reporting*

Note 2: *Strategy review update*

Note 3: *Revenue from sale of goods*

Note 4: *Cost of goods sold*

Note 5: *Earnings per share*

Note 6: *Profit before net finance costs and tax*

1 SEGMENT REPORTING

Operating segments reflect the way financial information is regularly reviewed by the Fonterra Management Team (FMT). The FMT is considered to be the Chief Operating Decision Maker (CODM). The FMT consists of the Group CEO, CFO and COO, the CEOs of the three customer-facing regional business units (Asia Pacific, AMENA – Africa, Middle East, Europe, North Asia, Americas, and Greater China), the Director Office of the CEO and the MD Co-operative Affairs. 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.

At 31 July 2019, the Group's operating segments were based around the Global Ingredients and Consumer and foodservice businesses.

In September 2019, Fonterra announced a new strategy and operating model. The Group's new operating model is based around the three regional business units, supported by a shared infrastructure (the office of the COO – oCOO) that includes New Zealand milk collection and processing operations and assets, a central portfolio management function, Group IT and Innovation functions.

At 31 July 2020, the new operating model formed the basis for the Group's operating segments. Under the new operating model, the business is managed as a matrix form of organisation, whereby regional business unit CEOs and the COO have overlapping responsibility for the performance of operating segments. Information about the performance of oCOO is reported to the FMT both separately and attributed to each of the regional business units.

Fonterra has determined that its operating segments are Asia Pacific, AMENA, Greater China and oCOO. As a result of the Group's matrix structure, the Group's reportable segments are Asia Pacific, AMENA and Greater China, inclusive of their respective attribution of oCOO. This presentation provides a full end-to-end view of performance for each of the customer facing regional business units.

Unallocated costs represent corporate costs including Co-operative Affairs and Group functions.

Due to the significant operating model changes, and the resulting changes in systems and processes used to report financial information to the FMT, comparative information in respect of the new operating model is not available. This note therefore includes information in respect of the current and comparative financial years under the previous operating model.

This note presents information for:

a) The previous operating model

b) The new operating model

c) Geographical analysis of revenue

d) Geographical analysis of non-current assets

a) The previous operating model

Segment information presented under the previous operating model for the current year and comparative period has been provided in this section.

The Group's reportable segments for the year ended 31 July 2020 are based on Fonterra's new operating model (see Section b) *The new operating model*).

PREVIOUS REPORTABLE SEGMENTS	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, the Falcon China Farms joint venture 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 Chile and the Caribbean.

Transactions between reportable segments are based on estimated market prices.

The strategic reviews of the Group's China Farms and Brazil consumer and foodservice businesses have advanced such that both businesses meet the requirements to be classified as held for sale at 31 July 2020 and are considered to be discontinued operations. As a result, comparative information in the segment note has been restated to exclude these businesses and reflect the Group's continuing operations only.

The Group's investment in the Falcon China Farms joint venture (Falcon China Farms JV) was previously included within a 'China Farms' segment. The Falcon China Farms JV is considered separately from China Farms. The investment and the share of equity accounted losses it has generated have been included in the Ingredients segment on the basis that its customers are most closely aligned with other Ingredients customers. Comparative information in the segment note has been restated to reflect this change.

a) The previous operating model CONTINUED

	GROUP $ MILLION 31 JULY 2020							
	INGREDIENTS	CONSUMER AND FOODSERVICE					UNALLOCATED COSTS AND ELIMINATIONS	TOTAL
		OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL		
Continuing Operations								
Normalised segment Income Statement								
External revenue	13,590	1,917	1,801	1,937	1,037	6,692	–	20,282
Inter-segment revenue	3,775	176	32	–	2	210	(3,985)	–
Revenue from sale of goods	17,365	2,093	1,833	1,937	1,039	6,902	(3,985)	20,282
Cost of goods sold	(15,754)	(1,722)	(1,397)	(1,565)	(781)	(5,465)	3,983	(17,236)
Segment gross profit/(loss)	1,611	371	436	372	258	1,437	(2)	3,046
Impairment of intangible assets not included in strategic review	(1)	(21)	(18)	(18)	–	(57)	3	(55)
Operating expenses	(782)	(294)	(282)	(204)	(229)	(1,009)	(348)	(2,139)
Net other operating income	51	–	2	–	3	5	–	56
Net foreign exchange (losses)/gains	(43)	(2)	(10)	(1)	(7)	(20)	8	(55)
Share of (loss)/profit of equity accounted investees	(9)	–	(2)	–	3	1	2	(6)
Normalised segment earnings before net finance costs and tax	827	54	126	149	28	357	(337)	847
Normalisation adjustments:								
– Disposal of investment in DFE Pharma	427	–	–	–	–	–	–	427
– Disposal of investment in Goodminton	60	–	–	–	–	–	6	66
– Falcon China Farms JV impairment	(65)	–	–	–	–	–	–	(65)
– Beingmate	–	–	–	50	–	50	–	50
– Other	(15)	–	–	(14)	–	(14)	(14)	(43)
Segment earnings before net finance costs and tax	1,234	54	126	185	28	393	(345)	1,282
Finance income								13
Finance costs								(317)
Profit before tax from continuing operations								978
Other segment information:								
Volume[1] (metric tonnes, thousand)	3,055	603	279	330	352	1,564	(777)	3,842
Depreciation and amortisation ($ million)	(458)	(37)	(16)	(7)	(29)	(89)	(66)	(613)
Capital expenditure[2]	328	27	3	1	19	50	33	411
Equity accounted investments	77	–	–	–	11	11	8	96

The total segment gross profit shown above is different to the reported gross profit as a result of certain normalisation adjustments recognised in gross profit.

Reconciliation of reported to segment gross profit for the year ended 31 July 2020:

GROUP $ MILLION	FOR THE YEAR ENDED 31 JULY 2020
Segment gross profit	3,046
Normalisation adjustments	
– DFE Pharma dividend received	26
– Other impact of strategy review	(10)
Reported gross profit	3,062

1 Includes intra and inter-segment sales. Total column represents total external sales.

2 Capital expenditure comprises purchases of property, plant and equipment and intangible assets.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

a) The previous operating model CONTINUED

	GROUP $ MILLION							
	31 JULY 2019[1] RESTATED							
	INGREDIENTS	CONSUMER AND FOODSERVICE					UNALLOCATED COSTS AND ELIMINATIONS	TOTAL
		OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL		
Continuing Operations								
Normalised segment Income Statement								
External revenue	12,584	1,989	1,814	1,785	1,083	6,671	–	19,255
Inter-segment revenue	3,707	170	48	2	5	225	(3,932)	–
Revenue from sale of goods	16,291	2,159	1,862	1,787	1,088	6,896	(3,932)	19,255
Cost of goods sold	(14,845)	(1,737)	(1,411)	(1,445)	(805)	(5,398)	3,894	(16,349)
Segment gross profit/(loss)	1,446	422	451	342	283	1,498	(38)	2,906
Impairment of intangible assets not included in strategic review	–	–	–	–	–	–	(29)	(29)
Operating expenses	(762)	(344)	(289)	(210)	(246)	(1,089)	(292)	(2,143)
Net other operating income	67	3	1	4	4	12	(5)	74
Net foreign exchange gains/(losses)	16	–	(8)	(2)	(1)	(11)	(5)	–
Share of profit/(loss) of equity accounted investees	23	–	(2)	(1)	4	1	1	25
Normalised segment earnings before net finance costs and tax	790	81	153	133	44	411	(368)	833
Normalisation adjustments:								
– New Zealand consumer and foodservice business	–	(204)	–	–	–	(204)	–	(204)
– Disposal of Tip Top	–	(25)	–	–	–	(25)	(15)	(40)
– Disposal of Venezuelan operations	(22)	–	–	–	(112)	(112)	–	(134)
– Australian strategic reset	(68)	–	–	–	–	–	–	(68)
– Other strategic reset costs	(6)	(2)	–	–	(5)	(7)	(12)	(25)
– Beingmate	–	–	–	(12)	–	(12)	–	(12)
Segment earnings before net finance costs and tax	694	(150)	153	121	(73)	51	(395)	350
Finance income								15
Finance costs								(407)
Loss before tax from continuing operations								(42)
Other segment information:								
Volume[2] (metric tonnes, thousand)	3,149	627	297	313	365	1,602	(813)	3,938
Depreciation and amortisation ($ million)	(408)	(27)	(12)	(2)	(23)	(64)	(54)	(526)
Capital expenditure[3]	446	43	10	1	17	71	49	566
Equity accounted investments	181	–	–	–	12	12	9	202

1 Certain comparative information has been restated to ensure consistency with presentation in the current period.
2 Includes intra and inter-segment sales. Total column represents total external sales.
3 Capital expenditure comprises purchases of property, plant and equipment and intangible assets.

a) The previous operating model CONTINUED

The total segment gross profit shown above is different to the reported gross profit as a result of certain normalisation adjustments recognised in gross profit. Reconciliation of reported to segment gross profit for the year ended 31 July 2019:

GROUP $ MILLION	FOR THE YEAR ENDED 31 JULY 2019 RESTATED
Segment gross profit	2,906
Normalisation adjustments	
– Australian strategic reset	(23)
– New Zealand consumer and foodservice business strategic review impact	(7)
– Other strategic reset costs	(2)
Reported gross profit	2,874

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

b) The new operating model

Fonterra's reportable segments are Asia Pacific, AMENA and Greater China. Comparative segment information is not available under the new operating model. Segment information has been presented for the current year and comparative period under the previous operating model in Section a) *The previous operating model*.

REPORTABLE SEGMENTS	DESCRIPTION
Asia Pacific	Represents the ingredients, foodservice and FMCG businesses in New Zealand, South East Asia and Australia (including export to the Pacific Islands) and Sri Lanka and Indian sub-continent, and Fonterra Farm Source™ stores.
AMENA	Represents the ingredients, foodservice and FMCG businesses in Africa, Middle East, Europe, North Asia and Americas (including Latin America).
Greater China	Represents the ingredients, foodservice and FMCG businesses in Greater China, and the Falcon China Farms JV.

Transactions between reportable segments follow underlying business rules that determine how each segment records a transaction. These rules have been designed to reflect the end-to-end contribution of each segment. Where there is common activity amongst segments and there is a distribution of those revenues and costs across segments, the attribution is based on a number of principles, including:

- Activity based allocation where appropriate.
- Volumes of product sold/manufactured in the segment.
- The segments proportion of New Zealand sourced milk sales.

	GROUP $ MILLION				
	31 JULY 2020				
	ASIA PACIFIC	AMENA	GREATER CHINA	UNALLOCATED COSTS AND ELIMINATIONS	TOTAL
Continuing Operations					
Normalised Income Statement					
Ingredients channel revenue	3,505	6,616	3,469	–	13,590
Foodservice channel revenue	893	154	1,552	–	2,599
Consumer channel revenue	2,691	1,061	341	–	4,093
Total external revenue	7,089	7,831	5,362	–	20,282
Inter-segment revenue	190	12	–	(202)	–
Revenue from sale of goods	7,279	7,843	5,362	(202)	20,282
Cost of goods sold	(6,043)	(6,804)	(4,593)	204	(17,236)
Gross profit	1,236	1,039	769	2	3,046
Operating expenses	(941)	(629)	(386)	(238)	(2,194)
Net other operating income	16	26	21	(7)	56
Net foreign exchange (losses)/gains	(20)	(24)	(17)	6	(55)
Share of profit/(loss) of equity accounted investees	1	7	(12)	(2)	(6)
Normalised earnings before net finance costs and tax	292	419	375	(239)	847
Normalisation adjustments:					
– Disposal of investment in DFE Pharma	–	427	–	–	427
– Disposal of investment in Goodminton	–	60	–	6	66
– Falcon China Farms JV impairment	–	–	(65)	–	(65)
– Beingmate	–	–	50	–	50
– Other	5	(13)	(22)	(13)	(43)
Earnings before net finance costs and tax	297	893	338	(246)	1,282
Finance income					13
Finance costs					(317)
Profit before tax from continuing operations					978
Other segment information:					
Volume[1] (metric tonnes, thousand)	1,381	1,433	1,043	(15)	3,842
Depreciation and amortisation ($ million)	(235)	(222)	(133)	(23)	(613)

1 Includes intra and inter-segment sales. Total column represents total external sales.

c) Geographical analysis of revenue

	GROUP $ MILLION							
	NEW ZEALAND	AUSTRALIA	REST OF ASIA PACIFIC	UNITED STATES	LATIN AMERICA	REST OF AMENA	CHINA	TOTAL
Geographical external revenue:								
Year ended 31 July 2020	1,658	1,670	5,881	949	1,604	3,322	5,198	20,282
Year ended 31 July 2019 (restated)	1,676	1,776	5,590	931	1,715	3,215	4,352	19,255

Revenue is analysed by geography on the basis of the destination of the goods sold.

d) Geographical analysis of non-current assets

	GROUP $ MILLION					
	NEW ZEALAND	AUSTRALIA	REST OF ASIA PACIFIC	AMENA	CHINA	TOTAL
Geographical non-current assets:						
As at 31 July 2020	6,546	1,043	842	714	67	9,212
As at 31 July 2019	6,223	1,007	840	1,196	944	10,210

	GROUP $ MILLION	
	AS AT 31 JULY 2020	AS AT 31 JULY 2019 RESTATED
Reconciliation of geographical non-current assets to total non-current assets:		
Geographical non-current assets	9,212	10,210
Deferred tax assets	421	610
Derivative financial instruments	664	440
Total non-current assets	10,297	11,260

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

2 STRATEGY REVIEW UPDATE

During the year ended 31 July 2019 Fonterra announced and began the implementation of a Group-wide strategy review. This note explains the accounting impact of the strategy review on the financial statements for the year ended 31 July 2020.

Since 31 July 2019 progress of the strategy review includes completion of the sales processes relating to the Group's investments in Goodminton AG (Goodminton) and DMV Fonterra Excipients GmbH & Co. KG (DFE Pharma), and the sale of Dennington manufacturing site.

The Group's holdings of Beingmate Baby & Child Food Co., Ltd. (Beingmate) shares continue to be held for trading with an active sales process in place. During the year the Group reduced its holdings in Beingmate from 18.82 per cent down to 9.11 per cent at 31 July 2020. The Group expects to sell its remaining investment within 12 months of balance date.

The strategic reviews of the China Farms and Brazil consumer and foodservice businesses have advanced such that the businesses meet the requirements to be classified as held for sale at 31 July 2020. Both the China Farms and Brazil consumer and foodservice businesses are considered to be discontinued operations.

Challenges with the operational performance of the Falcon China Farms JV led to the reassessment of the carrying value of the investment.

The most significant impacts of the 2019 strategy review on the Group's net profit after tax as presented in the Group's Income Statement for the year ended 31 July 2020 are set out below:

	GROUP $ MILLION									
	PRESENTED IN IMPACT OF STRATEGY REVIEW							PRESENTED IN DISCONTINUED OPERATIONS		
	DFE PHARMA SALE (NOTE 2A)	GOODMINTON INVESTMENT SALE (NOTE 2A)	DENNINGTON SALE (NOTE 2A)	BEINGMATE (NOTE 2B)	FALCON CHINA FARMS JV IMPAIRMENT (NOTE 2D)	OTHER STRATEGY RESET COSTS	TOTAL	CHINA FARMS IMPAIRMENT (NOTE 2C)	BRAZIL CONSUMER AND FOODSERVICE IMPAIRMENT (NOTE 2C)	TOTAL
Revenue	26	–	–	–	–	–	26	–	–	–
Cost of goods sold	–	–	–	–	–	(10)	(10)	–	–	–
Gross profit	26	–	–	–	–	(10)	16	–	–	–
Gain on sale	401	66	12	–	–	–	479	–	–	–
Impairment	–	–	–	–	(65)	–	(65)	–	–	–
Other	–	–	–	50	–	–	50	–	–	–
Total net profit/(loss) before tax	427	66	12	50	(65)	(10)	480	–	–	–
Discontinued operations	–	–	–	–	–	–	–	(63)	(104)	(167)
Tax impact	–	–	(6)	–	–	–	(6)	–	16	16
Profit/(loss) after tax	427	66	6	50	(65)	(10)	474	(63)	(88)	(151)
Non-controlling interests	–	–	–	–	–	–	–	–	43	43
Profit/(loss) attributable to shareholders	427	66	6	50	(65)	(10)	474	(63)	(45)	(108)

a) Disposals

Disposals

On disposal of an investment or a cash generating unit (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.

Disposal of investment in Goodminton AG

On 3 September 2019 Fonterra completed the sale of its investment in Goodminton. As at 31 July 2019, this investment was classified as held for sale.

The transaction resulted in a gain on sale of $66 million. The gain on sale includes a credit balance of $6 million relating to Goodminton that was recycled from the foreign currency translation reserve and recognised as part of the net gain on sale.

a) Disposals CONTINUED

The gain on sale is shown below:

	$ MILLION
Sales proceeds received in cash	96
Impact of foreign currency hedge	(2)
Total sale proceeds received in cash	94
Investment disposed of	(34)
FCTR recycled	6
Gain on sale	66

Goodminton was included in the AMENA reportable segment.

Disposal of investment in DMV Fonterra Excipients GmbH & Co.KG

On 23 January 2020 Fonterra completed the sale of its 50 per cent share of DFE Pharma. As at 31 July 2019, this investment was classified as held for sale.

The transaction resulted in a gain on sale of $401 million. The gain on sale includes a debit balance of $16 million relating to DFE Pharma that was recycled from the foreign currency translation reserve and recognised as part of the net gain on sale.

Sale proceeds of $620 million were received which was made up of cash of $527 million and an interest-bearing loan of $93 million. The sale and purchase agreement also contains earnout clauses in relation to earnings before interest, tax, depreciation and amortisation of DFE Pharma for the 2020 calendar year, and specifies completion adjustments, which are not included in the sales price of $620 million.

The gain on sale is shown below:

	$ MILLION
Sales proceeds received in cash	527
Interest-bearing loan (included within Long-term advances)	93
Total sale proceeds received	620
Investment disposed of	(193)
FCTR recycled	(16)
Transaction costs	(10)
Gain on sale	401

DFE Pharma was included in the AMENA reportable segment.

In addition to the gain on sale of $401 million, Fonterra received $26 million of dividends from DFE Pharma during the year ended 31 July 2020 which have been recognised as revenue.

Disposal of Dennington

On 29 May 2020 Fonterra completed the sale of the Dennington manufacturing site. The transaction resulted in a gain on sale of $12 million. Dennington was included in the Asia Pacific reportable segment.

b) Beingmate Baby & Child Food Co., Ltd.

At 31 July 2020, the Group's investment in Beingmate has been presented as a current asset as the Group expects to sell its remaining investment within 12 months of balance date. At 31 July 2019 the investment in Beingmate was presented as a non-current asset.

The Group's investment in Beingmate is classified as "Held for Trading" in accordance with NZ IFRS 9 *Financial Instruments* and measured at fair value, with changes in fair value recognised in the Income Statement.

Beingmate shares are listed on the Shenzhen Stock Exchange. Listing rules over Beingmate shares limit Fonterra to selling a maximum of one per cent of total shares of Beingmate on-market and two per cent through block trading in each 90-day period. Future sales of Fonterra's Beingmate shares will be transacted at the selling price achieved at the disposal date.

During the year ended 31 July 2020 Fonterra has been actively selling the shares held in Beingmate. The details of those sales are summarised in the table below:

	% SHARES	PRICE RMB	$ MILLION
As at 31 July 2019	18.82	5.54	234
Sales for the year	9.71	4.45–8.22	127
As at 31 July 2020	9.11	7.92	157

The normalisation gain of $50 million (31 July 2019: loss of $12 million) relating to Beingmate in Note 1 *Segment reporting* includes realised and unrealised fair value and foreign exchange movements.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

c) Discontinued operations

Disposal groups classified as held for sale

A disposal group is a group of assets and liabilities to be disposed of (by sale or otherwise) in a single transaction. A disposal group is classified as held for sale if it is available for immediate sale in its present condition and its sale is highly probable. Judgement is required to determine if the sale of an investment is highly probable.

Disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Immediately prior to being classified as held for sale, the carrying amounts of assets and liabilities in the disposal group are measured in accordance with the applicable accounting policy. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in the Income Statement.

Assets of disposal groups held for sale are presented in a single line item within Current assets, and Liabilities of disposal groups held for sale are presented in a single line item within Current liabilities. Comparative period information in the Statement of Financial Position has not been re-presented.

Discontinued operations

An investment that meets the criterion to be classified as held for sale (or has been sold) is a discontinued operation if it represents, or is part of a single co-ordinated plan to dispose of, a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are presented in a single line item in the Income Statement for both the current and comparative year.

China Farms

During the year a sales process commenced for the China Farms business, which has advanced to the point that the business met the requirements to be classified as held for sale at 31 January 2020, and continues to do so at 31 July 2020. The divestment of the business also meets the definition of a discontinued operation because it is a separate line of business and a major geographical area of operation. The Group expects to complete the sale within one year of the reporting date.

As a result of the classification of the business as held for sale, the net assets of the business are measured at the lower of carrying value or fair value less costs to sell. The fair value of the China Farms business has been assessed based on information received through the sales process. On initial classification, the fair value was lower than the carrying value of the net assets of the business, which has resulted in an impairment of $63 million.

The Group has reassessed the fair value less costs to sell of the business at 31 July 2020 and no further impairment has been identified.

The China Farms business was previously presented as a separate reportable segment.

At 31 July 2020 the foreign currency translation reserve balance attributable to the China Farms business was a credit balance of $31 million.

Brazil consumer and foodservice business

During the year a sales process commenced for the Brazil consumer and foodservice business which had advanced to the point that the business met the requirements to be classified as held for sale at 31 January 2020. The divestment of the business also meets the definition of a discontinued operation because it is a separate major geographical area of operation. As at 31 July 2020, despite the ongoing impact of the Covid-19 pandemic on the economic environment in Brazil, the Group remains committed to the sale of the business and expects to complete the sale within one year of the reporting date.

As a result of the classification of the business as held for sale, the net assets of the business are measured at the lower of carrying value or fair value less costs to sell. On initial classification, the fair value was lower than the carrying value of the net assets of the business, which has resulted in an impairment of $61 million (after tax), of which $31 million is attributable to Fonterra's equity holders.

The Group has reassessed the fair value less costs to sell of the business at 31 July 2020 and recognised a further write-down of $27 million, of which $14 million is attributable to Fonterra's equity holders.

The fair value of the Brazil consumer and foodservice business has been assessed based on information received through the sales process.

The Brazil consumer and foodservice business was previously included in the AMENA reportable segment.

At 31 July 2020 the foreign currency translation reserve balance attributable to the Brazil consumer and foodservice business was a debit balance of $66 million.

c) Discontinued operations CONTINUED

Financial performance of the discontinued operations

The summarised financial performance of the China Farms and Brazil consumer and foodservice businesses are shown in the table below:

	$ MILLION	
DISCONTINUED OPERATIONS	31 JULY 2020	31 JULY 2019
Revenue from sale of goods	693	665
Cost of goods sold	(531)	(563)
China Farms impairment	(63)	(203)
Gross profit/(loss)	99	(101)
Other operating income	3	17
Total operating expenses and other	(133)	(140)
Brazil consumer and foodservice impairment	(104)	(143)
Loss before net finance costs and tax	(135)	(367)
Net finance costs	(28)	(26)
Loss before tax	(163)	(393)
Tax credit/(expense)	19	(95)
Loss after tax from discontinued operations	(144)	(488)
Non-controlling interests	52	68
Loss after tax attributable to equity holders	(92)	(420)
Movement in exchange differences on translation of discontinued operations	25	8
Other reserve movements	(17)	–
Total comprehensive expense from discontinued operations	(136)	(480)
Net cash inflow/(outflow) from operating activities	77	(6)
Net cash outflow from investing activities	(6)	(34)
Net cash outflow from financing activities	(1)	(48)
Net increase/(decrease) in cash generated by the discontinued operations	70	(88)

Assets and liabilities held for sale

The major classes of assets and liabilities held for sale are shown in the table below:

	$ MILLION
ASSETS AND LIABILITIES HELD FOR SALE	AS AT 31 JULY 2020
Trade receivables	73
Inventory	47
Property, plant and equipment	279
Livestock	253
Intangible assets	140
Other assets	213
Total assets of disposal groups held for sale	1,005
Borrowings	289
Trade and other payables	197
Provisions	55
Other liabilities	62
Total liabilities of disposal groups held for sale	603

As at 31 July 2019, the assets held for sale amount of $229 million related to the Group's investments in Goodminton and DFE Pharma. These investments were sold during the year ended 31 July 2020.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

c) Discontinued operations CONTINUED

China Farms Livestock

As at 31 July 2020, the China Farms livestock balance of $253 million is presented in Assets of disposal groups held for sale. The China Farms livestock balance as at 31 July 2019 was $288 million and is presented in Livestock.

The China Farms livestock balance primarily comprises dairy cows. Livestock is measured at fair value less costs to sell, with any change in fair value recognised in Loss after tax from discontinued operations in the Income Statement.

The China Farms dairy cow herd comprises both young and mature livestock. 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. 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 Loss after tax from discontinued operations.

The quantity of China Farms livestock is presented below:

	HEADCOUNT	
	AS AT 31 JULY 2020	AS AT 31 JULY 2019
Young dairy cows	25,499	27,317
Mature dairy cows	29,710	34,507
Total livestock headcount	55,209	61,824

The value of China Farms livestock is presented below:

	$ MILLION	
	AS AT 31 JULY 2020	AS AT 31 JULY 2019
Opening balance	288	280
Rearing costs of young livestock	38	38
Change in fair value recognised in the Income Statement		
– Change in fair value – birth and growth	8	10
– Change in fair value – price changes	9	4
Subtotal change in fair value	17	14
Disposal of livestock	(82)	(49)
Effect of movements in exchange rates	(8)	5
Closing balance	253	288
Represented by:		
Young dairy cows	96	107
Mature dairy cows	157	181
Total livestock	253	288

The change in fair values of China Farms livestock of $17 million (31 July 2019: $14 million) is reflected in Loss from discontinued operations in the Income Statement.

Valuation techniques and significant unobservable inputs

The fair value of young livestock is determined using a market approach, adjusted to reflect the age of the herd. The fair value of mature dairy cows is determined using a discounted cash flow methodology.

The following table shows the relationship between the significant unobservable inputs and fair value measurement for mature dairy cows:

SIGNIFICANT UNOBSERVABLE INPUTS	VALUE ATTRIBUTED	RELATIONSHIP BETWEEN KEY UNOBSERVABLE INPUTS AND FAIR VALUE MEASUREMENT
Raw milk daily yield	25.5 kg per cow per day (31 July 2019: 25.4 kg per cow per day)	A five per cent increase/(decrease) in the raw milk yield would result in an increase/(decrease) in fair value of $8 million (31 July 2019: $11 million).
Milk price	RMB 3.93 per kg (31 July 2019: RMB 3.78 per kg)	A RMB 0.10 increase/(decrease) in the selling price of milk would result in an increase/(decrease) in fair value of $9 million (31 July 2019: $13 million).
Discount rate	11.0 per cent (31 July 2019: 11.34 per cent)	An increase/(decrease) in the discount rate of 50 basis points would result in a decrease/(increase) in the fair value of $1.3 million (31 July 2019: $1.7 million).

d) Falcon China Farms JV

Fonterra accounts for its interest in the Falcon China Farms JV using the equity method of accounting (refer to Note 18 *Equity accounted investments* for further information about equity accounted investments).

At 31 January 2020, Fonterra's share of losses of the Falcon Farms JV, animal management costs and challenging farm conditions provided indicators of impairment, and an impairment test was performed. Using a value in use model the recoverable amount of the equity investment in the Falcon China Farms JV, after considering the value of the loan receivable, was $5 million, resulting in an impairment of $65 million. The post-tax discount rate applied was 10.1 per cent.

Fonterra's share of the loss of the Falcon China Farms JV for the year to 31 July 2020 was a loss of $12 million (31 July 2019: $19 million).

The Group is committed to providing future funding to the Falcon China Farms JV of up to US$33 million (31 July 2019: US$40 million).

The Group recognises the following balances in relation to the Falcon China Farms JV:

	$ MILLION	
	AS AT 31 JULY 2020	AS AT 31 JULY 2019
Equity accounted investment	–	69
Loan receivable (included within long-term advances)	51	60

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

3 REVENUE FROM SALE OF GOODS

The Group recognises revenue from the sale of products when control of the products transfers to the customer. The amount of revenue recognised reflects the consideration that the Group expects to be entitled for providing the products to the customer.

The Group sells products either directly to customers or through distributors.

For transactions with distributors, judgement is required to assess whether:

– Control of the products passes and therefore revenue is recognised when the products are transferred to the distributor, in which case the distributor is Fonterra's customer; or
– Fonterra retains control of the products after transfer to the distributor, in which case control of the products does not pass until the products reach the customer in the supply chain who does obtain control of the product. In this situation the customer, referred to as the 'end customer' may be a retailer, reseller or food manufacturer. As control of the product does not pass to the distributor, revenue is not recognised until the products are transferred to the end customer.

The assessment of whether control of the products passes to the distributor is a significant judgement. In assessing control the following indicators are considered:

– The ability to direct the use of the product. This includes consideration of who has the primary responsibility for providing the products to the end customer and whether Fonterra can restrict who the distributor sells the product to.
– The transfer of inventory risk and demand risk. This includes consideration of the level of, or allowance for, product returns and who bears the residual risk of product expiry.
– The level of support provided by Fonterra to assist the distributor to on-sell the product. This includes consideration of collaboration on marketing plans, financial support provided by Fonterra through pricing discounts or funding of promotional activity.

Contractual terms vary across markets and sales channels. In most arrangements the contractual terms indicate that the distributor is responsible for providing the products to the end customer and has assumed the inventory risk. Fonterra often retains price risk through the provision of price discounts, funding promotional activity or influence over price setting. In general, these pricing mechanisms impact the amount of revenue recognised by Fonterra rather than indicating control of the products is retained.

In order to conclude on the transfer of control of the products the contract must be assessed in its entirety, along with implied contractual terms based on commercial customary practices.

The transfer of control of the products typically occurs at the following times:

– Ingredient products (export sales) – once the products are loaded onto the ship.
– Ingredient products (domestic sales) – on delivery of the products to the customer's designated location.
– Consumer and foodservice products – on delivery of the products to the customer's designated location.

Revenue is measured as the sales price specified in the contract adjusted for pricing adjustments, trade spend and rebates. Pricing adjustments, trade spend and rebates are recognised as deductions 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 so that it is highly probable that a significant reversal of revenue recognised will not occur.

For export sales the Group sells a significant proportion of its products on terms that include freight and insurance to the destination port. For these sales the Group has a separate performance obligation to arrange freight and insurance services for the customers after the date at which control of the products passes to the customer. As Fonterra does not control the freight and insurance services before those services are transferred to the customer, Fonterra is acting as an agent. Therefore, Fonterra recognises the net agency fee as revenue when freight and insurance services are made available to customers, usually this is when the products are loaded onto the ship.

The Group offers credit terms which are 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.

Revenue is disaggregated by ingredients, foodservice and consumer channels across Fonterra's reportable segments in Note 1b) *Segment reporting*. Sales to distributors where significant judgement is involved in determining the timing of revenue recognition are primarily in the foodservice channel.

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 assured. The Fonterra Farmgate Milk Price Statement sets out information about the Farmgate Milk Price, and how it is calculated. It can be found in the 'Investors/Farmgate Milk Prices' section of Fonterra's website.

Other costs include purchases of other products, raw materials and packing, direct labour costs, depreciation and other costs directly incurred to bring inventory to its final point of sale location.

	GROUP $ MILLION	
	31 JULY 2020	31 JULY 2019 RESTATED
Opening inventory	3,165	2,917
Cost of milk:		
– New Zealand sourced	10,888	9,748
– Non-New Zealand sourced	1,007	966
Other costs	5,444	5,883
Closing inventory	(3,268)	(3,165)
Total cost of goods sold	17,236	16,349

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 2020	31 JULY 2019 RESTATED
Basic and diluted earnings/(loss) per share from continuing operations ($)	0.48	(0.09)
Basic and diluted loss per share from discontinued operations ($)	(0.05)	(0.26)
Basic and diluted earnings/(loss) per share ($)	0.43	(0.35)
Earnings attributable to equity holders of the Co-operative ($ million)	686	(562)
Weighted average number of shares (thousands of shares)	1,612,076	1,611,980

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

6 PROFIT BEFORE NET FINANCE COSTS AND TAX

a) Items included in Profit before net finance costs and tax

The following items have been included in Profit before net finance costs and tax:

	GROUP $ MILLION	
	31 JULY 2020	31 JULY 2019 RESTATED
Operating lease expense recognised in accordance with NZ IAS 17	–	106
Lease related income and expenses recognised in accordance with NZ IFRS 16:		
– Short-term leases	11	–
– Low value leases	4	–
– Variable lease payments	6	–
Depreciation and amortisation expense	613	526
Research and development costs	98	96
Total employee benefits expense	2,074	1,962
Net foreign exchange losses	64	–
Contributions to defined contribution plans included in employee benefits expense	79	80

b) Fees paid to the auditor and network firms

The appointed auditor for the year ended 31 July 2020 is KPMG (31 July 2019: PricewaterhouseCoopers). The Board has overseen compliance with Fonterra's Group Audit Independence Policy. KPMG has not provided any services during the year other than audit and audit-related services.

The following table provides a breakdown of fees paid to the auditor and network firms which are included in Profit/(loss) after tax from continuing and discontinuing operations:

	GROUP $ MILLION	
	31 JULY 2020	31 JULY 2019
Audit and review of the financial statements		
– New Zealand	6.7	7.1
– Network firms of the auditor	2.1	2.0
Total fees for the audit and review of the financial statements	8.8	9.1
Audit-related services		
– Assurance services in respect of the Farmgate Milk Price Statement	0.1	0.1
– Other assurance services	0.1	0.1
Total fees for audit-related services	0.2	0.2
Other services		
– Due diligence support	–	0.6
– Strategic review support	–	0.3
– Other services	–	0.2
Total fees for other services	–	1.1
Total fees paid to auditor	9.0	10.4

DEBT AND EQUITY

This section outlines the Group'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.

a) Co-operative shares, including shares held within the Group

Co-operative shares may only be held by a shareholder supplying milk to Fonterra (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 Fonterra are dependent on milk supply supported by Co-operative shares, these rights are also attached to vouchers when backed by milk supply (subject to limits).

At 31 July 2020 there were 1,612,097,067 Co-operative shares on issue (31 July 2019: 1,611,991,722 shares).

During the year ended 31 July 2020, Fonterra issued 105,345 shares under the Farm Source Rewards scheme (31 July 2019: 68,806 shares).

The rights attaching to Co-operative shares are set out in Fonterra's Constitution, available in the 'Our Co-operative/Governance and Management' section of Fonterra's website.

b) 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 2020, 104,581,516 Co-operative shares (31 July 2019: 102,934,582) were legally owned by the Custodian, on trust for the benefit of the Fund.

During the year ended 31 July 2020, Fonterra issued 17,298,927 units (31 July 2019: 17,769,331 units) and surrendered 15,651,993 units (31 July 2019: 26,258,352 units).

The rights attaching to units are set out in the Fonterra Shareholders' Fund 2020 Annual Report, available in the 'Investors/Fonterra Shareholder's Fund' section of Fonterra's website.

c) 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 the 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 New Zealand Exchange Limited (NZX) or Australian Securities Exchange (ASX).

The Group provides returns to farmer shareholders through a milk price, and to equity holders through dividends and changes in Fonterra'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. As at 31 July 2020, the Actual Fund Size relative to total Fonterra shares on issue was below the target range specified in the Fund Size Risk Management Policy. The Group has taken no specific actions to address this as it expects the Fund size to increase over time as Fonterra's performance improves.

d) Market capitalisation

At 31 July 2020, Fonterra's share and unit prices were below the book value of the Group's consolidated net assets. Fonterra determined that this was not an indicator of impairment and did not require further impairment testing for all, or for further components of Fonterra's business. This determination considered Fonterra's view that the share and unit price does not fully reflect the fair value of Fonterra's business as a whole. A key factor is that Fonterra shares and units trade without a full control premium.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

8 DIVIDENDS

All Co-operative shares, including those held by the Custodian, are eligible to receive dividends if declared by the Board.

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 2020 (31 July 2019: nil).

Dividends declared after balance date

On 17 September 2020, the Board declared a final dividend of 5 cents per share, to be paid on 15 October 2020 to all Co-operative shares on issue at 25 September 2020.

Fonterra has a Dividend Reinvestment Plan, where eligible shareholders can choose to reinvest all or part of their future dividend in additional Co-operative shares. The Dividend Reinvestment Plan applies to this dividend. Participation in the Dividend Reinvestment Plan requires shareholders to submit an election notice for participation by 28 September 2020. Full details of the Dividend Reinvestment Plan are available in the 'Investors/Dividends' section of Fonterra's website.

9 BORROWINGS

The Group borrows in the form of bonds, bank facilities and other financial instruments. The Group also recognises lease liabilities within borrowings. The interest expense incurred on the Group's borrowings is shown in Note 10 *Net finance costs*.

Borrowings (excluding lease liabilities) 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*.

Lease liabilities are recognised at the commencement date of the lease as the present value of the lease payments over the lease term. The lease payments include the exercise price of a purchase option where the Group is reasonably certain to exercise the option.

The lease payments are discounted using the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease term is the non-cancellable period, plus renewal options if they are reasonably certain to be exercised. Once a lease has commenced, the Group will only reassess the lease term on the occurrence of a significant event or change in circumstance that is within its control and affects its ability to exercise, or not exercise, an option not previously included in the lease term.

a) Economic net interest-bearing debt

Economic net interest-bearing debt reflects the carrying value of the Group's net interest-bearing debt after incorporating the effect of debt hedging in place at balance date.

	GROUP $ MILLION	
	AS AT 31 JULY 2020	AS AT 31 JULY 2019 RESTATED
Net interest-bearing debt position		
Total borrowings	6,041	6,555
Cash and cash equivalents	(788)	(550)
Interest-bearing advances	(220)	(142)
Bank overdraft	31	34
Net interest-bearing debt	5,064	5,897
Value of derivatives used to manage changes in hedged risks on debt instruments	(405)	(148)
Economic net interest-bearing debt	4,659	5,749

a) Economic net interest-bearing debt CONTINUED

Total borrowings are represented by:

	GROUP $ MILLION								
	BALANCE AS AT 1 AUGUST 2019	PROCEEDS	NEW LEASE CONTRACTS	REPAYMENTS	FOREIGN EXCHANGE MOVEMENT	CHANGES IN FAIR VALUES	TRANSFERRED TO LIABILITIES OF DISPOSAL GROUPS HELD FOR SALE	OTHER	BALANCE AS AT 31 JULY 2020
Commercial paper	259	333	–	(594)	–	–	–	2	–
Bank loans	619	1,953	–	(2,186)	(88)	–	(278)	–	20
Lease liabilities[1]	652	–	123	(161)	–	–	(11)	1	604
Capital notes[2]	35	–	–	–	–	–	–	–	35
NZX-listed bonds	600	–	–	–	–	–	–	–	600
Medium-term notes	4,971	–	–	(440)	87	165	–	(1)	4,782
Total borrowings[3]	7,136	2,286	123	(3,381)	(1)	165	(289)	2	6,041

	GROUP $ MILLION						
	BALANCE AS AT 1 AUGUST 2018 RESTATED	PROCEEDS	REPAYMENTS	FOREIGN EXCHANGE MOVEMENT	CHANGES IN FAIR VALUES	OTHER	BALANCE AS AT 31 JULY 2019 RESTATED
Commercial paper	304	1,219	(1,271)	–	–	7	259
Bank loans	1,128	2,574	(3,087)	4	–	–	619
Finance leases recognised in accordance with NZ IAS 17[1]	131	–	(60)	–	–	–	71
Capital notes[2]	35	–	–	–	–	–	35
NZX-listed bonds	500	100	–	–	–	–	600
Medium-term notes	4,659	393	(271)	(27)	214	3	4,971
Total borrowings[3]	6,757	4,286	(4,689)	(23)	214	10	6,555

1 From 1 August 2019 this amount includes leases recognised following the adoption of NZ IFRS 16 Leases. For details on the impact of the change in the lease accounting refer to Note 27 *Impact of transition to NZ IFRS 16 Leases*.
2 Capital notes are unsecured subordinated borrowings.
3 All borrowings other than lease liabilities and capital notes are unsecured and unsubordinated.

	GROUP $ MILLION	
	AS AT 31 JULY 2020	AS AT 31 JULY 2019 RESTATED
Included in the Statement of Financial Position as follows:		
Total current borrowings	764	1,175
Total non-current borrowings	5,277	5,380
Total borrowings[1]	6,041	6,555

1 The 31 July 2020 balance excludes $289 million of borrowings directly attributable to the China Farms and Brazil consumer and foodservice businesses. These borrowings are presented in Liabilities of disposal groups held for sale (refer Note 2c). Borrowings directly attributable to China Farms and Brazil consumer and foodservice businesses at 31 July 2019 were $339 million and have not been re-presented.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

b) Leverage ratios

The Board closely monitors the Group's leverage ratios. The primary ratios monitored by the Board are as follows.

Debt payback

The main debt payback ratio, Debt to EBITDA, is a key ratio considered by the credit rating agencies when determining Fonterra's credit rating. Debt to EBITDA is calculated as Total borrowings, plus bank overdraft, plus the effect of debt hedging, less a cash allowance of 75% of Cash and cash equivalents, divided by normalised earnings before interest, tax, depreciation and amortisation (normalised EBITDA) excluding Share of loss/profit of equity accounted investees and net foreign exchange losses/gains. Both Debt and EBITDA are adjusted to include amounts relating to businesses classified as held for sale. The debt payback ratio as at 31 July 2020 was 3.4x (31 July 2019: 4.4x). The Board approved Debt Policy determines a long-term target Debt to EBITDA payback ratio range of 2.5x to 3.0x.

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 2020 was 41.4 per cent (31 July 2019: 48.5 per cent).

The Group is not subject to externally imposed capital requirements.

c) 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 Fonterra's constitution, Fonterra 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. The Group'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 $3,210 million (31 July 2019: $3,149 million).

Liquidity and refinancing risks are also managed by ensuring that the Group can maintain access to funding markets throughout the world. To that end, the Group maintains debt issuance programmes in a number of key markets and manages relationships with international investors.

The concentration of NZX-listed bonds and medium-term notes by currency is shown below:

	GROUP $ MILLION	
	AS AT 31 JULY 2020	AS AT 31 JULY 2019
New Zealand Dollar	1,020	1,163
Australian Dollar	1,359	1,295
United States Dollar	1,699	1,631
British Pound	502	485
European Euro	632	602
Chinese Renminbi	170	395
Total	5,382	5,571

c) Liquidity risk 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 2020					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	3 MONTHS OR LESS	3–12 MONTHS	1–5 YEARS	MORE THAN 5 YEARS
Non-derivative financial liabilities						
Borrowings						
– Bank loans	(20)	(21)	(4)	(10)	(7)	–
– Lease liabilities	(604)	(611)	(27)	(79)	(292)	(213)
– Capital notes	(35)	(39)	–	(1)	(3)	(35)
– NZX-listed bonds	(600)	(665)	(11)	(15)	(537)	(102)
– Medium-term notes	(4,782)	(5,253)	(27)	(792)	(2,386)	(2,048)
Bank overdraft	(31)	(31)	(31)	–	–	–
Owing to suppliers	(1,588)	(1,588)	(1,588)	–	–	–
Trade and other payables (excluding employee entitlements)	(1,683)	(1,683)	(1,683)	–	–	–
Other financial liabilities	(80)	(80)	(8)	(16)	(55)	(1)
Financial guarantees issued[1]	–	(1)	(1)	–	–	–
Total non-derivative financial liabilities	(9,423)	(9,972)	(3,380)	(913)	(3,280)	(2,399)
Derivative financial instruments						
Gross settled derivatives						
– Inflow		20,938	9,667	7,368	2,290	1,613
– Outflow		(20,334)	(9,600)	(7,106)	(2,286)	(1,342)
Total gross settled derivative financial instruments	636	604	67	262	4	271
Net settled derivatives	(116)	(81)	(23)	(36)	(47)	25
Total financial liabilities and derivatives	(8,903)	(9,449)	(3,336)	(687)	(3,323)	(2,103)

1 Maximum cash flows under guarantees provided by the Group.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

c) Liquidity risk CONTINUED

	GROUP $ MILLION AS AT 31 JULY 2019 RESTATED					
	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 recognised in accordance with NZ IAS 17	(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[1]	(4,971)	(5,979)	(32)	(606)	(2,335)	(3,006)
Bank overdraft	(34)	(34)	(34)	–	–	–
Owing to suppliers	(1,534)	(1,534)	(1,534)	–	–	–
Trade and other payables (excluding employee entitlements)	(1,914)	(1,914)	(1,914)	–	–	–
Other financial liabilities	(81)	(82)	(10)	(15)	(57)	–
Financial guarantees issued[2]	–	(1)	(1)	–	–	–
Total non-derivative financial liabilities	(10,118)	(11,263)	(3,890)	(1,025)	(3,198)	(3,150)
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 liabilities and derivatives	(10,382)	(11,572)	(3,987)	(1,182)	(3,553)	(2,850)

1 Comparatives have been restated to ensure consistency with the current year presentation.
2 Maximum cash flows under guarantees provided by the Group.

d) Lease liabilities

Total lease liabilities included within borrowings in the Statement of Financial Position are shown below:

	GROUP $ MILLION AS AT 31 JULY 2020
Current lease liabilities	104
Non-current lease liabilities	500
Total lease liabilities	604

During the year, total cash payments for leases were $201 million.

In addition to the lease liability recognised, the Group's lease arrangements include renewal options, termination options and residual guarantees that have been assessed as unlikely to result in cash payments.

As at 31 July 2020, the Group has entered into a number of lease arrangements that have not yet commenced. The total lease liability that will be recognised on commencement of these leases in the next 12 months is $3 million.

There has been no change in the Group's funding strategy that would result in a significantly different profile of short-term or low-value leases.

10 NET FINANCE COSTS

Interest income and expense is recognised on an accrual basis in the Income Statement, 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*.

	GROUP $ MILLION 31 JULY 2020	31 JULY 2019 RESTATED
Finance income	13	15
Total interest expense[1,2]	(354)	(388)
Changes in fair value relating to:		
– Borrowings designated in a hedge relationship	(158)	(201)
– Derivatives designated in a hedge relationship	199	194
– Derivatives where hedge accounting has not been applied	(4)	(12)
Total interest income/(expense) from fair value movements	37	(19)
Finance costs	(317)	(407)
Net finance costs	(304)	(392)

1 Includes interest expense of $4 million (31 July 2019: $9 million) relating to derivatives where hedge accounting has not been applied.
2 Includes interest expense relating to leases of $23 million recognised in accordance with NZ IFRS 16 *Leases* (31 July 2019: $8 million recognised in accordance with NZ IAS 17 *Leases*). For details on the impact of the change in the lease accounting on recognition of lease liabilities refer to Note 27 *Impact of transition to NZ IFRS 16 Leases*.

Interest rate risk

Details of how the Group manages interest rate risk are included in Note 19 *Financial risk management*.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

WORKING CAPITAL

This section provides information about the primary elements of the Group's working capital. Working capital represents the short-term operating assets and liabilities generated by the Group. 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 products sold and services provided. Trade receivables are recognised initially at their transaction price 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 recognises a provision for impairment on trade receivables based on the lifetime expected credit loss at each reporting date.

	GROUP $ MILLION	
	AS AT 31 JULY 2020	AS AT 31 JULY 2019 RESTATED
Trade receivables	1,623	1,730
Less: provision for impairment of trade receivables	(12)	(24)
Trade receivables net of provision for impairment	1,611	1,706
Receivables from related parties	24	25
Other receivables	140	93
Total receivables	1,775	1,824
Prepayments	57	47
Total trade and other receivables	1,832	1,871

Amounts received in advance from customers of $32 million (31 July 2019: $28 million) have been recognised in trade and other payables.

The Group has a receivables management programme. At 31 July 2020 the Group's exposure was $18 million, which reflects the first loss component of amounts managed at balance date.

Refer to Note 22 *Related party transactions* for details 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 2020	1,557	100	46	72	1,775
As at 31 July 2019	1,553	145	85	41	1,824

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 2020	AS AT 31 JULY 2019 RESTATED
Raw materials	626	678
Finished goods	2,693	2,522
Less: provision for impairment of inventories	(51)	(35)
Total inventories	3,268	3,165

13 TRADE AND OTHER PAYABLES

Trade and other payables are recognised at the amount invoiced by the supplier. Due to their short-term nature, they are not discounted. Amounts owing to farmer shareholders and New Zealand contract milk suppliers are recognised in Owing to Suppliers (refer to Note 14 *Owing to suppliers*).

	GROUP $ MILLION	
	AS AT 31 JULY 2020	AS AT 31 JULY 2019 RESTATED
Trade payables	1,526	1,753
Amounts due to related parties	29	31
Other payables	128	130
Total trade and other payables (excluding employee entitlements)	1,683	1,914
Employee entitlements	321	193
Total trade and other payables	2,004	2,107

Refer to Note 22 *Related party transactions* for details of payables to related parties.

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 2020	AS AT 31 JULY 2019
Owing to suppliers ($ million)	1,588	1,534
Details relating to the season ended 31 May are shown below:		
Farmgate Milk Price[1] (per kgMS)	$7.14	$6.35
– Total advance payments made during the year	$6.15	$5.40
– Total owing as at 31 July	$0.99	$0.95
Amount advanced during the year as a percentage of the milk price	86%	85%

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 Fonterra's website.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

LONG-TERM ASSETS

This section provides information about the investments the Group 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 non-physical assets such as right-of-use assets, 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: *Right-of-use assets*

Note 17: *Intangible assets*

15 PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are measured at cost less accumulated depreciation and any 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 — 2–55 years
- Plant, vehicles and equipment — 2–50 years

	GROUP $ MILLION				
	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	PLANT, VEHICLES AND EQUIPMENT	CAPITAL WORK IN PROGRESS	TOTAL
As at 31 July 2020					
Cost	357	2,576	8,145	316	11,394
Accumulated depreciation and impairment	–	(1,053)	(4,335)	–	(5,388)
Net book value at 31 July 2020	357	1,523	3,810	316	6,006
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

15 PROPERTY, PLANT AND EQUIPMENT CONTINUED

	GROUP $ MILLION				
	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	PLANT, VEHICLES AND EQUIPMENT	CAPITAL WORK IN PROGRESS	TOTAL
Net book value					
As at 1 August 2019	354	1,765	4,098	295	6,512
Finance leases transferred to Right-of-use assets[1]	(5)	(42)	(9)	–	(56)
Adjusted balance as at 1 August 2019	349	1,723	4,089	295	6,456
Additions[2]	–	–	6	364	370
Transferred from Right-of-use assets	5	38	4	–	47
Transferred from capital work in progress	7	55	274	(336)	–
Depreciation charge	–	(92)	(330)	–	(422)
Impairment[3]	–	(46)	(50)	–	(96)
Disposals	(3)	(3)	(28)	(1)	(35)
Transferred to Assets of disposal groups held for sale	(1)	(135)	(138)	(5)	(279)
Foreign currency translation	–	(17)	(17)	(1)	(35)
As at 31 July 2020	357	1,523	3,810	316	6,006
Net book value					
As at 1 August 2018	354	1,745	3,990	721	6,810
Additions[2]	5	20	75	483	583
Transferred from capital work in progress	30	236	603	(869)	–
Depreciation charge	–	(97)	(361)	–	(458)
Impairment	–	(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

1 On the adoption of IFRS 16 *Leases*, finance leases included in property, plant and equipment were transferred to Right-of-use assets. For further details on the impact of the change in lease accounting refer to Note 27 *Impact of transition to NZ IFRS 16 Leases*.

2 Additions include borrowing costs of $3 million (2019: $6 million) capitalised using a weighted average interest rate of 5.24 per cent (2019: 5.21 per cent).

3 Impairment of $89 million relates to building and leasehold improvements and plant, vehicles and equipment of the China Farms and Brazil consumer and foodservice businesses which have been transferred to Assets of disposal groups held for sale.

New Zealand Ingredients manufacturing assets

Fonterra's New Zealand Ingredients manufacturing sites are utilised as a single network for processing raw milk supply, including meeting peak milk processing requirements. The Group considers there are no indicators of impairment for Fonterra's New Zealand Ingredients manufacturing sites.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

16 RIGHT-OF-USE ASSETS

Right-of-use assets are initially measured at cost, less any accumulated depreciation and any impairment losses. Cost is calculated as the initial amount of the lease liability plus any initial direct costs incurred and an estimate of costs required to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located.

Right-of-use assets are depreciated on a straight-line basis over the lease term, unless the useful life of the asset is less than the lease term or if the Group will own the asset at the end of the lease term, in which situations the right-of-use asset is depreciated over the useful life of the asset, which is determined on the same basis as those of property, plant and equipment. Right-of-use assets are also adjusted for any impairment losses and certain remeasurements of the lease liability.

The Group enters into lease arrangements for land and buildings with options for renewal that typically run for a period of three to ten years, however some property leases can run up to a period of 50 years. Lease payment changes are renegotiated at periods specified in the lease contracts, and are usually based on local price indices or market rental rates.

Leases for plant, vehicles and equipment typically run for a period of two to five years.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. These lease costs are recognised as an expense as incurred.

Information about Right-of-use assets from leases for which the Group is a lessee is presented below:

	GROUP $ MILLION	
	NET BOOK VALUE AS AT 31 JULY 2020	DEPRECIATION CHARGE FOR THE YEAR ENDED 31 JULY 2020
Land	24	2
Buildings	383	62
Plant, vehicles and equipment	162	42
Total	569	106

Additions to Right-of-use assets during the year were $124 million.

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. Goodwill is initially recognised at cost and subsequently measured at cost less accumulated impairment losses. Goodwill is not amortised.

Brands

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. 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 are not amortised. They are subsequently measured at cost less any impairment losses.

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 are amortised on a straight-line basis over their estimated useful lives (three to 14 years).

Impairment testing

Goodwill and indefinite life brands are tested for impairment annually, or more frequently if there is an indicator of impairment.

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 are tested for impairment when an indicator of impairment exists.

A cash-generating unit (CGU) is tested for impairment when there are indicators of impairment. 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. The value in use calculation requires the Group to estimate future cash flows, pre-tax discount rates and terminal growth rates. 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.

	GROUP $ MILLION					
	GOODWILL	BRANDS	SOFTWARE	SOFTWARE WIP	OTHER	TOTAL INTANGIBLES
As at 31 July 2020						
Cost	854	1,424	1,527	40	78	3,923
Accumulated amortisation and impairment	(317)	(177)	(1,173)	–	(16)	(1,683)
Net book value at 31 July 2020	537	1,247	354	40	62	2,240
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

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

17 INTANGIBLE ASSETS CONTINUED

	GROUP $ MILLION					
	GOODWILL	BRANDS	SOFTWARE	SOFTWARE WIP	OTHER	TOTAL INTANGIBLES
Net book value						
As at 1 August 2019	561	1,544	402	36	54	2,597
Additions	–	–	1	51	13	65
Transferred from work in progress	–	–	44	(44)	–	–
Amortisation	–	–	(97)	–	(2)	(99)
Impairment	(21)	(85)	–	–	–	(106)
Impairment reversal	–	–	3	–	–	3
Disposals	–	–	(1)	(3)	(3)	(7)
Transferred to assets of disposal groups held for sale	–	(140)	–	–	–	(140)
Foreign currency translation	(3)	(72)	2	–	–	(73)
As at 31 July 2020	537	1,247	354	40	62	2,240
Net book value						
As at 1 August 2018	1,081	1,638	396	96	16	3,227
Additions	–	–	2	78	40	120
Transferred from work in progress	–	–	138	(138)	–	–
Amortisation	–	–	(101)	–	(2)	(103)
Impairment	(327)	(4)	(29)	–	–	(360)
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

Amortisation is recognised in Other operating expenses in the Income Statement.

Reconciliation of impairment of intangible assets in the above table to the amount reported in the Income Statement:

GROUP $ MILLION	FOR THE YEAR ENDED 31 JULY 2020
Net impairment of intangible assets	103
Brazil consumer and foodservice business brand impairment included in Loss after tax from discontinued operations	(48)
Impairment of intangible assets not included in strategic review	55

17 INTANGIBLE ASSETS CONTINUED

Goodwill and indefinite life brands

As described in Note 1 *Segment reporting* the Group's reportable segments for the year ended 31 July 2020 have changed from the prior year reportable segments. The change in reportable segments has led to a reconsideration of the Group's CGUs.

The allocation of goodwill and brands across the Group's reportable segments as at 31 July 2020 are shown in the table below:

	GROUP $ MILLION		
	AS AT 31 JULY 2020		
	GOODWILL	BRANDS	TOTAL
Asia Pacific reportable segment			
– New Zealand consumer and foodservice CGU	229	283	512
– Australia CGU	134	148	282
– Asia brands	–	674	674
– NZMP brand	–	120	120
AMENA reportable segment			
– Chile CGU	101	22	123
Other CGUs	73	–	73
Total	537	1,247	1,784

The allocation of goodwill and brands across the Group's reportable segments as at 31 July 2019 are shown in the table below:

	GROUP $ MILLION		
	AS AT 31 JULY 2019		
	GOODWILL	BRANDS	TOTAL
Ingredients CGUs	67	120	187
Consumer and Foodservice CGUs			
– Australia	128	148	276
– New Zealand	250	283	533
– Asia	5	718	723
– Brazil	–	250	250
– Chile	111	25	136
Total	561	1,544	2,105

Impairment testing of goodwill and indefinite life brands

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 that CGU.

Cash flows are based on approved forecasts which are consistent with the Board approved strategy. Cash flows do not exceed five years. The forecasts include assumptions made about the potential future impacts of the Covid-19 pandemic. Cash flow projections have been adjusted to reflect a range of possible outcomes, weighted by their expected occurrence.

Discount rates are based on external data where possible.

All brands recognised in the table above have indefinite lives (this was the same as at 31 July 2019).

The impairment tests performed for the Australia CGU, the Chile CGU, NZMP brand and Other CGUs have not resulted in any impairment. A reasonable possible change in key assumptions would not result in impairment.

The following impairment tests have resulted in an impairment or limited headroom between the carrying amount and recoverable amount.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

a) New Zealand consumer and foodservice business

The recoverable amount of the New Zealand consumer and foodservice business was assessed to be $699 million. This was lower than the carrying value of the business, resulting in an impairment of the goodwill attributed to the business of $21 million (31 July 2019: $185 million).

The New Zealand consumer and foodservice business earnings for the year ended 31 July 2020 were above the amounts forecast in the 2019 impairment test. However, expectations of future growth are lower than they were 12 months ago, driven by uncertainty about future long-term growth in the domestic and global economy.

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 model uses a five-year cash flow forecast based on the three-year business plan approved by the Board. Cash flows for years four and five have been prepared based on growth expectations for the business.

The key drivers for the business to achieve its performance targets are to continue to deliver productivity gains and to effectively manage operational costs.

The long-term growth rate applied to the future cash flows after year five of the forecast was 1.5 per cent (31 July 2019: 2.7 per cent). This reflects the expected long-term economic growth rate for New Zealand.

The post-tax discount rate was 7.4 per cent (31 July 2019: 8.1 per cent). The pre-tax discount rate was 9.77 per cent (31 July 2019: 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 productivity savings (manufacturing and supply chain efficiencies) (by year five)	$17 million	An increase/(decrease) in productivity savings of $3 million results in an increase/(decrease) in the recoverable amount of $30 million.
Long-term growth rate	1.5 per cent	An increase/(decrease) in the long-term growth rate of 0.5 of a per cent would result in an increase/(decrease) in the recoverable amount of $49 million/($42 million).
Discount rate (post-tax)	7.4 per cent	An increase/(decrease) in the discount rate of 0.5 of a per cent would result in a (decrease)/increase in the recoverable amount of ($59 million)/$69 million.

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

b) Asia brands

Asia brands represent the Group's trademarks and other intellectual property in territories outside of New Zealand and Australia, relating to Anchor, Anmum, Anlene and Chesdale.

The relief from royalty method has been used to calculate the recoverable amounts of the Asia brands. This reflects a change from the year ended 31 July 2019, where the recoverable amounts were determined using the present value of future cash flows expected to be derived from the brand. The relief from royalty methodology is a value in use calculation which determines the recoverable amount by calculating the present value of what a licensee would theoretically pay as a royalty to use the brands. The royalty rates applied in the calculation are determined based on comparable market data and range from two to seven per cent. The key assumption used in the relief from royalty method is forecast sales growth. The value attributed to the assumption is based on the business forecasts over the five-year period.

For the Asia brands other than Chesdale, the five-year compound annual growth rates used in the valuation model range from five to nine per cent and the range of discount rates (post tax) that have been applied in the valuation model range from five to 22 per cent (31 July 2019: nine to 16 per cent), country dependent. The recoverable amount of these brands is in excess of the carrying amount and reasonably possible changes in assumptions would not result in elimination of the headroom.

Chesdale brand

The recoverable amount of the Chesdale brand was assessed to be $28 million. This was lower than the carrying value of the brand, resulting in an impairment of $36 million.

The impairment is a result of a reduction in forecast attributable to the brand.

As the brand is sold across a number of markets, all with different characteristics, the range of post-tax discount rates applied was six to 13 per cent (31 July 2019: eight to 14 per cent). The range of pre-tax discount rates was seven to 18 per cent (31 July 2019: 10 to 18 per cent).

The key assumption used in the model is the ability of the business to meet forecast sales levels. The model uses a five-year compound annual growth rate of two per cent, reflecting the business forecasts over the five-year period.

The fair value less costs to dispose of the Chesdale brand is not considered to be materially different than the relief from royalty calculation.

INVESTMENTS

This section provides information about the Group'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 after adjustments to align to the accounting policies of the Group. 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 the Statement of 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 performs an impairment test and recognises any impairment in the Income Statement.

Carrying amounts

The Group holds investments in a number of joint ventures and associates, none of which are individually material. 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 2020	AS AT 31 JULY 2019	AS AT 31 JULY 2020	AS AT 31 JULY 2019	AS AT 31 JULY 2020	AS AT 31 JULY 2019
Carrying amount of investment	1	1	95	201	96	202
(Loss)/profit from continuing operations	–	(4)	(6)	29	(6)	25
Other comprehensive expense	–	–	(6)	–	(6)	–
Total comprehensive (expense)/income	–	(4)	(12)	29	(12)	25

The Group has provided financial guarantees and is committed to providing further funding contributions to certain equity accounted investees, as set out in Note 22 *Related party transactions*.

There are no contingent liabilities relating to the Group's interests in joint ventures or equity accounted investees.

Further information about transactions between the Group and equity accounted investees and outstanding balances at year end is provided in Note 22 *Related party transactions*.

Falcon China Farms JV

Refer to Note 2d) *Strategy review update* for information about the impairment of the Group's investment in Falcon China Farms JV.

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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 and how these risks are managed is presented below:

FINANCIAL RISK	DESCRIPTION	MANAGEMENT OF RISK
Market risks		
Foreign exchange risk (Section a)	Impact from changes in foreign exchange rates	*Foreign currency transactions* For foreign currency transactions, the Group uses foreign currency forward contracts and foreign currency options to manage foreign exchange risk. *Foreign operations* For investments in foreign operations, the Group uses foreign currency denominated borrowings and foreign currency swaps to manage foreign exchange risk. *Foreign currency denominated borrowings* 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.
Other risks		
Credit risk (Section d)	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 and Note 9)	The Group's capital structure	The Group actively manages its capital structure and monitors leverage and coverage ratios. The Fonterra Shareholders' Fund removes the redemption risk associated with Co-operative shares.

The following disclosures included in this note relate to the Group's financial risk management:

DISCLOSURE ITEM	DESCRIPTION
Impact to reserves in equity (Section e)	Movements in the Group's hedge reserves and foreign currency translation reserve.
Income Statement impact from derivatives not designated in a hedge relationship (Section f)	Movements recognised in the Income Statement from changes in the fair value of derivatives not designated in a hedge relationship.

19 FINANCIAL RISK MANAGEMENT CONTINUED

Derivative financial instruments and hedge accounting

Derivatives are measured at fair value. Refer to Note 24 *Fair value measurement* 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 in the Statement of 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 the Statement of 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 2020

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 date of each respective transaction. 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 certain non-current advances to companies within the Group or 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 $5,240 million (31 July 2019: $5,011 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 $4,615 million (31 July 2019: $4,925 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 foreign currency 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.

Hedge ineffectiveness arises if the amount of the forecast transactions falls below the amount of the designated hedging instruments.

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:

	GROUP $ MILLION							
	AS AT 31 JULY 2020[1]					YEAR ENDED 31 JULY 2020[2]		
		CARRYING AMOUNT				HEDGE EFFECTIVENESS IN RESERVES		HEDGE INEFFECTIVENESS
HEDGING INSTRUMENT USED	NOMINAL AMOUNT[3]	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	ACCUMULATED COST OF HEDGING	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	RECOGNISED IN OTHER COMPREHENSIVE INCOME (GAIN)/LOSS	RECLASSIFIED TO THE INCOME STATEMENT (GAIN)/LOSS[4]	RECOGNISED IN INCOME STATEMENT GAIN/(LOSS)
Cash flow hedging								
Foreign currency forwards and options								
Maturity: 0-18 months Weighted average NZD:USD rate: 0.6427	8,000	429	(45)	6	359	(16)	460	(61)
Maturity: 0-12 months Weighted average USD:RMB rate: 7.115	798	2	(2)	(1)	–	4	(5)	–
Total	8,798	431	(47)	5	359	(12)	455	(61)

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 from sale of goods.

a) Foreign exchange risk CONTINUED

	GROUP $ MILLION							
	AS AT 31 JULY 2019[1]					YEAR ENDED 31 JULY 2019[2]		
		CARRYING AMOUNT				HEDGE EFFECTIVENESS IN RESERVES		HEDGE INEFFECTIVENESS
HEDGING INSTRUMENT USED	NOMINAL AMOUNT[3]	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	ACCUMULATED COST OF HEDGING	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	RECOGNISED IN OTHER COMPREHENSIVE INCOME (GAIN)/LOSS	RECLASSIFIED TO THE INCOME STATEMENT (GAIN)/LOSS[4]	RECOGNISED IN INCOME STATEMENT GAIN/(LOSS)
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 from sale of goods.

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:

	GROUP $ MILLION				
	AS AT 31 JULY 2020			YEAR ENDED 31 JULY 2020	
	CARRYING AMOUNT		NOMINAL AMOUNT[1]	HEDGE EFFECTIVENESS	
HEDGED NET INVESTMENTS AND HEDGING INSTRUMENTS USED	AMOUNT OF NET INVESTMENT HEDGED[2]	FOREIGN CURRENCY BORROWINGS	FOREIGN CURRENCY SWAPS[3]	NET INVESTMENT GAIN/(LOSS) RECOGNISED IN OTHER COMPREHENSIVE INCOME	BORROWINGS/SWAPS GAIN/(LOSS) RECOGNISED IN OTHER COMPREHENSIVE INCOME
Net investment hedging					
United States Dollar-denominated Maturity of borrowings: 11 months	75	(75)	–	3	(3)
Australian Dollar-denominated Maturity of borrowings: 11-88 months	516	(516)	–	17	(17)
Euro-denominated Maturity of borrowings: 52 months	171	(171)	–	8	(8)
Chinese Renminbi-denominated Maturity of borrowings: 60 months Maturity of swaps: 3 months	229	(170)	(59)	–	–
Total	991	(932)	(59)	28	(28)

1 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.
2 The carrying amount of the net investment designated into a net investment hedge relationship.
3 The carrying amount of foreign currency swaps at balance date was $1 million and is presented within derivative assets.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

a) Foreign exchange risk CONTINUED

	GROUP $ MILLION				
	AS AT 31 JULY 2019			YEAR ENDED 31 JULY 2019	
	CARRYING AMOUNT		NOMINAL AMOUNT[1]	HEDGE EFFECTIVENESS	
HEDGED NET INVESTMENTS AND HEDGING INSTRUMENTS USED	AMOUNT OF NET INVESTMENT HEDGED[2]	FOREIGN CURRENCY BORROWINGS	FOREIGN CURRENCY SWAPS[3]	NET INVESTMENT GAIN/(LOSS) RECOGNISED IN OTHER COMPREHENSIVE INCOME	BORROWINGS/SWAPS GAIN/(LOSS) RECOGNISED IN OTHER COMPREHENSIVE INCOME
Net investment hedging					
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 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.
2 The carrying amount of the net investment designated into a net investment hedge relationship.
3 The carrying amount of foreign currency swaps at balance date was $1 million and was presented within derivative assets.

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 offset 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 amount and maturity of the CCIRS and the hedged debt is aligned to ensure that the hedge relationship remains effective, with any undesignated costs of hedging accounted for separately. 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 in relation to CCIRS that have been designated in hedge relationships after their initial recognition, or from changes in counterparty credit risk and cross currency basis spreads.

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:

	GROUP $ MILLION								
	AS AT 31 JULY 2020[1]					YEAR ENDED 31 JULY 2020[2]			
		CARRYING AMOUNT[3]				HEDGE EFFECTIVENESS IN RESERVES		HEDGE EFFECTIVENESS	HEDGE INEFFECTIVENESS
HEDGING INSTRUMENTS USED	NOMINAL AMOUNT	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	ACCUMULATED COST OF HEDGING	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	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									
Cross-currency interest rate swaps									
USD	1,184	380	–	(3)	398	(4)	5	136	(2)
Maturity: 74-121 months Weighted average interest rate: floating Weighted average NZD:USD rate: 0.7604									
GBP	623	61	(232)	–	(107)	29	(12)	20	3
Maturity: 41 months Weighted average interest rate: floating Weighted average NZD:GBP rate: 0.3610									
EUR	386	61	–	(9)	73	31	(29)	–	–
Maturity: 52 months Weighted average interest rate: floating Weighted average NZD:EUR rate: 0.6560									
Fair value hedging									
Cross-currency interest rate swaps									
USD	31	8	–	–	8	NA	NA	–	–
Maturity: 11 months Weighted average interest rate: floating Weighted average NZD:USD rate: 0.8160									
Total		510	(232)	(12)	372	56	(36)	156	1

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 $322 million.
4 Recognised in Net finance costs and Other operating expenses.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

a) Foreign exchange risk CONTINUED

	GROUP $ MILLION								
	AS AT 31 JULY 2019[1] RESTATED					YEAR ENDED 31 JULY 2019[2] RESTATED			
		CARRYING AMOUNT[3]				HEDGE EFFECTIVENESS IN RESERVES		HEDGE EFFECTIVENESS	HEDGE INEFFECTIVENESS
HEDGING INSTRUMENTS USED	NOMINAL AMOUNT	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	ACCUMULATED COST OF HEDGING	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	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									
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)	–	(145)	(13)	16	(15)	(1)
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									
Cross-currency interest rate swaps									
USD	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)	176	(25)	28	156	(3)

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 $179 million.
4 Recognised in Net finance costs and Other operating expenses.

Receivables and payables denominated in foreign currency

The Group enters into foreign currency forward contracts and foreign currency options for 100 per cent of its 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 offset to the changes in the value of foreign currency receivables and payables recognised in the Income Statement. These are recognised within Other operating expenses in the Income Statement.

a) Foreign exchange risk CONTINUED

Net foreign exchange losses in the Income Statement

The table below provides a breakdown of the net foreign exchange losses recognised in the Income Statement:

	GROUP $ MILLION	
	31 JULY 2020	31 JULY 2019
Relationships where hedge accounting has been applied		
Net foreign exchange (losses)/gains attributable to:		
– Foreign currency-denominated borrowings	(37)	(17)
– Derivatives	29	18
Relationships where hedge accounting has not been applied		
Net foreign exchange (losses)/gains attributable to:		
– Foreign currency denominated receivables	(64)	119
– Foreign currency denominated payables and borrowings	23	(80)
– Derivatives	(8)	(40)
– Other net foreign exchange losses	(7)	–
Net foreign exchange losses	(64)	–

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.

Assets and liabilities of disposal groups held for sale have been excluded from the sensitivity analysis below:

	GROUP $ MILLION			
	31 JULY 2020		31 JULY 2019 RESTATED	
	EQUITY	PROFIT	EQUITY	PROFIT
10% strengthening of the NZD	189	(5)	230	(6)
10% weakening of the NZD	(189)	16	(266)	8

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 *Borrowings*).

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 or from changes in counterparty credit risk. The ineffectiveness of these hedges will continue until maturity.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

b) Interest rate risk CONTINUED

In specific situations, where changes in the fair value of fixed-to-floating IRS provide an offset 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 offset 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:

	GROUP $ MILLION							
	AS AT 31 JULY 2020[1]				YEAR ENDED 31 JULY 2020[2]			
		CARRYING AMOUNT[3]			HEDGE EFFECTIVENESS IN RESERVES		HEDGE EFFECTIVENESS	HEDGE INEFFECTIVENESS
HEDGING INSTRUMENTS USED	NOMINAL AMOUNT	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	CASH FLOW HEDGE (OCI)	CASH FLOW HEDGE RECLASSIFIED TO THE INCOME STATEMENT[4]	FAIR VALUE HEDGE (INCOME STATEMENT) GAIN/(LOSS)[4]	RECOGNISED IN THE INCOME STATEMENT GAIN/(LOSS)[4]
Cash flow hedging								
Interest rate swaps on NZD borrowings								
Maturity: 1-64 months Weighted average interest rate: 3.51%	3,296	–	(241)	(93)	(63)	29	NA	34
Interest rate swaps on AUD borrowings								
Maturity: 47-49 months Weighted average interest rate: 3.34%	172	–	(16)	(3)	(3)	–	NA	–
Fair value hedging								
Interest rate swaps on NZD borrowings								
Maturity: 32-64 months Weighted average interest rate: floating	250	23	–	18	NA	NA	7	2
Interest rate swaps on AUD borrowings								
Maturity: 71-88 months Weighted average interest rate: floating	516	65	–	69	NA	NA	22	–
Total		88	(257)	(9)	(66)	29	29	36

	GROUP $ MILLION							
	AS AT 31 JULY 2019[1]				YEAR ENDED 31 JULY 2019[2]			
		CARRYING AMOUNT[3]			HEDGE EFFECTIVENESS IN RESERVES		HEDGE EFFECTIVENESS	HEDGE INEFFECTIVENESS
HEDGING INSTRUMENTS USED	NOMINAL AMOUNT	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	CASH FLOW HEDGE (OCI)	CASH FLOW HEDGE RECLASSIFIED TO THE INCOME STATEMENT[4]	FAIR VALUE HEDGE (INCOME STATEMENT) GAIN/(LOSS)[4]	RECOGNISED IN THE INCOME STATEMENT GAIN/(LOSS)[4]
Cash flow hedging								
Interest rate swaps on NZD borrowings								
Maturity: 8-62 months Weighted average interest rate: 4.19%	3,441	–	(240)	(65)	(101)	20	NA	(7)
Fair value hedging								
Interest rate swaps on NZD borrowings								
Maturity: 10-76 months Weighted average interest rate: floating	325	18	–	8	NA	NA	13	1
Interest rate swaps on AUD borrowings								
Maturity: 83-100 months Weighted average interest rate: floating	499	43	–	47	NA	NA	59	–
Total		61	(240)	(10)	(101)	20	72	(6)

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, translated into New Zealand Dollars using the exchange rate at balance date. For those borrowings in fair value hedges, the carrying amount includes the life to date fair value hedge adjustment which increases borrowings by $90 million (2019: increased borrowings by $61 million).
4 Recognised in Net finance costs.

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.

Assets and liabilities of disposal groups held for sale have been excluded from the sensitivity analysis below:

	GROUP $ MILLION			
	31 JULY 2020		31 JULY 2019	
	EQUITY	PROFIT	EQUITY	PROFIT
100 basis point increase	50	12	54	22
100 basis point decrease	(54)	(11)	(54)	(19)

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 2020	31 JULY 2019
100 basis point increase in interest rates	(4)	(7)
100 basis point decrease in interest rates	4	7

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.

The Group has commenced cash flow hedge accounting where derivatives are used to manage commodity risk on certain forecast transactions. The amount and maturity of the derivative and the forecast transaction is aligned to ensure that the hedge relationship remains effective.

Hedge ineffectiveness arises if the amount of the forecast transactions falls below the amount of the designated hedging instruments.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

c) Commodity price risk CONTINUED

The effect of the Group's application of hedge accounting in managing commodity price risk related to forecast transactions is presented in the table below:

	GROUP $ MILLION					
	AS AT 31 JULY 2020[1]				YEAR ENDED 31 JULY 2020[2]	
		CARRYING AMOUNT			HEDGE EFFECTIVENESS	
HEDGING INSTRUMENTS USED	NOMINAL AMOUNT[3]	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	CASH FLOW HEDGE (OCI)	CASH FLOW HEDGE RECLASSIFIED TO THE INCOME STATEMENT
Cash flow hedging						
Fuel	13	–	(1)	(1)	(5)	4
Maturity: 1-18 months Average Price: $54.73						
Milk Price	318	2	(1)	1	1	–
Maturity: 3-27 months Average Price: $6.68						
Electricity	69	–	(6)	(6)	(14)	6
Maturity: 1-27 months Average Price: $91.61						
Total	400	2	(8)	(6)	(18)	10

1 Life-to-date amounts as at balance date.
2 Year-to-date amounts recognised during the year.
3 Nominal amount represents forecast transactions in cash flow hedge relationships, translated into New Zealand Dollars using the exchange rate at balance date.

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 2020		31 JULY 2019	
	EQUITY	PROFIT	EQUITY	PROFIT
10% increase in commodity prices	33	10	4	30
10% decrease in commodity prices	(33)	(11)	(4)	(30)

d) 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, Long-term advances, 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.
– Posting or receiving margin in respect of derivative contracts transacted on exchanges. The Group has posted $69 million (31 July 2019: $41 million) of margin as collateral for derivative financial instruments.

d) Credit risk CONTINUED

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.*

Long-term advances

– Counterparty creditworthiness is assessed before the commencement of any Long-term advances. Depending on the nature and amount of the advance, they are subject to Board approval. The collectability of Long-term advances is monitored on a regular basis.

e) 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 2020	AS AT 31 JULY 2019
Opening balance	(268)	(267)
Movements attributable to cash flow hedges		
Change in value of effective derivative hedging instruments	(43)	(365)
Reclassifications to the Income Statement:		
– As hedged transactions occurred	518	362
Net change in the cost of hedging reserve	17	1
Tax expense	(138)	1
Transferred between reserves	15	–
Total movement	369	(1)
Closing balance[1]	101	(268)

1 Included in the closing balance of the hedge reserves is $1 million (31 July 2019: $1 million) relating to hedge relationships for which hedge accounting is no longer applied.

Foreign currency translation reserve

	GROUP $ MILLION	
	AS AT 31 JULY 2020	AS AT 31 JULY 2019
Opening balance	(183)	(364)
Movements attributable to net investments in foreign operations and net investment hedges		
Net translation (loss)/gain on:		
– Borrowings and derivative hedging instruments	(36)	8
– Net investments in foreign operations	(39)	(25)
Reclassifications to the Income Statement:		
– Upon disposal of the Venezuelan operations	–	146
– Upon the reclassification of the investment in Beingmate	–	30
– Other disposals of foreign operations	21	17
Tax expense	8	5
Total movement	(46)	181
Closing balance[1]	(229)	(183)

1 Included in the closing balance of the foreign currency translation reserve is $15 million (31 July 2019: $4 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 2020

f) Income Statement impact from derivatives not designated in a hedge relationship

In addition to derivatives that are designated and qualify for hedge accounting, the Group also holds certain derivatives as economic hedges of foreign currency, commodity and interest rate exposure. The impact of non-designated derivatives are recognised in the Income Statement.

The impact of derivatives not designated in a hedging relationship are presented in the table below:

		GROUP $ MILLION	
DERIVATIVES NOT DESIGNATED IN A HEDGING RELATIONSHIP	LOCATION OF GAIN/(LOSS) IN INCOME STATEMENT	AS AT 31 JULY 2020	AS AT 31 JULY 2019
Foreign currency contracts	Revenue from sale of goods[1]	(53)	–
Foreign currency contracts	Other operating expenses	(8)	(40)
Commodity contracts	Cost of goods sold	(21)	30
Commodity contracts	Other operating expenses	(2)	(3)
Interest rate contracts	Finance costs	(8)	(21)
Total		(92)	(34)

1 $61 million of losses on foreign exchange contracts recognised within Revenue from sale of goods relate to cash flow hedges where the forecast sales transactions are no longer expected to occur (31 July 2019: nil).

OTHER

This section contains additional notes and disclosures that aid in understanding the Group'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 quoted equity security*

Note 27: *Impact of transition to NZ IFRS 16 Leases*

Note 28: *Re-presentations and prior period restatements*

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 at 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.

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.

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 Tax expense in the Income Statement is summarised as follows:

	GROUP $ MILLION	
	31 JULY 2020	31 JULY 2019
Current tax expense	90	80
Prior period adjustments to current tax	8	7
Deferred tax movements:		
– Origination and reversal of temporary differences	77	(7)
Tax expense	175	80

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

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 2020	31 JULY 2019
Profit/(loss) before tax	978	(42)
Prima facie tax expense at 28%	274	(12)
Add/(deduct) tax effect of:		
– Effect of tax rates in foreign jurisdictions	(11)	(21)
– Non-deductible expenses/additional assessable income	104	148
– Non-assessable income/additional deductible expenses	(183)	(18)
– Prior year under provision	8	7
Tax expense before distributions and deferred tax	192	104
Effective tax rate before distributions and deferred tax[1]	19.6%	NA
Tax effect of distributions to farmer shareholders	(19)	–
Tax expense before deferred tax	173	104
Effective tax rate before deferred tax[1]	17.7%	NA
Add/(deduct) tax effect of:		
– Origination and reversal of other temporary differences	(1)	(31)
– Losses of overseas Group entities not recognised	3	7
Tax expense	175	80
Effective tax rate[1]	17.9%	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	48	64

1 The effective tax rate is the Tax expense on the face of the Income Statement expressed as a percentage of the Profit before tax. The Group recorded a Loss before tax in the year ended 31 July 2019, so the calculation of an effective tax rate is not applicable.

b) Taxation – Statement of Financial Position

Deferred tax assets and deferred tax liabilities relate to the following:

	GROUP $ MILLION					
	AS AT 31 JULY 2020			AS AT 31 JULY 2019 RESTATED		
	DEFERRED TAX ASSET	DEFERRED TAX LIABILITY	NET	DEFERRED TAX ASSET	DEFERRED TAX LIABILITY	NET
Deferred tax						
Property, plant and equipment	1,596	(1,650)	(54)	1,661	(1,724)	(63)
Intangible assets	–	(388)	(388)	–	(498)	(498)
Right-of-use assets	162	(155)	7	–	–	–
Derivative financial instruments	–	(30)	(30)	111	–	111
Employee entitlements	80	–	80	54	–	54
Inventories	65	–	65	49	–	49
Receivables, payables and provisions	75	–	75	55	–	55
New Zealand tax losses	428	–	428	522	–	522
Offshore tax losses	241	–	241	236	–	236
Other	7	(30)	(23)	45	–	45
Total before offsetting	2,654	(2,253)	401	2,733	(2,222)	511
Offset adjustment	(2,233)	2,233	–	(2,123)	2,123	–
Total	421	(20)	401	610	(99)	511

	GROUP $ MILLION	
	31 JULY 2020	31 JULY 2019 RESTATED
Movements for the year		
Opening balance	511	594
Recognised in the Income Statement	(58)	(88)
Recognised directly in other comprehensive income	(133)	6
Implementation of NZ IFRS 16	7	–
Transferred to Liabilities of disposal groups held for sale	47	–
Foreign currency translation	27	(1)
Closing balance	401	511

New Zealand tax losses

The New Zealand tax consolidated group generated taxable income in the current year. The deferred tax asset relating to New Zealand tax losses of $428 million (31 July 2019: $522 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 40 per cent to 60 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. A reasonably possible change in the key assumptions does not change the carrying value of the deferred tax asset recognised.

Offshore tax losses

Gross tax losses of $48 million reflecting a deferred tax asset of $14 million (31 July 2019: $64 million gross, deferred tax asset of $19 million) relating to offshore entities have not been recognised as they may not be utilised.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

b) Taxation – Statement of Financial Position CONTINUED

Deferred tax liabilities

Earnings made by foreign subsidiaries could be subject to withholding and other taxes on remittance. Deferred tax liabilities are not recognised in respect of unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries. During the year, the Group reassessed the likelihood of earnings being remitted to New Zealand and recognised a deferred tax liability of $30 million relating to unremitted earnings previously considered to be indefinitely reinvested.

As at 31 July 2020, unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries amount to $131 million (31 July 2019: $1,085 million). The Group has made a judgement not to recognise deferred tax liabilities in respect of these amounts because it can control the timing and the manner in which the associated temporary difference will reverse. This includes controlling the timing of dividends, and in the event of divestments made because of the strategic review, the manner in which divestment proceeds are remitted (and therefore the associated tax consequences).

Uncertain Tax Position

In determining the amount of current and deferred tax, the Group takes into account the effect of uncertain tax positions and whether additional taxes, penalties and interest may be due. The Group operates in several different tax jurisdictions. This leads to complex tax issues. The ultimate decision regarding these complex tax issues is often outside the control of the Group and depends on the efficiency of the legal processes in the relevant tax jurisdiction. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will affect tax expense in the period that such determination is made.

21 CONTINGENT LIABILITIES, PROVISIONS AND COMMITMENTS

Provisions are recognised in the Statement of Financial Position only where the Group has a present legal or constructive obligation. This obligation must be the result of a past event, when it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

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.

a) 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 June 2020 a class action was filed in the Supreme Court of Victoria against Fonterra Australia Pty. Ltd., Fonterra Milk Australia Pty. Ltd. and Fonterra Brands (Australia) Pty. Ltd. (collectively, Fonterra Australia) by Geoffrey and Lynden Iddles on behalf of farmers who supplied milk to Fonterra Australia during the 2015/2016 season. The class action relates to actions taken by Fonterra Australia in connection with its milk price in the 2015/2016 season including the manner in which Fonterra Australia set its opening milk price and forecast closing milk price at the outset of that season, its communications with suppliers about the milk price throughout the season; and its reduction of the milk price in May 2016. The plaintiffs are alleging that Fonterra Australia breached its contracts with suppliers, engaged in misleading and deceptive conduct and engaged in unconscionable conduct in connection with these matters. Fonterra expects to vigorously defend these claims. Given the early stage of the litigation, it is not currently possible to estimate the amount of any potential exposure in connection with this class action.

In April 2020, Fonterra resolved all outstanding claims from Danone relating to Fonterra's Whey Protein Concentrate 80 (WPC80) precautionary recall in August 2013. Danone has withdrawn the New Zealand High Court proceedings against Fonterra which had been stayed pending separate Singapore arbitration proceedings against Fonterra in connection with the WPC80 precautionary recall.

b) Provisions

	GROUP $ MILLION				
	EMPLOYEE RELATED PROVISIONS	LEGAL CLAIMS PROVISIONS	RESTRUCTURING PROVISIONS	OTHER PROVISIONS	TOTAL PROVISIONS
As at 1 August 2019	80	58	42	24	204
Reclassification of tax provision to tax payable[1]	–	(24)	–	–	(24)
Adjusted balance as at 1 August 2019	80	34	42	24	180
Additional provisions	49	–	16	34	99
Unused amounts reversed	–	(3)	(3)	(10)	(16)
Charged to Income Statement	49	(3)	13	24	83
Charged to equity	19	–	–	–	19
Utilised during the year	(3)	–	(52)	(17)	(72)
Transferred to liabilities of disposal groups held for sale	(35)	(20)	–	–	(55)
Foreign currency translation	(14)	(9)	–	–	(23)
As at 31 July 2020	96	2	3	31	132
Included in the Statement of Financial Position as follows:					
Current liabilities					68
Non-current liabilities					64
Total provisions					132

1 $24 million of legal claims provisions was reclassed from provisions to tax payable at 31 July 2019 as a result of the retrospective adoption of NZ IFRIC 23 *Uncertainty over Income Tax Treatments*. Refer to *Basis of preparation* for new and amended International Financial Reporting Standards.

Employee related provisions include amounts payable to employees pending judicial interpretation of the requirements of legislation in New Zealand, 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 the outcome of judicial proceedings or decisions relating to the employment of relevant employees.

Legal claims provisions include obligations relating to 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.

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.

c) Commitments

Capital expenditure contracted for at balance date but not recognised in the financial statements are as follows:

	GROUP $ MILLION	
	AS AT 31 JULY 2020	AS AT 31 JULY 2019
Buildings	34	5
Plant, vehicles and equipment	75	43
Software	2	1
Total commitments	111	49

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

22 RELATED PARTY TRANSACTIONS

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:

a) Key management personnel remuneration

Key management personnel comprise members of the Board and members of the Fonterra Management Team.

	GROUP $ MILLION	
	31 JULY 2020	31 JULY 2019
Short-term employee benefits[1]	20	13
Long-term employee benefits	3	3
Termination benefits	1	2
Directors' remuneration	2	2
Total key management personnel remuneration	26	20

1 In addition, as at 31 July 2020 the Group recognised a provision of $2 million for former key management personnel in relation to pending judicial interpretation of the requirements of legislation in New Zealand.

b) Transactions with related parties during the year

Transactions with related parties are under normal trade terms and none of the balances are secured.

	GROUP $ MILLION	
	31 JULY 2020	31 JULY 2019
Equity accounted investees		
Revenue from the sale of goods[1]	104	120
Sale of services[2]	10	9
Royalty and other income	2	2
Dividends received	33	6
Interest income from financing arrangements	1	2
Purchases of goods[3]	(57)	(56)
Purchases of services[4]	(162)	(169)
Purchase of Darnum manufacturing plant from Beingmate[5]	–	(126)
Key management personnel		
Purchases of goods[6]	(154)	(118)
Sale of goods[7]	4	4

1 Goods sold are primarily commodity products.
2 Services provided include management fees.
3 Goods purchased are primarily commodity products.
4 Services provided are primarily freight services.
5 Beingmate was considered a related party until the Group lost significant influence in the second half of FY19.
6 Purchases from key management personnel primarily relate to milk supplied by farmer shareholder Directors.
7 Sales to key management personnel primarily related to sales through Farm Source™ stores.

22 RELATED PARTY TRANSACTIONS CONTINUED

c) Outstanding balances with related parties

	GROUP $ MILLION	
	AS AT 31 JULY 2020	AS AT 31 JULY 2019
Equity accounted investees		
Total receivables arising from the sale of goods or services[1]	24	25
Total receivables arising from financing arrangements[2]	55	65
Total payables arising from the purchase of goods or services	(29)	(31)
Total payables arising from financing arrangements	(1)	(2)
Key management personnel		
Total payables arising from the sale or purchase of goods or services[3]	(22)	(18)

1 Includes $7 million provision for impairment of receivables from equity accounted investees (31 July 2019: nil).
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 nine years.
3 Payables to key management personnel relate to amounts owing for milk supplied by farmer shareholder Directors and are recognised in owing to suppliers.

d) Financial guarantees

The Group provides financial guarantees for certain equity accounted investees. At 31 July 2020, the aggregate drawn down amount of equity accounted investees' liabilities for which the Group is jointly and severally liable was nil (31 July 2019: $1 million).

e) Transactions with related entities

As part of the administration of Trading Among Farmers, the Group 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, the Group has agreed to provide corporate facilities, support functions and other services at no cost to the Fund.

f) Commitments

In addition to the transactions disclosed above, the Group has:

– Prospective commitments with related parties including contracts with associates and joint ventures for the supply of dairy products and energy, and the provision of various management services.
– Other than the contractual commitment to provide future funding to the Falcon China Farms JV (refer to Note 2 *Strategy review update*) no other contractual commitments have been provided to related parties.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

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:

		OWNERSHIP INTERESTS (%)	
SUBSIDIARY NAME	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	AS AT 31 JULY 2020	AS AT 31 JULY 2019
New Zealand Milk (Australasia) Pty Limited	Australia	100	100
Fonterra Australia Pty Limited[1]	Australia	100	100
Fonterra Brands (Australia) Pty Limited[1]	Australia	100	100
Dairy Partners Americas Brasil Limitada[2]	Brazil	51	51
Soprole Inversiones S.A.[2]	Chile	99.9	99.9
Comercial Santa Elena S.A.[3]	Chile	99.9	99.9
Soprole S.A.[3]	Chile	99.9	99.9
Sociedad Procesadora de Leche del Sur S.A. (Prolesur S.A.)[3]	Chile	99.94	86.26
Fonterra Commercial Trading (Shanghai) Company Limited[2]	China	100	100
Fonterra (Yutian) Dairy Farm Co. Limited[2]	China	100	100
Fonterra (Ying) Dairy Company Limited[2]	China	100	100
Tangshan Fonterra Dairy Farm Limited[2]	China	85	85
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 Dairy Solutions Limited	New Zealand	100	100
Fonterra Ingredients Limited	New Zealand	100	100
Fonterra Limited	New Zealand	100	100
New Zealand Milk Brands Limited	New Zealand	100	100
RD1 Limited	New Zealand	100	100
Kotahi Logistics LP	New Zealand	90	91
Fonterra Brands (Singapore) Pte Limited	Singapore	100	100
Fonterra Brands Lanka (Private) Limited	Sri Lanka	100	100
Fonterra (USA) Inc.	United States	100	100

1 These entities are subsidiaries of New Zealand Milk (Australasia) Pty Limited.
2 Balance date 31 December.
3 Balance date 31 December and these entities are subsidiaries of Soprole Inversiones S.A.

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.

		OWNERSHIP INTERESTS (%)	
OVERSEAS SUBSIDIARIES 50% OR LESS OWNERSHIP	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	AS AT 31 JULY 2020	AS AT 31 JULY 2019
Fonterra (Japan) Limited	Japan	50	50
Fonterra Brands (Middle East) L.L.C.	UAE	49	49

In addition to the entities above, the Group 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.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

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).

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

The following table shows the fair value hierarchy for assets and liabilities measured at fair value:

	GROUP $ MILLION					
	LEVEL 1		LEVEL 2		LEVEL 3	
	AS AT 31 JULY 2020	AS AT 31 JULY 2019	AS AT 31 JULY 2020	AS AT 31 JULY 2019	AS AT 31 JULY 2020	AS AT 31 JULY 2019
Measured at fair value on a recurring basis:						
Derivative assets						
– Commodity derivatives	19	14	2	1	–	–
– Foreign exchange derivatives	–	–	493	40	–	–
– Interest rate derivatives[1]	–	–	602	433	–	–
Derivative liabilities						
– Commodity derivatives	(23)	(9)	(2)	(4)	–	–
– Foreign exchange derivatives	–	–	(72)	(200)	–	–
– Interest rate derivatives[1]	–	–	(499)	(539)	–	–
Investment in Beingmate	157	234	–	–	–	–
Investments in shares	17	8	23	15	11	16
Livestock	–	–	–	–	6	295
Measured at fair value on a non-recurring basis:						
Disposal groups held for sale	–	–	–	–	402	229
Fair value	170	247	547	(254)	419	540

1 Includes cross-currency interest rate swaps.

24 FAIR VALUE MEASUREMENT CONTINUED

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					
			FAIR VALUE			
	CARRYING VALUE		LEVEL 1		LEVEL 2	
	AS AT 31 JULY 2020	AS AT 31 JULY 2019 RESTATED	AS AT 31 JULY 2020	AS AT 31 JULY 2019	AS AT 31 JULY 2020	AS AT 31 JULY 2019 RESTATED
Financial assets						
Long-term advances	220	142	–	–	235	150
Financial liabilities						
Borrowings						
– NZX-listed bonds	(600)	(600)	(633)	(627)	–	–
– Capital notes	(35)	(35)	(32)	(35)	–	–
– Bank loans	(20)	(619)	–	–	(20)	(620)
– Medium-term notes	(4,782)	(4,971)	–	–	(4,996)	(5,208)
– Finance leases[1]	–	(71)	–	–	–	(75)

1 From 1 August 2019 finance leases are included in the lease liabilities balance. This presentation change is a result of the adoption of NZ IFRS 16 *Leases*. For details on the impact of the change in lease accounting refer to Note 27 *Impact of transition to NZ IFRS 16 Leases*.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

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				
	GROSS FINANCIAL ASSETS/(LIABILITIES)	GROSS FINANCIAL ASSETS/(LIABILITIES) SET OFF	NET FINANCIAL ASSETS/(LIABILITIES) PRESENTED	AMOUNTS NOT OFFSET	NET
Cash and cash equivalents	788	–	788	–	788
Derivative financial assets	1,203	(87)	1,116	(447)	669
Trade and other receivables (excluding prepayments)	1,861	(86)	1,775	(20)	1,755
	3,852	(173)	3,679	(467)	3,212
Derivative financial liabilities	(683)	87	(596)	467	(129)
Owing to suppliers	(1,674)	86	(1,588)	–	(1,588)
	(2,357)	173	(2,184)	467	(1,717)
31 July 2020	1,495	–	1,495	–	1,495
Cash and cash equivalents	550	–	550	(8)	542
Derivative financial assets	526	(38)	488	(283)	205
Trade and other receivables (excluding prepayments)	1,914	(90)	1,824	–	1,824
	2,990	(128)	2,862	(291)	2,571
Derivative financial liabilities	(790)	38	(752)	291	(461)
Owing to suppliers	(1,624)	90	(1,534)	–	(1,534)
	(2,414)	128	(2,286)	291	(1,995)
31 July 2019 (restated)	576	–	576	–	576

26 NET TANGIBLE ASSETS PER QUOTED EQUITY SECURITY

	GROUP	
	AS AT 31 JULY 2020	AS AT 31 JULY 2019 RESTATED
Net tangible assets per security[1]		
$ per equity instrument on issue	2.77	2.01
Equity instruments on issue (million)	1,612	1,612

1 Net tangible assets represent Total assets less Total liabilities less Intangible assets.

27 IMPACT OF TRANSITION TO NZ IFRS 16 LEASES

The impact of adopting NZ IFRS 16 *Leases* is summarised below:

	GROUP $ MILLION
Closing lease commitment for the year ended 31 July 2019	513
Operating lease payments not brought on to Statement of Financial Position:	
– Exempt leases (short term leases and leases of low-value assets)	(40)
– Arrangements that are not leases	(50)
Additional lease payments brought on to Statement of Financial Position	244
Effect of discounting lease payments	(86)
Finance lease liabilities transferred	71
Opening lease liability 1 August 2019	652

On transition, the Group has elected to utilise the modified retrospective approach for existing leases. This method resulted in an adjustment to the opening balance of retained earnings as at 1 August 2019 of $20 million. Prior year comparative information is not required to be restated.

The weighted-average incremental borrowing rate used to measure lease liabilities at transition was 3.56 per cent.

For leases previously classified as operating leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate as at 1 August 2019. Right-of-use assets are measured at either:

- Their carrying amount as if NZ IFRS 16 had been applied since the commencement date, discounted using the incremental borrowing rate at 1 August 2019; or
- An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying NZ IFRS 16 to leases previously classified as operating leases:

- Applied the exemption not to recognise Right-of-use assets and liabilities for low value leases and leases with less than 12 months of lease term remaining at 1 August 2019;
- Elected to apply a single discount rate to a portfolio of leases where they had similar characteristics;
- Excluded initial direct costs from the measurement of the Right-of-use asset at 1 August 2019; and
- Assessed the lease term using facts and circumstances known at transition date, rather than looking back and making retrospective assumptions of the facts and circumstances at the start of the lease.

The related lease expense for exempt leases is recognised in Profit before net finance costs and tax.

A number of leases were previously classified as finance leases. The carrying value of lease assets and lease liabilities for these leases as at 31 July 2019 was transferred to Right-of-use assets and lease liability under NZ IFRS 16.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

28 RE-PRESENTATIONS AND PRIOR PERIOD RESTATEMENTS

Re-presentations

Discontinued operations

As at 31 July 2020 the China Farms and Brazil consumer and foodservice businesses are classified as disposal groups held for sale and considered to be discontinued operations (refer to Note 2 *Strategy review update* for further details). This has the following impact on the presentation of these financial statements:

– Discontinued operations are presented in a single line item in the Income Statement in both the current and comparative reporting periods. Comparative period information in the Income Statement has been re-presented to reflect the classification of China Farms and the Brazil consumer and foodservice businesses as discontinued operations.

– Assets of disposal groups held for sale are presented in a single line item within Current assets, and Liabilities of disposal groups held for sale are presented in a single line item within Current liabilities. Comparative period information in the Statement of Financial Position has not been re-presented.

– The Statement of Changes in Equity and Cash Flow Statement have not been adjusted to separately present discontinued operations.

Current period presentation

Long-term advances and the Investment in Beingmate have been presented as separate line items in the Statement of Financial Position. In the 2019 Financial Statements these items were included within Other non-current assets. Comparative period information in the Statement of Financial Position has been re-presented to reflect the current year presentation.

Restatements

Agent adjustment

The Group adopted NZ IFRS 15 *Revenue from Contracts with Customers* from 1 August 2018. On adoption of NZ IFRS 15, the Group had determined that it was the principal in relation to certain performance obligations for freight and insurance services provided on specific international sales. During the current reporting period, this conclusion was reconsidered, and it was determined that the Group was an agent rather than the principal. This resulted in an adjustment to Revenue from sale of goods to record the net agency fees for arranging certain freight and insurance services, rather than the gross revenue. This change does not impact gross margin or earnings.

Control transfer adjustment

The Group has also reviewed its major revenue contracts. This review identified that for a specific contract in China, it had previously been determined that the Group ceased to control the goods when the goods were transferred to the distributor. During the current reporting period this conclusion was reconsidered, and it was determined that the distributor acts as an agent for the Group and control of the goods does not pass until the inventory reaches an end customer. This results in the deferral of revenue until the point in time that the control is transferred to the end customer, rather than on transfer to the distributor.

GBP bond adjustment

During the year ended 31 July 2009, the Group designated a GBP denominated medium term note and associated cross currency interest rate swaps used to manage foreign exchange and interest rate risk into hedge accounting relationships. During the current reporting period the Group reassessed the historic effectiveness of these relationships. This has resulted in a restatement of the Group's Retained earnings and Borrowings.

Presentation of cash flows from financing activities

During the year ended 31 July 2020 the Group has reassessed the presentation of gross cash flows relating to bank loans in the Cash Flow Statement and Note 9 *Borrowings*. This has resulted in a $540 million increase in Proceeds from borrowings and Repayments of Borrowings in the Cash Flow Statement for the comparative year. This restatement was made to better reflect the Group's financing activities and has had no impact on net cash flows, the Income Statement or Statement of Financial Position.

28 RE-PRESENTATIONS AND PRIOR PERIOD RESTATEMENTS CONTINUED

The following tables reconcile the impact on key line items in the Group's Income Statement and Statement of Financial Position from re-presentations and restatements[1].

	GROUP $ MILLION			
STATEMENT OF FINANCIAL POSITION (EXTRACT)	AS AT 31 JULY 2018 AUDITED	CONTROL TRANSFER ADJUSTMENT	GBP BOND ADJUSTMENT	AS AT 31 JULY 2018 RESTATED
Trade and other receivables	2,355	(75)	–	2,280
Inventories	2,917	360	–	3,277
Deferred tax asset	667	11	5	683
Trade and other payables	(2,116)	(324)	–	(2,440)
Non-current borrowings	(5,907)	–	(19)	(5,926)
Net assets	6,349	(28)	(14)	6,307
Retained earnings	934	(28)	(14)	892
Total equity	6,349	(28)	(14)	6,307

	GROUP $ MILLION					
INCOME STATEMENT (EXTRACT)	YEAR ENDED 31 JULY 2019 AUDITED	DISCONTINUED OPERATIONS	YEAR ENDED 31 JULY 2019 CONTINUING OPERATIONS	PROFIT INCREASE/ (DECREASE) AGENT ADJUSTMENT	INCREASE/ (DECREASE) CONTROL TRANSFER ADJUSTMENT	YEAR ENDED 31 JULY 2019 RESTATED
Revenue	20,114	(665)	19,449	(498)	304	19,255
Cost of sales	(17,334)	766	(16,568)	498	(311)	(16,381)
Gross profit	2,780	101	2,881	–	(7)	2,874
Expenses and other items including finance costs	(3,208)	292	(2,916)	–	–	(2,916)
Profit/(loss) before income tax	(428)	393	(35)	–	(7)	(42)
Income tax	(177)	95	(82)	–	2	(80)
Loss after tax from continuing operations	(605)	488	(117)	–	(5)	(122)
Loss from discontinued operations			(488)	–	–	(488)
Loss after tax			(605)	–	(5)	(610)

	GROUP $ MILLION			
STATEMENT OF FINANCIAL POSITION (EXTRACT)	AS AT 31 JULY 2019 AUDITED	CONTROL TRANSFER ADJUSTMENT	GBP BOND ADJUSTMENT	AS AT 31 JULY 2019 RESTATED
Trade and other receivables	1,900	(29)	–	1,871
Inventories	2,944	221	–	3,165
Deferred tax asset	592	13	5	610
Trade and other payables	(1,869)	(238)	–	(2,107)
Non-current borrowings	(5,361)	–	(19)	(5,380)
Net assets	5,881	(33)	(14)	5,834
Retained earnings	360	(33)	(14)	313
Total equity	5,881	(33)	(14)	5,834

1 Where applicable, the Cash Flow Statement has been restated to reflect the above changes. These restatements have not impacted net cash flows.

Independent Auditor's Report

To the shareholders of Fonterra Co-operative Group Limited

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

In our opinion, the accompanying consolidated financial statements of Fonterra Co-operative Group Limited (the 'Company') and its subsidiaries (the 'Group') on pages 76 to 143:

i. present fairly in all material respects the Group's financial position as at 31 July 2020 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

— the consolidated statement of financial position as at 31 July 2020;

— the consolidated income statement, statements of other comprehensive income, changes in equity and cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners 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 and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the Group that are related to our role as the Group's auditor, such as assurance and agreed upon procedures services. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the Group financial statements as a whole was set at $50 million, determined with reference to a benchmark of the cost of New Zealand sourced milk. We chose the benchmark because, in our view, this is a key measure of the Group's performance for the co-operative's farmer shareholders. We also benchmarked materiality against revenue, assets and earnings.

Scoping

The scope of our audit is designed to ensure that we perform adequate work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the financial reporting systems, processes and controls, and the industry in which it operates.

In establishing the overall approach to our audit, we considered the centralised nature of the Group's operations, the risk profile of countries where the Group operates, and changes taking place within the business. We also considered the financial significance of each business unit together with any local statutory audit requirements.

The Group financial statements are a consolidation of over 100 individual subsidiaries and equity accounted investees. Due to their financial significance and risk profile we scoped in 13 components in New Zealand, Australia, Chile, Japan and the USA to undertake audits performed under our instruction. Audits of these components were performed using materiality levels assigned by the Group audit team, which were lower than the materiality level for the Group as a whole, ranging from $5 million to $35 million, and determined with reference to their size and risk profile. Specified risk-focused audit procedures were performed by Group and component auditors on certain balances and transactions in respect of a further 16 in scope components in Australia, Brazil, Chile, China, Hong Kong, Malaysia, the Netherlands, New Zealand, Singapore and Sri Lanka.

The Group consolidation, financial statement disclosures and a number of complex items were audited by the Group audit team centrally in New Zealand. These included general IT controls, revenue recognition, impairment, adoption of IFRS 16 *Leases*, financial instruments, taxation and accounting for divestments and assets held for sale.

The Group audit team led the participation of component audit teams in the Group audit. We visited all component locations subject to audit during our risk assessment phase. Detailed audit instructions were sent to all auditors of in-scope components. These instructions set out the significant audit areas that we required component audit teams to consider, and the information required to be reported back to the Group audit team. We held meetings with component teams subject to both audit and specified risk-focused audit procedures as part of the audit planning phase to explain our audit instructions and discuss the component auditors' audit plans. In addition to these visits and meetings, we held meetings with component auditors to discuss the findings reported to the Group audit team in more detail, and any further work required by the Group audit team was then performed by the component auditor.

Taken together, the components in scope for the Group audit accounted for 91% of the Group's revenue and 90% of the Group's total assets. For the remaining components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these components.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion.

Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
Revenue recognition	
Refer to Notes 3 & 28 to the Financial Statements. We considered the recognition of revenue from contracts with key customers and distributors to be a key audit matter due to: — the significance of the Group's $20 billion of revenue to the Financial Statements as a whole; — the changes in accounting rules as a result of IFRS 15 *Revenue from contracts with customers* (which was adopted by the Group in the year ended 31 July 2019); — the level of judgement involved in establishing when a sale has occurred and the ultimate sales price under IFRS 15; — the prior period adjustment recorded by the Group in their interim financial statements; and — the extent of audit effort required to examine the Group's contracts with customers in the context of the size and complexity of this area (as noted above), and the requirement under auditing standards for us to consider fraud risk associated with revenue recognition.	The procedures we performed to evaluate whether revenue had been recognised appropriately included: — identifying and testing relevant controls over revenue recognition, and using data analytics routines to evaluate 100% of sales transactions undertaken through the Group's two core ERP systems (representing 89% of Group revenue); — assessing the Group's revenue recognition accounting policies, and evaluating the application of these policies to actual contracts with customers as noted below; — evaluating contractual arrangements with key customers and distributors through discussion with management and inspection of the underlying documentation, as well as sample testing other sales arrangements; and — performing other audit procedures specifically designed to address the risk of management override of controls including journal entry testing, applying particular focus to the timing of revenue transactions. We found that for the majority of sales, revenue was recognised appropriately. Further consideration was required in respect of the timing and amount of revenue recognised for certain customers and distributors. This specifically related to agent versus principal considerations. The Group made certain changes to its revenue recognition accounting policy, and restated revenue amounts recorded in previously issued financial statements (see note 28). We assessed the disclosure of the restatements against the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

Independent Auditor's Report CONTINUED

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

Impairment of goodwill and brands

THE KEY AUDIT MATTER

Refer to Note 17 to the Financial Statements.

The Group's balance sheet includes $1,784 million of goodwill and brands.

$917 million of goodwill and brands is included within three cash generating units ('CGU') for impairment testing purposes. As disclosed in the basis of preparation of the Financial Statements, management undertakes an annual impairment assessment of these CGUs using a discounted cash flow model based on forecast future performance. Significant judgement is required in forecasting the future cash flows of each CGU, together with the rate at which they are discounted.

This risk is elevated due to the impacts of Covid-19 on consumer behaviour, which has resulted in greater than normal levels of forecasting uncertainty.

We consider impairment testing of these CGUs to be a key audit matter due to the level of judgement described above, and for the following reasons:

- Fonterra Brands New Zealand ('FBNZ') ($512 million of goodwill and brands) – due to the significance of the CGU carrying value to the overall financial position of the Group, and the absence of any headroom between the recoverable amount and the carrying value following an impairment in the previous year;
- Fonterra Australia ('FAU') ($282 million of goodwill and brands) – due to the significance of the CGU to the overall financial position of the Group; and
- Soprole ($123 million of goodwill and brands) – due to the significance of the CGU to the overall financial position of the Group and due to the potential long-term impacts of the civil unrest which commenced in October 2019.

We also considered the impairment assessment of the Group's portfolio of consumer and foodservice brands to be a key audit matter due to the significance of the $674 million of brand assets to the overall financial position of the Group. These brands have been valued using the relief from royalty method. Judgement is required in ascertaining the key inputs into the relief from royalty calculation, namely the range of market royalty rates for each brand, appropriate sales growth (including terminal growth) rates for each brand, and appropriate discount rates to apply to the resulting future royalties.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

The procedures we performed to evaluate the impairment assessments included:

- assessing whether the methodology adopted was consistent with accepted valuation approaches of IAS 36 *Impairment of Assets*;
- evaluating the significant assumptions by comparing to historical trends, approved budgets, business plans and external market data;
- comparing the discount rates applied to the estimated future cash flows and the terminal growth rates to relevant benchmarks using KPMG valuation specialists;
- challenging the above assumptions and judgements by performing sensitivity analysis, considering a range of likely outcomes based on various scenarios;
- in connection with the impairment charge of $21 million recognised by FBNZ, using KPMG valuation specialists to calculate a market participant fair value less cost of disposal valuation based on comparable company analysis and analysis of trading multiples;
- comparing the Group's total net assets as at 31 July 2020 of $6,703 million to its market capitalisation of $6,158 million at 31 July 2020, understanding the possible reasons for the market capitalisation to be below net assets, and assessing whether the carrying value of the net assets of the Group as a whole are impaired; and
- considering the appropriateness of the disclosures in the financial statements.

For each CGU we found the methodology to be consistent with IAS 36. We found the discount and terminal growth rates were in an acceptable range, and that future cash flow assumptions were largely supported by comparison to the sources we considered.

For FBNZ where an impairment of $21 million was recognised, our scenario analysis indicated that the resulting carrying value was materially consistent with the high end of our valuation range.

For the Chesdale brand where an impairment of $36 million was recognised, our scenario analysis indicated that the resulting carrying value was consistent with our valuation range.

For FAU, Soprole, and other consumer and foodservice brands in the Group's portfolio, where no impairment was recognised, our scenario analysis indicated that the recoverable amount of each of these assets exceeds its carrying value and that no impairment is necessary.

The overall comparison of the Group's net assets to market capitalisation was a shortfall of $545 million (or 8%). Based on the impairment testing undertaken across a large proportion of the Group's non-current assets, and general market conditions, we are satisfied that this does not in itself represent an indicator of impairment for the Group as a whole.

We consider the impairment disclosures to be a fair reflection of the underlying impairment tests.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

First-time adoption of IFRS 16 *Leases*

THE KEY AUDIT MATTER

Refer to Note 27 to the Financial Statements.

We considered the first-time adoption of IFRS 16 to be a key audit matter due to the complexity of the new standard (in particular in connection with accounting policy choices and judgements on implementation, and the need to consider a wide range of arrangements such as supply agreements and service contracts), the size of the incremental lease liability and sensitivity of the Group's funding arrangements to debt-based metrics.

The new leasing standard was implemented across the Group as of 1 August 2019 through the modified retrospective approach with cumulative effects recognised as an adjustment to retained earnings at adoption date (and with no restatement of the comparative information).

Following the implementation, the Group recorded right-of-use assets of $621 million, and a $652 million lease liability. The implementation of the standard requires judgement in establishing among other assumptions the incremental borrowing rate, the lease term, and the amount of lease payments in the future where escalation clauses exist in the lease agreements.

In addition, significant audit effort was required to ensure that all arrangements subject to the new standard had been considered by the Group, not just those previously accounted for as operating leases.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

The procedures we performed to evaluate the first-time adoption of IFRS 16 included:

- assessing the appropriateness of the Group's accounting policies, judgements and related disclosures, involving KPMG IFRS specialists;
- obtaining a sample of lease agreements (including those with the largest lease rentals or longest lease periods, as well as a random sample of the Group's other leases), reading the agreements to understand key terms, and challenging management's assumptions regarding renewals and rental escalation clauses in the context of IFRS 16 requirements, the lease agreements and our knowledge and understanding of the underlying right-of-use assets;
- involving KPMG valuation specialists and audit teams from overseas KPMG member firms to test the appropriateness of the incremental borrowing rate assumptions used by the Group in calculating the lease liability;
- performing a completeness check that all arrangements we identified during our transition activities that could be subject to IFRS 16 had been considered and accounted for appropriately by the Group;
- using data analytics routines to identify whether any recurring payments made by the Group indicated the existence of additional arrangements that could be subject to IFRS 16; and
- recalculating the lease liability and right-of-use asset for those arrangements identified as needing to be accounted for under IFRS 16.

We found that the Group's IFRS 16 adoption project had addressed the Group's existing operating lease portfolio, and that the Group had implemented appropriate systems and processes to account for leases under IFRS 16 on an ongoing basis.

The Group recognised an additional amount of right-of-use assets and lease liabilities compared to that anticipated in the 31 July 2019 financial statements, reflecting arrangements that were not previously accounted for as operating leases as well as updated assumptions regarding lease renewals for strategic assets.

The cost of New Zealand sourced milk

THE KEY AUDIT MATTER

Refer to Notes 4, 12 and 14 to the Financial Statements.

The cost of New Zealand sourced milk supplied by farmer shareholders amounted to $11 billion and 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.

We consider the cost of New Zealand sourced milk to be a key audit matter due to its significance to the financial statements as a whole.

The cost of New Zealand sourced milk is a key component of the Group's cost of goods sold of $17 billion, the carrying value of the Group's inventory of $3,268 million, and amounts owing to suppliers of $1,588 million. Significant audit effort was required to audit the cost of New Zealand sourced milk.

KPMG has been engaged to provide a reasonable assurance report in connection with the Farmgate Milk Price. This is contained in the Fonterra Farmgate Milk Price Statement. 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.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

The procedures we performed to evaluate the impact of the Farmgate Milk Price calculation on the cost of New Zealand sourced milk included:

- examining minutes of Milk Price Panel meetings and confirming with the Company Secretary that the Board considered the recommended Farmgate Milk Price from the Milk Price Panel and approved the payment of $7.14 per kgMS for New Zealand sourced milk for the season ended 31 May 2020; and
- examining the application of the Board approved milk price to cost of goods sold, inventory and amounts owing to suppliers. This involved understanding and evaluating relevant controls to ensure that the latest milk price forecast series has been applied to cost of goods sold and inventory. At season end we checked that the cost of New Zealand sourced milk reflected the Board approved milk price for the season.

We completed these procedures and have no matters to report.

The Farmgate Milk Price calculation prepared by the Milk Price Group amounted to $11 billion (which equates to $7.14 per kgMS), and we confirmed with the Company Secretary that the Board of Directors approved a payment of $7.14 per kgMS for New Zealand sourced milk for the season ended 31 May 2020 at their meeting on 17 September 2020.

Independent Auditor's Report CONTINUED

Other information

The Directors, on behalf of the Company, are responsible for the other information included in the entity's Annual Report.

Other information includes:

— the Letter from the Chair and the CEO's Q&A;

— sections relating to Goals, Responding to Covid-19, the Year in Review and the Co-operative Difference;

— sections relating to Healthy Environment, Healthy People and Healthy Business;

— sections relating to Non-GAAP Measures and the associated Glossary;

— the Statutory information section;

— sections relating to Corporate Governance, the Board and the Management Team; and

— the Directory.

Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, 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.

Other matter

The consolidated financial statements of the Group, for the year ended 31 July 2019, was audited by another auditor who expressed an unmodified opinion on those statements on 25 September 2019.

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent 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 shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the Company, are responsible for:

— the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;

— implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

— to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and

— to issue an independent 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 will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Matthew Diprose.

For and on behalf of

KPMG

KPMG
Auckland

17 September 2020

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. 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 2020	31 JULY 2019[1] RESTATED
Profit/(loss) for the period	659	(610)
Add: Depreciation	528	458
Add: Amortisation	99	103
Add: Net finance costs	332	418
Add: Taxation expense	156	175
Total EBITDA	1,774	544
Less: Disposal of investment in DFE Pharma	(427)	–
Less: Disposal of investment in Goodminton	(66)	–
Add: Falcon China Farms JV impairment	65	–
Add: New Zealand consumer and foodservice business impairment	–	204
Add: Disposal of Tip Top	–	40
Add: China Farms impairment	63	203
Add: Brazil consumer and foodservice business impairment	104	149
Add: Disposal of Venezuelan operations	–	134
Add: Australian strategic reset	–	68
(Less)/add: Income Statement impact of Beingmate investment	(50)	12
Add: Other	43	19
Total normalisation adjustments	(268)	829
Normalised EBITDA	1,506	1,373

Reconciliation from the NZ IFRS measure of profit for the period to Fonterra's normalised EBIT

	GROUP $ MILLION	
	31 JULY 2020	31 JULY 2019[1]
Profit/(loss) for the period	659	(610)
Add: Net finance costs	332	418
Add: Taxation expense	156	175
Total EBIT	1,147	(17)
(Less)/add: Normalisation adjustments (as detailed above)	(268)	829
Total normalised EBIT	879	812

1 The Income Statement for the year ended 31 July 2019 includes re-presentations and restatements. Please see Note 28 *Re-presentations and prior period restatements* for further details.

Non-GAAP Measures CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

Reconciliation from the NZ IFRS measure of profit for the period to Fonterra's normalised earnings per share

	GROUP $ MILLION	
	31 JULY 2020	31 JULY 2019[1]
Profit/(loss) for the period	659	(610)
Add: Normalisation adjustments	(268)	829
Add: Tax on normalisation adjustments	7	56
Total normalised earnings	398	275
Add: Share attributable to non-controlling interests	27	48
Less: Normalisation adjustments to non-controlling interests	(43)	(59)
Net normalised earnings attributable to equity holders of the Co-operative	382	264
Weighted average number of shares (thousands of shares)	1,612,076	1,611,980
Normalised earnings per share ($)	0.24	0.16

Reconciliation from reported gross profit for the period to Fonterra's normalised gross profit

	GROUP $ MILLION	
	31 JULY 2020	31 JULY 2019[1]
Gross profit for the period from continuing operations	3,062	2,874
Add/(less): Gross profit for the period from discontinued operations	99	(101)
Add: China Farms impairment normalisation adjustment	63	203
(Less)/add: Other normalisation adjustments	(16)	32
Total normalised gross profit	3,208	3,008

1 The Income Statement for the year ended 31 July 2019 includes re-presentations and restatements. Please see Note 28 *Re-presentations and prior period restatements* for further details.

Glossary

NON-GAAP MEASURES

Fonterra refers to non-GAAP financial measures throughout the Annual Report, 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 Report.

Debt payback ratio	is calculated as total borrowings, plus bank overdraft, plus the effect of debt hedging, less a cash allowance of 75% of Cash and cash equivalents, divided by normalised earnings before interest, tax, depreciation and amortisation (normalised EBITDA) excluding Share of loss/profit of equity accounted investees and net foreign exchange losses/gains. Both Debt and EBITDA are adjusted to include amounts relating to businesses classified as held for sale.
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 lease liabilities and 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.
Net Tangible Assets per Security	is calculated as net tangible assets divided by the number of equity instruments on issue. Net tangible assets are total assets less total liabilities less intangible assets.
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 (kg/MS) 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 a notional tax charge divided by capital employed including brands, goodwill and equity accounted investments. Capital employed is calculated as the average for the period of: net assets excluding net interest-bearing debt and deferred tax balances.
Segment earnings	means segmental profit for the period before net finance costs and tax.
Working capital	is calculated as total trade and other receivables plus inventories, less current trade payables and accruals. It excludes amounts owing to suppliers and employee entitlements.
Working capital days	is calculated as working capital divided by external revenue, multiplied by the number of days in the period.

Statutory Information

FOR THE YEAR ENDED 31 JULY 2020

CO-OPERATIVE STATUS

In accordance with section 10 of the Co-operative Companies Act 1996, the Directors of Fonterra unanimously resolved on 27 August 2020 that the Company was, for the year ended 31 July 2020 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).

EMPLOYEE REMUNERATION FRAMEWORK

A well-designed remuneration framework helps the Group attract and retain talent, and both motivates and recognises the role our people play in the success of the Group.

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 Group's performance by:

- Focusing on the Group'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 Appointments and Remuneration 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 Report.

EMPLOYEE REMUNERATION

The Group operates in a number of countries where remuneration market levels differ widely. During the year ended 31 July 2020, 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
100,000	110,000	94	1,353	190	43	1,680
110,001	120,000	46	737	242	38	1,063
120,001	130,000	60	682	274	23	1,039
130,001	140,000	57	318	211	18	604
140,001	150,000	48	141	149	17	355
150,001	160,000	30	110	111	17	268
160,001	170,000	43	75	70	13	201
170,001	180,000	27	55	63	13	158
180,001	190,000	32	33	53	13	131
190,001	200,000	29	32	41	7	109
200,001	210,000	27	21	38	8	94
210,001	220,000	22	12	32	5	71
220,001	230,000	20	9	32	8	69
230,001	240,000	16	5	22	5	48
240,001	250,000	17	9	18	5	49
250,001	260,000	7	5	15	5	32
260,001	270,000	9	5	12	5	31
270,001	280,000	11	8	20	3	42
280,001	290,000	2	4	16	3	25
290,001	300,000	6	2	13	5	26
300,001	310,000	5	3	10	1	19
310,001	320,000	6	4	17	1	28
320,001	330,000	4	–	2	1	7
330,001	340,000	5	–	9	2	16
340,001	350,000	3	2	5	1	11
350,001	360,000	5	3	6	2	16
360,001	370,000	1	–	6	–	7
370,001	380,000	1	1	10	–	12
380,001	390,000	1	–	3	2	6
390,001	400,000	1	–	3	–	4
400,001	410,000	–	1	2	2	5
410,001	420,000	1	1	4	2	8
420,001	430,000	3	2	3	1	9
430,001	440,000	1	1	4	–	6
440,001	450,000	1	–	3	1	5
450,001	460,000	–	–	5	–	5
460,001	470,000	2	–	3	–	5
470,001	480,000	–	–	1	2	3
480,001	490,000	–	–	3	–	3
490,001	500,000	1	–	1	1	3
500,001	510,000	–	2	1	–	3
510,001	520,000	–	1	4	–	5
520,001	530,000	–	–	2	–	2
530,001	540,000	–	–	1	–	1
540,001	550,000	–	–	3	2	5

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

REMUNERATION RANGE ($)		NEW ZEALAND HEAD OFFICE[1]	REGIONAL NEW ZEALAND[1]	OFFSHORE[2]	CESSATIONS[3]	TOTAL
550,001	560,000	–	–	3	1	4
560,001	570,000	1	1	–	–	2
570,001	580,000	–	–	1	–	1
580,001	590,000	3	–	–	–	3
590,001	600,000	2	–	2	–	4
600,001	610,000	–	–	2	–	2
620,001	630,000	1	–	1	–	2
630,001	640,000	–	1	1	–	2
640,001	650,000	–	–	1	–	1
650,001	660,000	–	–	1	1	2
660,001	670,000	1	–	2	–	3
690,001	700,000	–	–	1	–	1
700,001	710,000	–	–	1	1	2
740,001	750,000	2	–	2	–	4
750,001	760,000	–	–	1	–	1
760,001	770,000	–	–	1	1	2
780,001	790,000	–	–	3	1	4
790,001	800,000	–	–	2	–	2
820,001	830,000	1	–	–	1	2
830,001	840,000	–	–	–	1	1
860,001	870,000	–	–	–	1	1
870,001	880,000	–	–	3	–	3
910,001	920,000	–	–	2	–	2
990,001	1,000,000	1	–	–	–	1
1,000,001	1,010,000	–	–	–	1	1
1,080,001	1,090,000	–	–	1	–	1
1,090,001	1,100,000	–	–	–	1	1
1,130,001	1,140,000	–	–	1	–	1
1,190,001	1,200,000	–	–	1	–	1
1,220,001	1,230,000	1	–	–	–	1
1,300,001	1,310,000	–	–	1	–	1
1,480,001	1,490,000	–	–	1	–	1
1,690,001	1,700,000	–	–	–	1	1
1,870,001	1,880,000	–	–	1	–	1
2,000,001	2,010,000	1	–	–	–	1
2,010,001	2,020,000	–	–	–	1	1
2,430,001	2,440,000	–	–	–	1	1
Totals		658	3,639	1,769	288	6,354

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 and termination entitlements including those arising from employment arrangements entered into by legacy companies prior to the formation of Fonterra.

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	984
Bay of Plenty	129
Canterbury	493
Manawatu – Wanganui	280
Northland	155
Southland	189
Taranaki	534
Waikato	1,451
Rest of New Zealand	82
New Zealand total	4,297

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	962
China	196
Europe	102
Latin America	94
New Zealand	4,297
Rest of Asia	263
Rest of World	72
United States	81
Cessations	287
Global total	6,354

REMUNERATION OF DIRECTORS

The Directors' Remuneration Committee, comprising six shareholders elected in accordance with the Constitution, makes recommendations for shareholder approval as to the level of Elected Directors' fees. Elected Directors are those Directors elected by shareholders in accordance with clauses 12.2 and 33.4 of the Constitution.

At the Annual Meeting of shareholders held on 7 November 2019, 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 per annum
Directors	$175,000 per annum
Discretionary additional payments to the Chair of permanent Board Committees (except when the Chair is the Chairman of the Board of Directors)	$35,000 per annum

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 2020 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, until his retirement on 7 November 2019.

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.

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

Directors Remuneration

The total remuneration and value of other benefits (not including superannuation contributions, if applicable) received by each Director in the 12-month period from 1 August 2019 to 31 July 2020 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)	175,000	35,000	–	–	210,000
Leonie Guiney (Chair of the Safety and Risk Committee)	175,000	35,000	–	–	210,000
Bruce Hassall (Chair of the Audit and Finance Committee)	175,000	35,000	–	25,000[2]	235,000
Simon Israel[1]	47,115	–	40,000[3]	–	87,115
Holly Kramer[1]	43,750	–	–	–	43,750
Andrew Macfarlane	175,000	–	–	–	175,000
Peter McBride	175,000	–	–	–	175,000
John Monaghan (Chairman of the Board of Directors)	430,000	–	–	–	430,000
John Nicholls	175,000	–	–	–	175,000
Donna Smit	175,000	–	–	–	175,000
Scott St John (Chair of the Milk Price Panel)	175,000	35,000	–	–	210,000

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 FY20.
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.

EQUITY SECURITIES HELD AT BALANCE DATE

In accordance with Rules of the Fonterra Shareholders' Market (FSM) Rule 2.7.1(d), the following table identifies the Equity Securities in which each Director has a Relevant Interest as at 31 July 2020:

	UNITS ISSUED BY THE FONTERRA SHAREHOLDERS' FUND[1]	CO-OPERATIVE SHARES
Brent Goldsack	–	400,407
Leonie Guiney	–	1,198,824
Andrew Macfarlane	136,150[1]	813,301
Peter McBride	–	6,923,748
John Monaghan	–	140,179
John Nicholls	–	2,190,864
Donna Smit	10,441[1]	1,243,933

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 an 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 Elected Directors 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.

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 2019 to 31 July 2020:

Clinton Dines	Griffith Asia Institute	Adjunct Professor
Brent Goldsack	Rabobank New Zealand Limited	Director
	Canterbury Grasslands Limited (ceased May 2020)	*Director and Shareholder*
	CoLab Dairy Partners General Partnership (ceased 2020)	*Indirect Shareholder*
Holly Kramer	Lendi Pty Limited	Chair
	Australian Post (ceased June 2020)	*Independent Non-executive Director and Deputy Chair*
	Woolworths Group Limited	Independent Non-executive Director
	Goodes O'Loughlin Foundation	Independent Non-executive Director
	Abacus Property Group	Independent Non-executive Director
	Western Sydney University	Pro-Chancellor
	Chief Executive Woman	Member
Andrew Macfarlane	GW and MA Macfarlane Family Trust	Trustee
	Macfarlane Rural Business Limited (ceased August 2019)	*Shareholder*
Peter McBride	Kennedy Farm Limited	Shareholder
	Pokai Farm Limited	Shareholder
	Ian Elliot Family Trust	Trustee
	MA Elliot Family Trust	Trustee
	Zespri Global Supply Advisory Board	Member
John Nicholls	*Quigley Contracting Advisory Board (ceased August 2019)*	*Chair*

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 2020

Securities dealings of Directors

The following entries were made in the Interests Register during the year.

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
Peter McBride	480,187	–	1,522,193	31 August 2019
John Nicholls	134,864[1]	–	–	9 September 2019
Peter McBride	20,463	–	71,416	30 September 2019
Donna Smit	19,894[2]	19,894[2]	–	7 October 2019
Donna Smit	561[3]	–	–	7 October 2019
Peter McBride	93,530	–	332,092	9 October 2019
Donna Smit	50,000	–	206,000	10 October 2019
Donna Smit	826[4]	–	3,003	15 October 2019
Donna Smit	2,182[4]	–	7,932	15 October 2019
Brent Goldsack	13,000	–	52,260	17 October 2019
Brent Goldsack	225,373[1]	–	–	October 2019
Brent Goldsack	14,600	–	59,860	25 October 2019
Donna Smit	2,502[3]	–	–	4 December 2019
John Nicholls	2,846[3]	–	–	27 February 2020
John Nicholls	39,154	–	147,330	25 March 2020
Leonie Guiney	115,000	–	436,828	26 March 2020
Leonie Guiney	115,000	–	437,000	1 April 2020
Leonie Guiney	15,340	–	55,991	4 May 2020
Leonie Guiney	34,660	–	126,509	6 May 2020
Leonie Guiney	40,000	–	145,976	7 May 2020
Peter McBride	825,280[5]	–	–	25 May 2020

1 Share transactions occurred through the acquisition of a new relevant interest.
2 Transferred between related entities.
3 Conversion of Units to Shares.
4 Acquired as part of Farm Source Dollars for Shares programme.
5 Acquisition of relevant interest by virtue of appointment as independent trustee.

Unit transactions

DIRECTOR	NUMBER OF SECURITIES ACQUIRED	NUMBER OF SECURITIES DISPOSED	CONSIDERATION $	DATE
Andrew Macfarlane	4,000[1]	–	23,600	27 February 2018
Donna Smit	–	561[2]	–	7 October 2019
Donna Smit	–	2,502[2]	–	4 December 2019
Donna Smit	1,124[3]	–	–	27 February 2020
John Nicholls	2,846[3]	–	–	27 February 2020
John Nicholls	–	2,846[2]	–	27 February 2020

1 Acquired as Trustee of a Trust – Advice to Trustees was delayed.
2 Conversion of Units to Shares.
3 Acquired as part of the Contract Fees for Units programme.

Retail Bond transactions

There were no transactions by Directors (or their associated persons) in Retail Bonds reported during the period from 1 August 2019 to 31 July 2020. 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 2019 to 31 July 2020. No current holdings of Capital Notes have been advised by Directors (or their associated persons).

SUBSIDIARY COMPANY DIRECTORS

The following companies were subsidiaries of Fonterra as at 31 July 2020. Directors as of this date are listed below. Those who resigned during the year are denoted with an R. Alternate Directors are denoted with an A.

Canpac International Limited:
G A Duncan (R), B D Mealings (R), B M Ryan, P D Wynen

Dairy Industry Superannuation Scheme Trustee Limited:
M A Apiata-Wade, B J Kerr, B M McCarthy, T P McGuinness, D W C Scott, A K Williams, P D Wynen, M F van Zon (R)

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 G Carlyle, R J Spurway (R), F S Whineray

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, 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, C E Rowe

Fonterra Finance Corporation Limited:
G A Duncan, S D T Till

Fonterra Ingredients Limited:
G A Duncan, B M Ryan

Fonterra LATAM Brands Limited:
A J Cordner, G A Duncan, F Spinelli (R), A D Turnbull (R)

Fonterra Limited:
R J Spurway (R), A R van der Nagel, F S Whineray, K A Wickham (R)

Fonterra PGGRC Limited:
G A Duncan, J P Hill, M Piper (R)

Fonterra TM Limited:
G A Duncan, S D T Till

Glencoal Energy Limited:
G A Duncan, P D Wynen

GlobalDairyTrade Holdings Limited:
G A Duncan, C E Rowe

Kotahi GP Limited:
D G Boulton, R G Carlyle, B Mealings (R), B M Ryan, R J Spurway (R), F S Whineray

Lactanol Limited:
G A Duncan, B D Mealings (R), C E Rowe (R), B M Ryan

MIH Limited:
R J Allen, G A Duncan

Milktest GP Limited:
R J Allen, R J van Boheemen, P G Brown, G B McCullough, R G Townshend, T A Winter, P D S Grave (R)

MyMilk Limited:
C W Fergusson, K F Shaw

New Zealand Dairy Board:
G A Duncan, C E Rowe

New Zealand Milk (International) Limited:
G A Duncan, R M Kennerley

New Zealand Milk Brands Limited:
G A Duncan, S D T Till

NZAgbiz Limited:
R J Allen, G A Duncan

RD1 Limited:
R J Allen, G A Duncan

SAITL Limited:
G B McCullough, T A Winter

Tangshan Dairy Farm (NZ) Limited:
M R Cronin, G A Duncan

Whareroa Co-Generation Limited:
G A Duncan, P D Wynen

Anchor Insurance Pte. Limited [Singapore]:
G A Duncan, S S Herbert, B Mealings (R), C E Rowe, H N Toh (A)

Anmum (Malaysia) Sdn. Bhd. [Malaysia]:
R M Kennerley, J Oh, V Sivaraja

Australasian Food Holdings Pty Limited [Australia]:
R Dedoncker, G A Duncan

Bonland Cheese Trading Pty Ltd [Australia]:
R Dedoncker, G A Duncan

Comercial Dos Alamos S.A. [Chile]:
E Becker, M Kunstmann (R), A L Raddatz Vargas, R Waldspurger

Comercial Santa Elena S.A. [Chile]:
E Aldunate (R), J Barria, V E Flen Silva (R), C F Osorio Bascur, S T Perez

Dairy Enterprises (Chile) Limitada [Chile]:
A J Cordner, G A Duncan, J P Egaña Bertoglia, R Lavados, R Sepúlveda Seminario, F Spinelli (R), P L Linhares (A)(R)

Dairy Partners Americas Brasil Limitada [Brazil]:
R de Oliviera Carrelas, F Goncalves, R Gurrero Leal, F Spinelli, M G Guerreiro Pinheiro

Dairy Partners Americas Nordeste-Productos Alimenticios Ltda [Brazil]:
R de Oliviera Carrelas, F Goncalves, M G Guerreiro Pinheiro, R Guerrero Leal, F Spinelli

Dairymas (Malaysia) Sdn Bhd [Malaysia]:
R M Kennerley, J Oh, V Sivaraja

Darnum Park Pty Ltd [Australia]:
R Dedoncker, G A Duncan

Falcon Dairy Holdings Limited [Hong Kong]:
M P Campbell, G A Duncan, R O Frey, J F Ginascol (R), J Murphy

Fazenda MIH Ltda [Brazil]:
E B da Costa Junior (R), P C C Freitas Guedes, A R V Januario Oliveira (R)

Fonterra (Beijing) Farm Management Consulting Company Limited [China]:
S I Ahmed (R), H Berghorst (R), G A Duncan, P D Washer, X Xu

Fonterra (Brasil) Ltda [Brazil]:
R F Aracil Filho, A R V Januario Oliveira (R), P C C Freitas Guedes (R), B de Luca Zanatta, G Nascimento (R)

Fonterra (Canada), Inc. [Canada]:
J P Coote, G A Duncan, B Kipping, B M Ryan

Fonterra (China) Limited [Hong Kong]:
M R Cronin, G A Duncan, C Zhu (R)

Fonterra (CIS) Limited Liability Company [Russian Federation]:
E Grishina

Fonterra (Europe) Coöperatie U.A. [Netherlands]:
G A Duncan, H Huistra

Fonterra (Europe) GmbH [Germany] (in liquidation):
G R Sharma

Fonterra (France) SAS [France]:
H Huistra

Fonterra (Ing.) Limited [Mauritius]:
G Lee, B M Ryan

Fonterra (Japan) Limited [Japan]:
K Kumagai, K Kumagai, A Okuyama, H Ono (R), B M Ryan, Y Saito, K A Wickham

Fonterra (Korea) Limited [Korea]:
G A Duncan, J Murney, Y Saito

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

Fonterra (Logistics) Ltd [United Kingdom]:
M Boyd, G A Duncan, H Huistra (R), G R Sharma

Fonterra (Mexico) S.A. de C.V. [Mexico]:
L Barona Mariscal (A), F R Camacho (A), J P Coote, G A Duncan, E P G R Gil (A), J A Del Rio

Fonterra (SEA) Pte. Ltd [Singapore]:
A Aggarwal, H Gowans

Fonterra (Thailand) Limited [Thailand]:
A Aggarwal, K Vunthanadit

Fonterra (USA) Inc. [United States]:
N R Christiansen, J P Coote, G A Duncan, B M Ryan

Fonterra (Ying) Dairy Farm Company Limited [China]:
S I Ahmed (R), H Berghorst (R), G A Duncan, P D Washer, X Xu

Fonterra (Yutian) Dairy Farm Company Limited [China]:
S I Ahmed (R), H Berghorst (R), G A Duncan, P D Washer, X Xu

Fonterra Australia Pty Ltd [Australia]:
R Dedoncker, G A Duncan

Fonterra Brands (Asia Holdings) Pte. Ltd [Singapore]:
S I Ahmed (R), M R Cronin (R), A Dasqupta (R), S Goh, J Swales

Fonterra Brands (Australia) Pty Ltd [Australia]:
R Dedoncker, G A Duncan

Fonterra Brands (Far East) Limited [Hong Kong]:
G A Duncan, P D Washer

Fonterra Brands (Guangzhou) Ltd [China] (in liquidation):
T T Lye, P A Turner, K A Wickham

Fonterra Brands (Hong Kong) Limited [Hong Kong]:
W Y Chan, G A Duncan, J Ho (R), P D Washer

Fonterra Brands (Malaysia) Sdn Bhd [Malaysia]:
R M Kennerley, J Oh, V Sivaraja

Fonterra Brands (New Young) Pte. Ltd [Singapore]:
S Goh, Y Li, C Lin, Y Lin, J Ling, P D Washer

Fonterra Brands (Singapore) Pte. Ltd [Singapore]:
M R Cronin (R), S Goh, C C Pheng, J Swales

Fonterra Brands (Thailand) Ltd [Thailand]:
R M Kennerley, S Pronanunt, P A Richards, F Spinelli (R), S Totana

Fonterra Brands (Viet Nam) Company Limited [Vietnam]:
R M Kennerley, P Richards

Fonterra Brands Indonesia, PT [Indonesia]:
D M Irfani, S S Rapaka, C A Salinas Robeson, G Thiagarajan

Fonterra Brands Lanka (Private) Limited [Sri Lanka]:
J H P Gallage (R), R M Kennerley, T Salpitikotala, S Sethi (R), V Sivaraja

Fonterra Brands Manufacturing Indonesia, PT [Indonesia]:
M Namjoshi, M A Nasution, S S Rapaka, C A Salinas Robeson, T A Siswanto

Fonterra Brands Myanmar Co Ltd [Myanmar]:
G A Duncan, P Richards, C D Wickramanayake

Fonterra Brands Phils. Inc [Philippines]:
L Barin (R), M T Boness, R Cook, C Ferrer, R M Kennerley, R A Mendoza, L De Velez

Fonterra Chile SpA [Chile]:
A J Cordner, G A Duncan, J P Egaña Bertoglia (A), R Lavados (A), P L Linhares (A) (R), R Sepúlveda Seminario, F Spinelli (R)

Fonterra Commercial Trading (Shanghai) Company Limited [China]:
R J Allen (R), G A Duncan, J Ruan, P D Washer, C Zhu (R)

Fonterra Commercial Trading (Tangshan) Company Limited [China]:
G A Duncan, J Ruan, P D Washer

Fonterra Egypt Limited [Egypt]:
A Anwar, G A Duncan

Fonterra Europe Manufacturing B.V. [Netherlands]:
D Krabbe, B Mealings (R), B M Ryan

Fonterra Europe Manufacturing Holding B.V. [Netherlands]:
G A Duncan, H Huistra

Fonterra Foodservices (USA), Inc. [United States]:
N R Christiansen, J P Coote, G A Duncan

Fonterra Global Business Services Asia Sdn Bhd [Malaysia]:
J Oh, V Sivaraja

Fonterra India Private Limited [India]:
A Aggarwal, H D Gowans, K M Turner (R), S G Mathews

Fonterra Ingredients Australia Pty Ltd [Australia]:
R Dedoncker, G A Duncan

Fonterra Middle East FZE [United Arab Emirates]:
G A Duncan, S Penfold

Fonterra MIH Holdings Brasil Ltda [Brazil]:
R F Aracil Filho, P C C Frieta Guedes (R), A R V Januario Oliveira (R), B de Luca Zanatta

Fonterra Milk Australia Pty Ltd [Australia]:
R Dedoncker, G A Duncan

Fonterra Tangshan Dairy Farm (HK) Limited [Hong Kong]:
H Berghorst (R), G A Duncan, X Xu

Fonterra Venezuela, S.A. [Venezuela]:
G A Duncan, F C Ortega Becea

Inversiones Dairy Enterprises S.A. [Chile]:
A J Cordner, G A Duncan, J P Egaña Bertoglia (A), R Lavados (A), P L Linhares (A)(R), R Sepúlveda Seminario

Key Ingredients, Inc. [United States]:
N R Christiansen, J P Coote, G A Duncan, B M Ryan

Milk Products Holdings (North America) Inc. [United States]:
N R Christiansen, J P Coote, B M Ryan

New Tai Milk Products Co Ltd [Taiwan]:
T Chow, C Lee, G Lee, K Lee, M R Robins, B M Ryan (R), P D Washer, K A Wickham (R)

New Zealand Milk (Australasia) Pty Ltd [Australia]:
R Dedoncker, G A Duncan

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]:
A B Abubeker, M B Abubeker, G Amade, F Spinelli, M Woodward

Newdale Dairies (Private) Limited [Sri Lanka]:
J H P Gallage (R), R M Kennerley, T Salpitikorala, S Sethi (R), V Sivaraja

NZMP (AEM) Ltd [United Kingdom] (in liquidation):
M Boyd, G A Duncan, H Huistra (R), G R Sharma

NZMP Fonterra Nigeria Limited [Nigeria]:
G A Duncan, H Huistra

Pure Source Dairy Farm Company Limited [China]:
H Berghorst (R), M P Campbell, L Deng, G A Duncan, J F Ginascol (R), R M Kennerley (R), J Murphy

Sociedad Agrícola y Lechera Praderas Australes S.A. ("Pradesur") [Chile]:
E Becker, M Kunstmann (R), A L Raddatz Vargas, R Waldspurger

Sociedad Procesadora de Leche del Sur S.A. ("Prolesur S.A.") [Chile]:
C U Alcade (R), J Barria Pina (R), M P Campbell, L M Patron Costas (A)(R), H Covarrubias Lalanne, S Diez Arriagada (A), S Jimenez, R Lavados McKenzie (R), P L Linhares (A)(R), J P Matus Pickering (A), S Oddo Gómez (R), C Perez-Cotapos Subercaseaux (A), G V Varela Alfonso, A S Vega (A), T Walker Prieto (R), K A Wickham

Soprole Inversiones SA [Chile]:
M P Campbell, H Covarrubias Lalanne, S Diez Arrigada (A), S Jimenez, P L Linhares (A) (R), J P Matus Pickering (A), C Perez-Cotapos Subercaseaux (A), R Sepúlveda Seminario (R), F Spinelli (R), A D Turnbull (R), G V Varela Alfonso, A S Vega (A), K A Wickham, J Swales (R)

Soprole S.A. [Chile]:
M P Campbell, H Covarrubias Lalanne, S Diez Arrigada (A), S Jimenez, P C Lluch (A), J P Matus Pickering (A), C Perez-Cotapos Subercaseaux (A), R Sepúlveda Seminario (R), A D Turnbull (R), G V Varela Alfonso, A S Vega (A), K A Wickham, J Swales (R)

Tangshan Fonterra Dairy Farm Ltd. [China]:
H Berghorst (R), G A Duncan, Q Jiang, P D Washer, X Xu

Unifood Holding B.V. [Netherlands]:
M P Campbell, H Huistra, M Ivanov, A Sirotinin

Unifood LLC [Russian Federation]:
M P Campbell, H Huistra, M Ivanov, A Sirotinin

United Milk Tasmania Pty. Limited [Australia]:
R Dedoncker, G A Duncan

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.

ANALYSIS OF SHAREHOLDING

Analysis of Fonterra's shareholding as at 31 July 2020:

FCG Largest Recorded Share Holdings[1]

NAME	NUMBER OF SHARES	% OF SHARES
Fonterra Farmer Custodian Limited	104,581,516	6.48
Singletree Dairies 2013 Limited	1,012,776	0.06
Ellis-Lea Farms (2000) Limited – Lamorna	977,890	0.06
Silverdale Farm Limited	973,679	0.06
Southern Pastures (Manako Farm) Limited Partnership	944,515	0.05
Coringa Park Dairies Limited	944,415	0.05
Stewart Partnership Limited	922,500	0.05
Arlanda Limited	920,075	0.05
Moffitt Dairy Limited	910,713	0.05
Baytown Investments Limited	890,348	0.05
R.E.M. Farming Limited	883,811	0.05
McBain Farms Limited	867,790	0.05
Cookstin Dairies Limited	839,600	0.05
Bel Group Limited – Ashton	836,353	0.05
Rangitata Dairies Limited Partnership	836,011	0.05
Auchenbrae Farm Limited	829,147	0.05
Ellis-Lea Farms (2000) Limited – Grandview	811,143	0.05
Nukiwai Pastoral Limited	810,487	0.05
E F Deadman Limited	804,707	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 2020, 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 2020 was 1,612,097,067.

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 2020

FCG Fonterra Co-operative Shares

Analysis of Fonterra Co-operative Shares as at 31 July 2020:

FROM-TO	HOLDER COUNT	%	HOLDING QUANTITY	%
1–50,000	1,071	11.36	30,512,153	1.89
50,001–100,000	2,467	26.17	189,727,318	11.77
100,001–200,000	3,342	35.44	473,218,680	29.35
200,001–400,000	2,064	21.89	564,636,334	35.03
400,001 and over	485	5.14	354,002,582	21.96

ANALYSIS OF CAPITAL NOTE AND RETAIL BOND HOLDING

Analysis of Fonterra's Capital Note Holding as at 5 August 2020:

FCGHA Capital Notes

FROM–TO	HOLDER COUNT	%	HOLDING QUANTITY	%
1–1,000	9	1.38	3,974	0.00
1,001–5,000	25	3.83	69,634	0.07
5,001–10,000	220	33.69	1,570,015	1.53
10,001–100,000	373	57.12	10,893,882	10.63
100,001 and over	26	3.98	89,981,749	87.77

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 5 August 2020:

FCG030 $350 million Retail Bond issue

FROM–TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000–9,999	33	6.11	200,000	0.06
10,000–49,999	264	48.89	5,932,000	1.69
50,000–99,999	70	12.96	4,342,000	1.24
100,000–999,999	138	25.56	46,113,000	13.18
1,000,000 and over	35	6.48	293,413,000	83.83

FCG040 $150 million Retail Bond issue

FROM–TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000–9,999	58	9.71	337,000	0.22
10,000–49,999	373	62.48	7,794,000	5.20
50,000–99,999	73	12.23	4,458,000	2.97
100,000–999,999	70	11.73	14,776,000	9.85
1,000,000 and over	23	3.85	122,635,000	81.76

FCG050 $100 million Retail Bond issue

FROM–TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000–9,999	13	5.56	97,000	0.10
10,000–49,999	154	65.81	3,542,000	3.54
50,000–99,999	26	11.11	1,584,000	1.58
100,000–999,999	23	9.83	7,264,000	7.27
1,000,000 and over	18	7.69	87,513,000	87.51

CURRENT CREDIT RATING STATUS

Standard & Poor's long-term rating for Fonterra is A- with a rating outlook of stable. Fitch's long-term 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 (FCGHA) are debt securities as defined in 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 is not required to comply with certain Listing Rules which apply to an issuer of quoted equity securities.

NZX TRADING HALTS

No trading halts were placed on Fonterra securities by NZX in the financial year ended 31 July 2020.

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 2020 there were 1,612,097,067 Fonterra Co-operative shares on issue.

Corporate Governance

Fonterra's Board, Shareholders' Council and Management recognise that strong governance plays a critical role in the success of our Co-operative and 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 globally competitive New Zealand based dairy co-operative. These are continuously reviewed to ensure best practice is followed.

This Corporate Governance Statement is current as at 17 September 2020 and has been approved by the Fonterra Co-operative Group Limited Board.

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 2020 (NZX Code).

Fonterra focuses on governance in a way that promotes:

- the interests of our farmer shareholders, unit holders and other key stakeholders
- our Co-operative's purpose, values and strategy
- 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 us in meeting our 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 our farmer shareholders, employees, customers, unit holders, debt investors, governments and the communities we operate in.

PRINCIPLE 1: CODE OF ETHICAL BEHAVIOUR

Code of Ethics

A culture of honesty, integrity and transparency is integral to our purpose and securing our reputation.

We expect our Directors, officers and employees to maintain high ethical standards and to operate ethically and legally in the countries where we do business, and reflect our guiding philosophy, Good Together, through all their behaviours, choices and decisions.

Fonterra's Code of Ethics comprises the following core documents:

FONTERRA – CODE OF ETHICS

- The Way We Work (*Code of Business Conduct*)
- Board Charter
- Global Ethical Behaviour Policy

BOARD CODE OF CONDUCT

These documents are available on fonterra.com and are supported by our other policy documents and our employment agreements. They 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;
- how to deal with conflicts of interest;
- the use of corporate information, assets and property;
- procedures for giving and receiving gifts;
- procedures for whistle blowing; and
- how to manage breaches of the Code of Ethics.

We have a Code of Business Conduct, The Way We Work, which guides us in how we apply our values, every day. This year we updated The Way We Work to ensure that it reflects Good Together and aligns with our core goals of Healthy People, Healthy Environment and Healthy Business. The Board has also developed a Board Code of Conduct for Directors.

Fonterra's Global Ethical Behaviour Policy and The Way We Work are available, in multiple languages, to all employees on the Fonterra intranet. Training on our Code of Ethics and other core global policies is an important part of our global induction programme. Our annual check-in and certification process supports our people's awareness and understanding of Fonterra's global policies and was completed by 100% of its global audience, being our people leaders, managers and other key roles. Annual refresher learning programmes on our ethical behaviour commitments, expectations, systems and processes are also required to be completed throughout our 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. The hotline allows individuals across our Co-operative to anonymously make complaints or raise issues.

In the year ended 31 July 2020, 29 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) before appropriate action is taken. Timely updates are made available to the whistleblower through the hotline.

All Fonterra employees are expected to record actual or potential conflicts using our Conflict of Interest register. 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, derivatives, 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 and is in addition to legislative requirements for trading securities in New Zealand and Australia.

The Securities Trading Policy and Standard and other key Global 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 Chair'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 Board Charter is reviewed each year and is available on fonterra.com.

Board Appointments

Fonterra's Constitution provides for a maximum of 11 Directors and sets out how they are appointed. Up to seven Directors are elected by farmer shareholders (Farmer Directors) and up to four Directors are appointed by the Board (Appointed Directors).

The Board is committed to building capabilities and maintaining the highest standards of governance in accordance with best practice. 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, globally competitive New Zealand dairy co-operative with diverse stakeholders. The skills list is reviewed annually and updated as required. The Board then develops a skills matrix by assessing the required weighting of each skill against the aggregate skills of the current Board. The skills matrix is used to identify the skills to be targeted each year as part of the Farmer Director election process and when selecting Appointed Directors. The attributes, skills list, skills matrix and the year's targeted skills are published annually 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.

The Farmer Director selection process involves a three-member Independent Selection Panel (ISP) that recommends appropriate candidates to be put to farmer shareholders for election. The members of the ISP 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 ISP. In addition to candidates assessed and recommended by the ISP, 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 Farmer Director elections are overseen by the Shareholders' Council.

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

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 Board is consulted. The Appointed Directors are ratified by farmer shareholders at the next Annual Meeting held following their appointment.

All Directors enter into written agreements establishing the terms of their appointment.

Changes to the Fonterra Board

There were a number of changes to the Fonterra Board during the financial year ended 31 July 2020:

- In November 2019, Farmer Directors Ms Donna Smit and Mr Andy Macfarlane were re-elected to the Board and Appointed Director Mr Simon Israel retired from the Board.
- In March 2020, Chairman Mr John Monaghan announced he will retire from the Board following the Annual Meeting in November 2020.
- In April 2020, Ms Holly Kramer was appointed to the Board as an Appointed Director.
- In June 2020, Farmer Director Mr Peter McBride was named as Chairman-elect.

Disclosure

Information about the experience, length of service, independence and attendance at Board meetings of each Director is disclosed at pages 167, 168, 176 and 177. The ownership interests of each Director are disclosed in the statutory information section.

Diversity and Inclusion Policy

Diversity means respect for and appreciation of differences in people, including differences in ethnicity, cultural background, gender, age, national origin, disability, sexual orientation, education, religion, personality or thinking style.

Inclusion is a sense of belonging, where people feel valued, respected and are encouraged to fully contribute in a safe and supportive environment.

Our diversity and inclusion principles of whanaungatanga (belonging), manaakitanga (care), kaitiakitanga (guardianship) and whakaohooho (inspiration) guide and enable us to attract, keep and grow our people to deliver on our purpose, values and our strategy. *You, me, us, together – Tātou, tātou.*

Fonterra publishes its Diversity and Inclusion Policy on fonterra.com. 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

Fonterra has made a formal commitment to increase the representation of women and ethnic minorities within senior leadership levels. The Board's aspirational targets and objectives are to increase women in leadership to 50%[1] by 2022 and further target 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.

Executive Leadership Gender Composition

FONTERRA MANAGEMENT TEAM	GENDER			
AS AT 31 JULY 2019	MALE	FEMALE	GENDER DIVERSE	UNDECLARED
7 FTE[3]	5	2	–	–
%	71%	29%	0%	0%

FONTERRA MANAGEMENT TEAM	GENDER			
AS AT 31 JULY 2020	MALE	FEMALE	GENDER DIVERSE	UNDECLARED
8 FTE[4,5]	6	2	–	–
%	75%	25%	0%	0%

Board Gender Composition

As the majority of Directors are elected by farmer shareholders through an independent process, the Board has not adopted gender targets for the Board in 2020. The Board remains committed to addressing the gender composition of the Board, through the appointment of Appointed Directors, building a pipeline of Directors through the Fonterra Governance Development programme and through the Farmer Director election process.

BOARD	GENDER			
AS AT 31 JULY 2019	MALE	FEMALE	GENDER DIVERSE	UNDECLARED
11	9	2	–	–
%	82%	18%	0%	0%

The gender composition of Fonterra Board changed between 2019 and 2020.

BOARD	GENDER			
AS AT 31 JULY 2020	MALE	FEMALE	GENDER DIVERSE	UNDECLARED
11	8	3	–	–
%	73%	27%	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, where possible
- 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 regular strategic readings and Directors are also expected to keep up to date with governance issues. Board visits to Fonterra's global businesses occur regularly, where possible.

Assess Performance

Directors formally assess the performance of the Board each year, and the Board reviews each Committee's performance against its Charter. 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 responsible for reviewing the Chief Executive Officer's performance.

3 Full time equivalent.
4 Full time equivalent.
5 As of 31 July 2020, the position of Managing Director People & Culture is vacant and therefore not included in this calculation.

Director Independence

The rules of the Fonterra Shareholders' Market (FSM Rules) require Fonterra to have at least two Independent Directors. In order to be an Independent Director under the FSM Rules, a Director must not be an 'employee' of Fonterra or have a 'disqualifying relationship'.

A Director has a disqualifying relationship where they have a direct or indirect interest, position, association or relationship that could reasonably influence, or could be reasonably perceived to influence, in a material way, the Director's capacity to bring an independent view to decisions relating to Fonterra, to act in Fonterra's best interests and to represent the interests of Fonterra's financial product owners generally. 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.

Fonterra currently has four Appointed Directors. As at 31 July 2020, Clinton Dines, Bruce Hassall, Holly Kramer 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 Officer 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 are formed when it is efficient or necessary to facilitate decision-making by providing for a sub-group of Directors to focus on particular areas or issues and to develop recommendations to the Board.

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

There are two non-permanent Committees, the Divestment Review Committee and the Capital Structure Committee, which were established in 2019:

- The Divestment Review Committee's purpose is to oversee material divestments and similar transactions. Mr Scott St John is the Chair of the Committee and Mr Brent Goldsack, Ms Leonie Guiney, Mr Bruce Hassall, Ms Holly Kramer and Ms Donna Smit are members of the Committee.
- The Capital Structure Committee's purpose is to provide guidance over Management's review of Fonterra's capital structure. Mr Bruce Hassall is the Chair of the Committee and Mr Brent Goldsack, Ms Leonie Guiney, Mr Peter McBride and Mr John Nicholls are members of the Committee.

The non-permanent Board Committees operate under separate Terms of Reference which define their respective purposes and responsibilities.

COMMITTEE OR GROUP	MEMBERSHIP AS AT 31 JULY 2020	PURPOSE
Appointments and Remuneration Committee	John Monaghan (Chair) Clinton Dines[6] Holly Kramer Andrew Macfarlane Peter McBride Bruce Hassall[6] (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[6] (Chair) Leonie Guiney Andrew Macfarlane Peter McBride Scott St John[6]	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 Peter McBride John Nicholls Donna Smit	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[6,7] (Chair) Bruce Hassall[6,7] Brent Goldsack Andrew Wallace[7,8] Bill Donaldson[8]	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. The Milk Price Panel does not determine the Farmgate Milk Price, as this is a decision for the Board.
Safety and Risk Committee	Leonie Guiney (Chair) Clinton Dines[6] Brent Goldsack John Nicholls Scott St John[6]	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.

6 Independent Director
7 Independent member
8 Appointed by the Shareholders' Council

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	15	14	–	–	8	7	–	–	–	–	2	2
Brent Goldsack	14	13	–	–	–	–	6	6	7	7	4	4
Leonie Guiney	15	14	7	7	–	–	–	–	–	–	4	4
Bruce Hassall	15	14	7	7	8	8	–	–	7	7	2	1
Simon Israel	5	3	–	–	2	1	–	–	–	–	–	–
Holly Kramer	4	3	–	–	3	3	–	–	–	–	–	–
Andrew Macfarlane	15	15	4	3	8	8	6	6	–	–	–	–
Peter McBride	15	15	7	6	6	6	6	5	–	–	–	–
John Monaghan	15	15	3	3	8	8	–	–	–	–	–	–
John Nicholls	15	14	–	–	–	–	6	6	–	–	2	2
Donna Smit	15	15	3	3	–	–	6	6	–	–	–	–
Scott St John	15	15	7	7	–	–	–	–	7	7	4	4

Audit and Finance Committee

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

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 Appointed Directors.

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

Fonterra does not consider that this is a significant issue, as the Audit and Finance Committee is chaired by an independent Appointed 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 Appointed Directors.

Employees attend Audit and Finance Committee and Appointments and Remuneration Committee meetings only at the invitation of the respective Committee.

Milk Price Panel

The Dairy Industry Restructuring Act 2001 (New Zealand) requires that the Chair and a majority of the members of the Milk Price 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 independent members. As at 31 July 2020, Scott St John, Bruce Hassall and Andrew Wallace were (and continue to be) independent members of the Milk Price Panel.

Pursuant to the Dairy Industry Restructuring Amendment Act 2020, with effect from 1 June 2021, Fonterra must appoint one member of the Milk Price Panel who is nominated by the Minister.

Nominations Committee

The Appointments and Remuneration Committee fulfils the role of a nominations committee in respect of the appointment of Appointed Directors. The election and selection process for Farmer Directors and Appointed Directors is explained above under Board Appointments at page 165.

Takeover Offer

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

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 Global Disclosure Policy to ensure compliance with the NZX and FSM Listing Rules regarding continuous disclosure. The Global Disclosure Policy governs Fonterra's communications with investors and market participants, and the disclosure of information relevant to Fonterra. The Global Disclosure Policy and the underlying Global Disclosure Standard are available on fonterra.com.

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

Fonterra has the following documents available on fonterra.com:

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

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

Non-Financial Reporting

Fonterra is guided by international best practice and, reflecting the core role of sustainability within our strategy, we are on a journey towards more integrated reporting.

In this Annual Report we provide coverage of both financial and non-financial matters. Non-financial reporting includes coverage of our social and environmental performance in the Healthy People and Healthy Environment sections, and our approach to governance in this Corporate Governance section. Our financial performance is reported on in our Healthy Business section.

In November 2019 Fonterra issued its third Sustainability Report, which is prepared in accordance with the Global Reporting Initiative (GRI) Standards and is independently assured. This further expands the coverage of our non-financial reporting, including consideration of material environmental, social and governance (ESG) factors and performances against targets. We have adopted this internationally recognised reporting framework to help users of our Sustainability Report more easily compare our disclosed information and performance with others. We plan to release the Sustainability Report annually, with the next report due to be issued later this year.

PRINCIPLE 5: REMUNERATION

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

Director Remuneration

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

The members of the Directors' Remuneration Committee as at 31 July 2020 were David Gasquoine (Chair), Ellen Bartlett, John Gregan, Glenn Holmes, Scott Montgomerie and Stephen Silcock. Directors and employees only attend Directors' Remuneration Committee meetings at the invitation of the Committee.

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.

Further details of the Directors' remuneration are contained on pages 155 and 156.

Remuneration of our People

The remuneration of our Chief Executive Officer (CEO) and Management is governed by the Appointments and Remuneration Committee (ARC), who assists the Board in fulfilling its corporate governance responsibilities relating to remuneration, recruitment and retention. Fonterra has a Remuneration and Rewards Global Standard which outlines our overall remuneration framework.

The ARC oversees and provides counsel on Fonterra's People Strategy, including key priorities and milestones, as well as noting progress on culture, talent and leadership activities and diversity and inclusion.

During the year ended 31 July 2020 (FY20), the ARC engaged the services of an independent external consultant to provide guidance on the design and development of the new CEO and Fonterra Management Team (FMT) Executive Incentive, to replace the existing FY19-21 Long-Term Incentive. The engagement of an independent consultant ensured that the ARC did not receive advice solely from Management or advisors commissioned by Management.

Remuneration Strategy

Fonterra's remuneration strategy has been designed to align with and support our philosophy of Good Together through:

- Our purpose
- Our values
- Our business strategies and goals

These are the foundation of our Co-operative and the lens through which all our behaviors, decisions and choices are made.

Executive Remuneration Framework

Fonterra's executive remuneration framework follows three simple principles:

ATTRACT AND RETAIN KEY TALENT

ENSURE A STRONG LINK BETWEEN BUSINESS PERFORMANCE AND REWARD

REWARD OUR PEOPLE EQUITABLY

The remuneration framework for our CEO and FMT is based on a total remuneration approach which is delivered through fixed remuneration and variable (at risk) components as outlined below.

In FY20, the ARC and Board approved a new variable Executive Incentive Plan (EIP) for the CEO and FMT, which replaced the Short-Term Incentive (STI) and Long-Term Incentive (LTI) programmes for FY20. The purpose of the new design is to have a fit for purpose long-term incentive that focuses the CEO and FMT on the execution of our new strategy, asset rationalisation, and business repositioning of the strategy transformation.

The new design is a modified STI which focuses the FMT on annual strategy execution and defers a portion of the incentive over three years. The final vesting of the deferred value is modified using a long-term performance hurdle of Return on Capital (ROC) over the Milk Price Weighted Average Cost of Capital (WACC).

Both the fixed and variable remuneration components of the CEO and FMT are outlined below:

	FIXED ELEMENT	VARIABLE ELEMENT
	FIXED REMUNERATION	EXECUTIVE INCENTIVE PLAN (EIP)
How it's delivered	Cash	Cash (with a deferred cash component)
How it works	- consists of base salary, KiwiSaver or Superannuation, and insurance - benchmarked against the external market using comparable companies in the country or region where the individual is located - benchmarked to the median of the relative peer group - reviewed annually based on performance and behaviours	- CEO Target is 120% of Base Remuneration - eligible FMT members Target is 110% of Base Remuneration - the incentive is capped at 150% payment of on-target earnings - calculated based on achievement against a Fonterra Group scorecard which aligns to our triple bottom line (Healthy People, Healthy Environment and Healthy Business) - our measures within the scorecard include Health and Safety, Food Safety Quality, Lowering our Environmental Footprint, Group Return on Capital and Total Farmer Payout - achievement is determined over a one-year performance period (1 August – 31 July, aligned to Fonterra's financial year) - paid as cash, with 70% cash paid in the year earned and 30% deferred cash which vests three years after grant, subject to continued employment and a performance hurdle of Group ROC over the Milk Price WACC
What it does	Attracts and retains key talent in the markets in which we operate	Aligns the CEO and eligible FMT members on delivering exceptional results over both the short and long term for our farmer owners

The FY20 EIP for the CEO and eligible FMT members replaces all previous LTI programmes for those individuals, including the FY18-20 and FY19-21 LTI schemes.

The CEO and eligible FMT members participate in the EIP. FMT members who do not participate in the EIP are entitled to fixed remuneration and participate in the Group STI scheme.

The pay-mix of on-target total remuneration for the CEO is shown below.

Executive Remuneration Benchmarking

Pay benchmarking for the CEO, eligible FMT members and certain senior roles is conducted using independent third-party remuneration advisors 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.

CEO Remuneration

Total Remuneration Paid for FY20

Total Remuneration Paid reflects remuneration in the period it is received, rather than the performance period to which the payment relates.

Miles Hurrell has held the role of Chief Executive Officer for the year ended 31 July 2020 (FY20). His annual fixed remuneration as at 31 July 2020 is $1,950,000. The variable pay component paid in FY20 was for FY19 and is $0. The total remuneration received by Mr Hurrell in FY20 was $2,008,500, as shown in the table below.

FIXED REMUNERATION		PAY FOR PERFORMANCE		TOTAL REMUNERATION PAID
SALARY	BENEFITS[1]	STI	LTI	
$1,950,000	$58,500	$0[2]	$0[3]	$2,008,500

1 Employer superannuation contribution.
2 In FY19 the Board exercised its discretion to not award any STI payment for the FY19 performance year.
3 No LTI was payable to the CEO in FY20 for the FY19 performance year.

Total Remuneration Earned for FY20

Total Remuneration Earned illustrates the remuneration outcomes for the FY20 performance period, providing what we believe is a more transparent indication of pay for performance. Variable pay outcomes are listed against the relevant performance period, regardless of when the payment is made. We believe this reporting approach provides the right balance of transparency and disclosure while accurately reflecting the outcomes for a given fiscal year.

FIXED REMUNERATION		PAY FOR PERFORMANCE[2]		TOTAL REMUNERATION EARNED[5]
SALARY	BENEFITS[1]	FY20 EIP EARNED[3] (70%)	FY20 EIP DEFERRED TO FY23[4] (30%)	
$1,950,000	$153,410	$2,214,576	$949,104	$5,267,090

1 Employer superannuation contribution includes portion paid on base remuneration and incentive earned.
2 Based on FY20 Group Scorecard results.
3 Subject to meeting the required short-term performance hurdles, this is due to be paid in October 2020.
4 Subject to meeting the required long-term performance hurdles, this is due to be paid in October 2023.
5 Not inclusive of the amount relating to the provision recognised by Fonterra in relation to the pending judicial interpretation of the Holidays Act 2003 in New Zealand.

PRINCIPLE 6: RISK MANAGEMENT

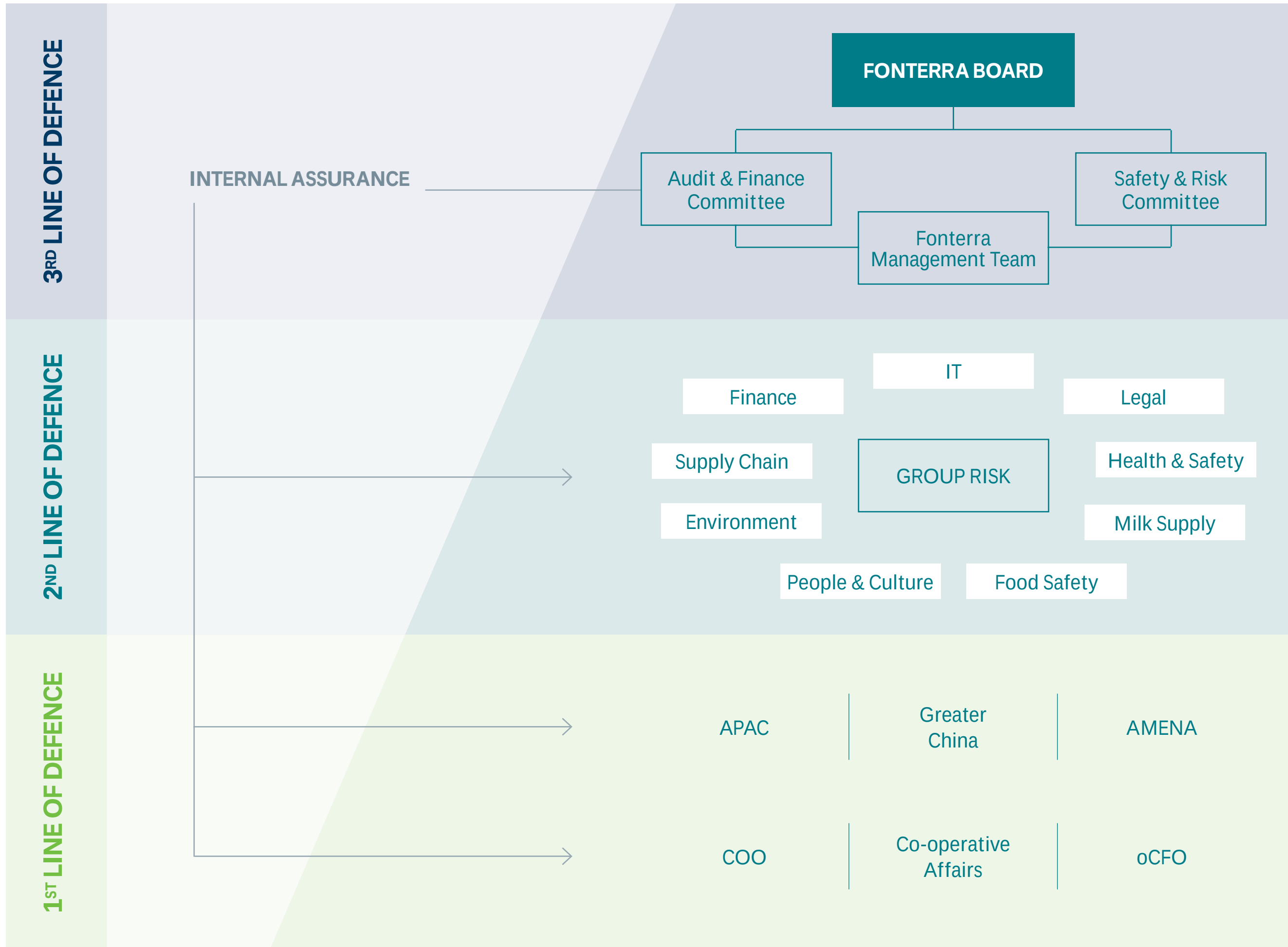
Risk Management Framework

The Board, supported by the Safety and Risk Committee, has overall responsibility for ensuring:

- the effective implementation of risk management systems in line with our Global Risk Management Policy
- that Fonterra operates within its risk appetite settings

Fonterra's Risk Management Policy is aligned to the *ISO31000 Risk Management – Principles & Guidelines 2018*. The policy outlines our risk principles and accountabilities, setting out the requirements for managing and reporting risk across our global business. It is designed to embed a co-operative-wide risk management capability, establishing a consistent approach to identifying, assessing, controlling, monitoring and reporting on our key risks. These include risks that may affect our Co-operative's ability to achieve its objectives and protect our people, shareholders, customers and reputation.

Our risk management framework is based on the three lines of defence model. Fonterra's first line of defence is our people. Managers and individual business units hold clear risk management responsibilities for business risk management, including requirements to ensure compliance with external requirements as well as Fonterra's Global Policy standards. Our risk management and assurance processes support this via our group functions, ensuring a consistent best-practice approach to risk management across the business, aligned with our risk appetite settings. These processes are overseen by the Fonterra Management Team alongside a dedicated internal audit function, taking a risk-based approach to oversight of key business activities and reporting to the Board via the Safety and Risk Committee and the Audit and Finance Committee.



As part of its risk management responsibility, the Safety and Risk Committee receives regular reports of the emerging and existing key risks and the measures in place to mitigate the impact of key risks on our Co-operative.

The Safety and Risk Committee also receives regular reports on the health and safety of our people as part of Fonterra's risk management framework. For further information about Fonterra's Health & Safety performance in FY20, please refer to the Health & Safety section on page 174.

Risk Management Focus in FY20

Throughout FY20, we have evaluated our risk appetite settings, revised our risk management policy and framework, and strengthened the processes for the identification and reporting of risks.

As part of our strategy refresh, our Group Risk Appetite settings were assessed to provide clarity of the acceptable level of risk to be taken in pursuit of our strategic objectives. This involved the Fonterra Management Team and Board participating in risk identification, definition and appetite workshops, further strengthening our ability to identify, define and establish tolerance levels for the risks associated with implementing our refreshed business strategy.

Strengthening the connectivity between our Co-operative's first line (bottom-up) and third line (top-down) of defence is crucial to ensure risk management information, including the effectiveness of risk controls, is captured and provided to both Management and the Board. This has been reinforced in FY20 through the refresh of our Risk Management Policy, Framework, and Standard, ensuring a consistent approach to risk management is ingrained in our day-to-day operations at a business unit level. This is monitored and measured via our integrated business planning process, with oversight of the effectiveness of controls provided by our annual audit plan.

Covid-19

Fonterra's response to the global Covid-19 outbreak was first initiated in January 2020. As with many businesses, the pandemic has had varying levels of impact across our supply chain and within the global markets in which we operate. Fonterra has utilised its Group Crisis Response plan and Incident Management Team to enable an expedited and appropriate response at each stage of the situation globally. Key impact areas include:

- Supply chain disruptions
- Health risks to our people
- Market volatility
- Social distancing and increased safety measures at our manufacturing and distribution sites
- Fluctuations in customer demand and changes to global consumption habits

Fonterra's response to the pandemic is ongoing. To ensure the continuity of Fonterra's operations during FY21, a number of control measures have been put in place to mitigate risks to our operations. While Fonterra's Incident Management framework has allowed our operations and core business activities to continue, ongoing challenges will be presented to the organisation by Covid-19. These challenges, which include the economic impacts of the virus on the global markets in which we operate, will require continued monitoring, analysis and management for a sustained period.

Key Risks

Fonterra's Risk Management Framework focuses on the key risks Fonterra faces globally in implementing our business strategy. Regular monitoring of the risk environment occurs via our integrated business planning process, specific technical risk councils and audit outcomes.

KEY RISK	RISK DESCRIPTION	RISK MITIGATION MEASURES
Strategic Deployment	Sub-optimal execution of healthy environment, healthy people and healthy business strategic initiatives.	• Integrated business planning enables regular proactive monitoring of strategic deployment milestones including forecast and interim returns. • Best practice programme management. • Strong focus on capital expenditure and balance sheet management.
Market Price and Currency	The risk that price movement within the global dairy markets in which Fonterra operates is not appropriately managed or responded to, adversely impacting operations and profitability.	• Established financial assurance framework including oversight from the Finance Risk Committee. • Regular review of policy settings, credit terms and payment standards. • Regular portfolio analysis and ongoing market exposure assessments.
Environmental Sustainability	Failure to enact measures to mitigate the impact or perceived impact of Fonterra's activities on the environment.	• Resourcing plans to make progress against environmental targets. Please refer to pages 18 to 23 of this report for Fonterra's sustainability goals and performance. • Proactive engagement with industry, government and regulators.
Milk Supply	Fonterra's inability to retain milk supply due to reduction of milk production driven by disruption (weather/biosecurity event), reduced returns and/or adverse regulatory settings.	• Strong financial performance. • Our purpose–Good Together. • On farm support services and frameworks. • Supplier policy settings.
Market Access and Geopolitical	The risk that changes within global markets, including economic volatility, geopolitical instability, market access and market concentration adversely impact business operations and sales.	• Trade strategy and advocacy. • Active central portfolio management including consideration of concentration risk.
Supply Chain	Disruption to production through the inability to maintain and/or effectively operate Fonterra's milk collection, manufacturing and supply chain assets.	• Efficient collection, treatment and distribution of milk. • Strong focus on global supply chain management, and proactive identification of emerging risks. • Established, robust business continuity plans to address identified supply chain continuity risks.
Health, Safety & Wellbeing	Failure to manage the health, safety and wellbeing of our people in the workplace.	• Zero tolerance for unsafe work practices. • Mature reporting of events, near misses and hazards in the enterprise wide First Priority event management tool.
People & Culture	The risk that leadership, organisational culture, and people management practices adversely impact engagement and performance.	• Ensuring our Co-operative's culture invites communication of accepted behaviours, values, leadership development and succession planning. • Global diversity and inclusion objectives in our Healthy People strategy. Please refer to pages 24 to 31 of this report for Fonterra's diversity and inclusion goals and performance. • The People & Culture function partners across the business, providing advice, tools, processes and policies to engage individuals, teams and support performance.
Social Licence to Operate	The risk that Fonterra's engagement with and treatment of the communities, stakeholders and environments where Fonterra operates globally, fails to consider potential societal impacts, and stakeholder interests.	• Our Purpose–Good Together. • A dedicated Community engagement programme.
Food Safety & Quality (FSQ)	The risk that Fonterra manufactures and supplies unsafe food or food that is perceived to be unsafe, and/or product that does not meet local and international standards and regulations.	• The FSQ framework is designed to ensure the purchase, supply and production of food is aligned with global regulatory standards as a minimum. • Third party providers undergo specific food safety and quality audits by specialists from Fonterra. • External specialists provide independent audits on manufacturing and product quality control processes within Fonterra.
Legal & Regulatory	Failure to manage or respond to changes in our legal, regulatory and compliance obligations within the markets, and geographies in which Fonterra operates globally.	• Proactive engagement on regulatory and contractual changes globally. • Global Policy Framework.
Information Technology	Failure to establish, maintain and safeguard an appropriate information technology and data management framework, including systems, that ensure the confidentiality, integrity and availability of our data, systems and supply chain.	• Reliable and trustworthy IT environment with effective management of risk including cyber security, data protection and data availability. • Established IT disaster recovery plans.

Health and Safety

It is fundamental to Fonterra that our people are healthy, live with balance and go home safe from work every day, everywhere. This is a commitment not just to employees, but also to the large number of contractors that support our business every day.

Fonterra's health and safety performance is measured using a number of reactive and preventive, leading and lagging 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.

Our TRIFR for FY20 is 5.8. On a like for like basis this is slightly higher than last year, and higher than our industry best practice goal of 5.0. We have had 10 serious harm injuries, compared to 18 in FY19 and 14 in FY18. We are pleased to report that there have been no fatalities during FY20 across our global footprint.

Keeping a continual focus on health, safety and wellbeing is essential, and we have a number of targeted programmes of work underway to support us to achieve this ambition – particularly around establishment of lead indicators, mental health, critical risk, process safety and ensuring our safety management system is robust and user friendly. Underpinning this is a focus on maintaining a strong safety culture and employee engagement in the process of managing risk.

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. KPMG was appointed as Fonterra's external auditor for the financial year ended 31 July 2020.

Fonterra has a Group Audit Independence Policy. This policy ensures that the ability of the auditor to carry out its statutory audit role is not impaired, or could be perceived to be impaired. The policy sets out the types of services that the auditor may undertake, those the auditor may only undertake with the approval of the Audit and Finance Committee, and those that are not permitted. The policy stipulates the rotation of the lead external audit partner at least every five years.

As per the policy, all non-audit services to be undertaken by the auditor require approval by the Chief Financial Officer or Director Group Finance. Regardless of the nature of the services proposed, any engagements exceeding a total of NZD200,000 must be approved by the Audit and Finance Committee.

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

The Chairman of the Audit and Finance Committee 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 fees paid to Fonterra's auditor, KPMG, are detailed in Note 6 (page 98) to the Financial Statements for the year ended 31 July 2020.

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 has an internal audit function that provides independent and objective assurance to both the Audit and Finance Committee and Management on the adequacy of risk management, control and governance processes.

Fonterra's internal audit approach 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

The appointment and removal of the Chief Internal Auditor (CIA) is subject to the approval of the Audit and Finance Committee.

The CIA develops the annual internal audit plan, which is endorsed by the Audit and Finance Committee, and is accountable for its implementation. The Audit and Finance Committee monitors progress of the internal audit plan implementation.

PRINCIPLE 8: SHAREHOLDER RIGHTS AND RELATIONS

Website

Fonterra's website (fonterra.com) provides investors and interested stakeholders access to 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 Constitution, is independent of the Board and as at 31 July 2020 comprised 25 farmer shareholders elected as Councillors, representing 25 wards across New Zealand. The 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 and Farm Source™ websites and the My Co-op mobile application. In addition, Fonterra provides farmers with the ability to receive communications (such as the Annual Report) from Fonterra electronically. Webcasts are used where appropriate.

Fonterra's communications with farmers include regular face-to-face meetings, a regular Global Dairy Update, Farm Source™ magazine, My Co-op application posts and regular emails from the Chairman, Chief Executive Officer and Regional Heads. As described above, Fonterra releases all material information to the NZX and ASX (where applicable), and complies with the FSM Rules with respect to shareholder communications.

Farmer Meetings

A schedule of regular meetings with farmer shareholders, sharemilkers and farm workers are usually held across the country at least twice each year. Often these are run in conjunction with the Shareholders' Council and Farm Source™ regional teams. However, due to Covid-19 restrictions, this year Fonterra has been unable to hold a number of these regular face-to-face meetings and offered stakeholders the opportunity to attend a range of online meetings instead.

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. Fonterra also uses emails, including regular updates from the Chairman, Chief Executive Officer 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.

The My Co-op application provides updated news and information from across our Co-operative and the industry including milk price announcements, updates from the Chairman and Chief Executive Officer. The On Farm application 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 Chief Executive Officer attends the Annual Meeting.

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 in line with Fonterra's Constitution and are published on fonterra.com.

Annual Report

The Group's Annual Report, together with the half-year report 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 FSM Rules. In particular, FSM Rule 4.1.1 restricts Fonterra from entering into any transaction (or series of linked or related transactions) which would significantly change, indirectly or directly, the nature of Fonterra's business or involves a gross value above 50% of the average market capitalisation of Fonterra, unless the transaction(s) is approved by (or is conditional on the 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.

Board of Directors

JOHN MONAGHAN

BOARD RESPONSIBILITIES *Farmer-elected Director, Chairman, Chair of the Appointments and Remuneration Committee and Member of the Governance Development 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. In March 2019, John announced he will retire from the Board following the Annual Meeting in November 2020. 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.

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 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 the Port of Newcastle, Sky Renewables Pty Limited and Zanaga Iron Ore Company Limited.
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

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 and is a Director of Rabobank NZ Limited. Brent previously served on the Board of Canterbury Grasslands Limited.
Brent is actively involved as a shareholder of three dairy operations in the Waikato. 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

ANDY MACFARLANE

BOARD RESPONSIBILITIES *Farmer-elected Director, Member of the Appointments and Remuneration Committee, the Audit and Finance Committee and the Co-operative Relations Committee*
TERM OF OFFICE *Elected 2017, last re-elected 2019*

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.Sc

PETER MCBRIDE

BOARD RESPONSIBILITIES *Farmer-elected Director, Chairman-elect, Member of the Appointments and Remuneration Committee, the Audit and Finance Committee, the Co-operative Relations Committee and the Governance Development Committee*
TERM OF OFFICE *Elected 2018*

Peter McBride was elected to the Fonterra Board in 2018 and was announced as Chairman-elect in June 2020. 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 Chief Executive Officer of Trinity Lands Limited and 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

JOHN NICHOLLS

BOARD RESPONSIBILITIES *Farmer-elected Director, Member of the Co-operative Relations Committee and the Safety and Risk 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 Post Graduate Diploma in Agricultural Science. He has shareholding interests in the South Island, owning dairy farms in mid Canterbury.
B.Agr, PG AgrSci

LEONIE GUINEY

BOARD RESPONSIBILITIES *Farmer-elected Director, Chair of the Safety and Risk Committee and 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 seven South Canterbury farms and Bobby Square Limited.
BAgrSci

BRUCE HASSALL

BOARD RESPONSIBILITIES *Appointed Director, Chair of the Audit and Finance Committee, Member of 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)

HOLLY KRAMER

BOARD RESPONSIBILITIES *Appointed Director, Member of the Appointments and Remuneration Committee*
TERM OF OFFICE *Appointed 2020*

Holly Kramer was appointed to the Fonterra Board in 2020. Holly has more than 25 years of extensive governance, management and product/marketing experience. She was Chief Executive Officer of major Australian retailer Best & Less. She has also held senior executive roles at Telstra Corporation, Ford Motor Company (in the US and Australia) and Pacific Brands.
Holly is currently a Director on the Boards of Woolworths, Abacus Property Group and the GO (Goodes-O'Loughlin) Foundation. She is Chair of the unlisted mortgage broking fintech, Lendi. She is also the Pro-Chancellor of Western Sydney University. Holly's previous governance roles include the Boards of Australia Post, Nine Entertainment Corporation, AMP Limited, and Telstra Clear (NZ).
BA, MBA

DONNA SMIT

BOARD RESPONSIBILITIES *Farmer-elected Director, Member of the Co-operative Relations Committee*
TERM OF OFFICE *Elected 2016, last re-elected 2019*

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 Edgecumbe, 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 Fellow 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 and manufacturing experience and financial background, and complements her deep dairy farming experience.
FCA

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 the Chair of Fisher and Paykel Healthcare.
Scott also serves on the Board of Mercury NZ Limited and NEXT Foundation. Previous roles have included Chairman of the Securities Industries Association, and membership of both the Capital Markets Development Taskforce and the Financial Markets Authority Establishment Board.
BCom, Diploma of Business

Management Team

MILES HURRELL

CHIEF EXECUTIVE OFFICER

After a 19-year career with our Co-operative, Miles Hurrell was appointed as Chief Executive Officer in August 2018. Miles' focus is on resetting the business, refreshing our Co-operative's strategy and introducing a customer-led operating model. He is also focused on leading the implementation of the value-based strategy and differentiating New Zealand milk through innovation, sustainability and efficiency.

Prior to his appointment as Chief Executive Officer, 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).

MARC RIVERS

CHIEF FINANCIAL OFFICER

Marc Rivers joined Fonterra in February 2018 as the Chief Financial Officer, responsible for our Co-operative's finances and central portfolio management.

Marc is an experienced global finance executive with strong strategic leadership capability. Prior to joining Fonterra, Marc was the CFO of the 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.

JUDITH SWALES

CHIEF EXECUTIVE OFFICER, ASIA PACIFIC (APAC)

Judith Swales leads Fonterra's business in Asia Pacific where she is responsible for all sales and marketing of Fonterra's Consumer, Foodservice and Ingredients products in the region. Judith and her team also set the global strategy for the Consumer and Foodservice businesses.

Prior to this she was Fonterra's COO Global Consumer and Foodservice having earlier led the Innovation and Transformation 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 served as a Non-Executive Director on the DuluxGroup Board from April 2011 to August 2019 and a Non-Executive Director on the Virgin Australia Board from May 2019 to August 2020.

Judith has a degree in Microbiology and Virology.

MIKE CRONIN

MANAGING DIRECTOR, CO-OPERATIVE AFFAIRS MANAGING DIRECTOR, PEOPLE & CULTURE (ACTING)

Mike Cronin oversees our Governance, Risk and Audit, Farm Source, Global Stakeholder Affairs, Maori Strategy, Communications, Legal, and Purpose teams.

Mike joined Fonterra in 2002 and has been a member of teams that have contributed to some of Fonterra's key initiatives, including Trading Among Farmers, the Governance and Representation Review, the Fonterra Purpose and The Co-operative Difference.

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 is also acting Managing Director, People & Culture where he has oversight of the team responsible for facilitating Fonterra's people strategy and employee experience.

Mike has a Bachelor of Laws and Bachelor of Arts from the University of Auckland.

FRASER WHINERAY

CHIEF OPERATING OFFICER

Fraser Whineray joined Fonterra in March 2020 as the Chief Operating Officer. He is responsible for our New Zealand manufacturing site and global supply chain operations, sustainability, innovation and R&D, IT and safety, quality and regulatory teams.

Fraser joined our Co-op from Mercury, a 100% renewable electricity retailer and generator, where he was the Chief Executive from 2014 and held executive roles since joining the company in 2008.

Fraser is no stranger to the dairy industry. He started his career as a graduate of the New Zealand Dairy Board's technical training programme and spent time at manufacturing sites that are now part of our Co-op, and also in Fonterra's export markets. He has also worked in the investment banking and forestry industries, both in New Zealand and internationally.

Fraser is a keen advocate for astute long-term decisions that leverage New Zealand's competitive advantages, including its people, for sustainable growth.

He served as a Non-Executive Director of Opus International Consultants from 2008 – 2016 and of Tilt Renewables and Chaired the Prime Minister's Business Advisory Council. In 2019 he was named the Deloitte Top 200 Chief Executive of the year.

Fraser holds an MBA from the University of Cambridge, a Bachelor of Chemical Engineering from Canterbury University and a Diploma in Dairy Science and Technology from Massey University.

KELVIN WICKHAM

CHIEF EXECUTIVE OFFICER, AFRICA, MIDDLE EAST, EUROPE, NORTH ASIA AND THE AMERICAS (AMENA)

Kelvin Wickham is responsible for the business activities of Fonterra across Consumer, Foodservice and Ingredients products in Africa, Middle East, Europe, North Asia and the Americas.

In addition, Kelvin oversees the Sports & Active Lifestyles and Medical and Healthy Ageing Nutrition units, and with his team is responsible for development of Fonterra's NZMP™ brand and sales capability.

In his previous role as COO NZMP Kelvin led the delivery of 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. In his earlier role as President Greater China and India he 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. Kelvin holds a Chemical and Materials Engineering Degree, a Master of Management and a Diploma of Dairy Science and Technology.

TEH-HAN CHOW

CHIEF EXECUTIVE OFFICER, GREATER CHINA

Teh-han Chow was appointed as the Chief Executive Officer, Fonterra Greater China in August 2020, after acting in the interim role from December 2019. In this role he is responsible for overseeing our Co-op's overall business in Greater China region, including Ingredients, Foodservice, Consumer Brands and China Farms business.

Teh-han has extensive experience leading large organisations in the food sector, as well as proven ability in business growth through innovation and putting customers front and centre.

Previously, he headed up Fonterra's NZMP Ingredients business for Greater China, South & East Asia, where he embedded sustained improvements in business performance, strong customer relationships and empowering leadership.

Before joining Fonterra in 2015, Teh-han was the CEO of Louis Dreyfus in China, a leading merchant and processor of agricultural goods. He was also Managing Director Greater China for Simplot, a food and agribusiness company.

Teh-han has a Bachelor's degree in Marketing from California State University Northridge and a Master's degree, with honours, in International Management from Thunderbird Graduate School of International Management.

CARLY ROBINSON

DIRECTOR, OFFICE OF THE CHIEF EXECUTIVE OFFICER

Carly Robinson was appointed as the Director, Office of the Chief Executive Officer in March 2020, focusing on our executive management systems and oversight of key strategic projects to support the delivery of Fonterra's top priorities and targets. Carly plays a key role in guiding the wider leadership community, helping create the best environment for enterprise-wide success.

Carly has spent over 20 years within the dairy industry, after joining the New Zealand Dairy Board's Marketing Graduate Programme in 1998. Her career has spanned a wide range of business functions, models and markets over this time, including leadership roles in sales and marketing, farmer services, strategy, sustainability, social responsibility and transformation.

Carly has spent considerable time living and working within South East Asia and Europe, and brings a real passion for customers, communities and people in her ways of working.

Carly has a Bachelor of Arts (Spanish) and Bachelor of Commerce (Economics) from the University of Auckland.

Dad & Lisa – Bay of Plenty

Directory

FONTERRA BOARD OF DIRECTORS

John Monaghan
Clinton Dines
Brent Goldsack
Leonie Guiney
Bruce Hassall
Holly Kramer
Andrew Macfarlane
Peter McBride
John Nicholls
Donna Smit
Scott St John

FONTERRA MANAGEMENT TEAM

Miles Hurrell
Marc Rivers
Judith Swales
Mike Cronin
Fraser Whineray
Kelvin Wickham
Teh-han Chow
Carly Robinson

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Fonterra
Annual Results 2020

18 September 2020

Important information

Disclaimer

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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.

Building a sustainable future

2020 – stayed focused and delivered improved results

- The Co-op's resilience demonstrated during COVID-19
- Proud of how our people came together and performed
- Reduced our environmental footprint
- Improved underlying business performance
- Significantly reduced debt
- Resumed dividend

Farmgate Milk Price	**$7.14** per kgMS
Reported Profit After Tax[1]	**$659** million
Normalised Profit After Tax[2]	**$382** million **24** cents per share[2]
Debt reduction	**$1.1** billion

1. Reported Profit After Tax includes Continuing and Discontinued Operations. Includes amounts attributable to non-controlling interests.
2. Normalised Profit After Tax includes Continuing and Discontinued Operations on a normalised basis. Excludes amounts attributable to non-controlling interests.

How the Co-op is responding to the pandemic

#1 **Our people are our number one priority**

Ability to change our product mix and move between markets

Demand for dairy proves resilient

Recognising **disruptions are our reality** and being ready to adapt to them

Stronger balance sheet gives us confidence and allows us to focus on managing COVID-19

Customers can rely on us getting **products to market** thanks to our proven supply chain

Stayed focused, improved financial performance

Improved gross profit

China Foodservice growth

Improved Ingredients' margin

Normalised EPS top end of range

24c

Continued financial discipline

Capital expenditure

Operating expenses

Reduced debt

$1.1 billion

Improved return on capital

6.7%

from 5.8%

Completed key asset sales

DFE Pharma

foodspring®

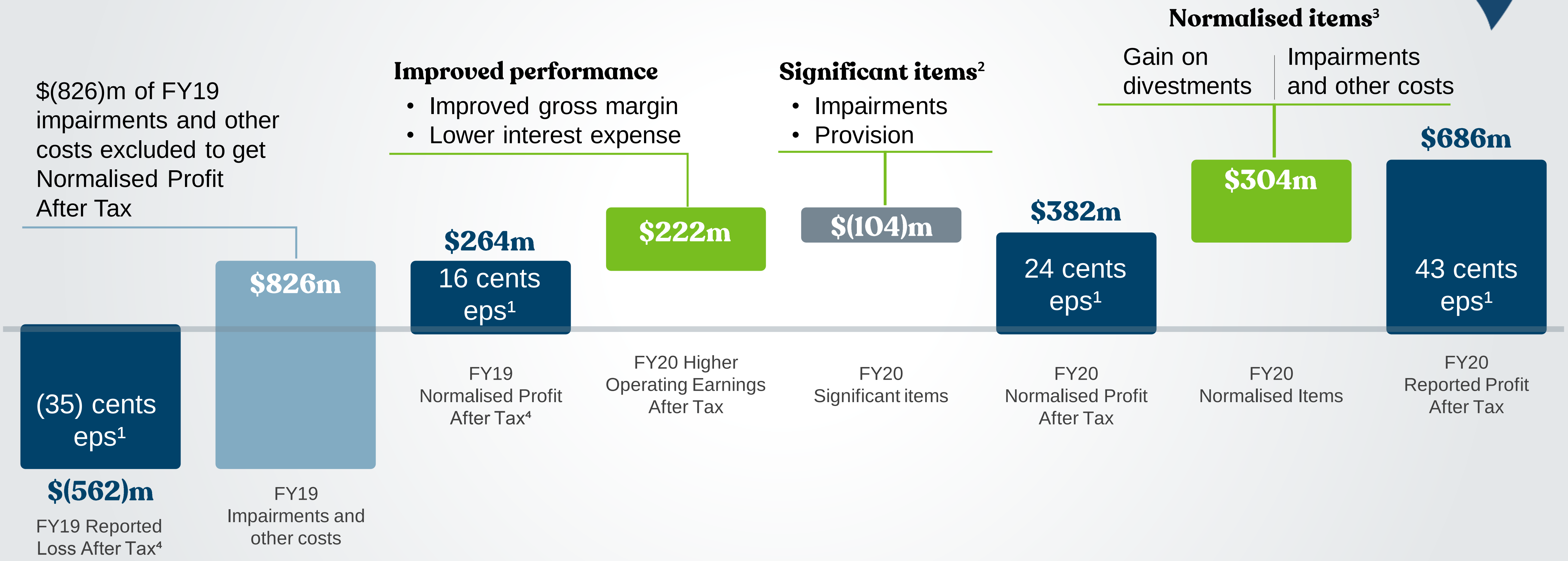
Improved financial metrics

REVENUE	GROSS PROFIT	OPERATING EXPENSES	EBIT	PROFIT AFTER TAX[1]
$21.0 billion	$3.2 billion	$2.3 billion	$879 million	$382 million
Up $1.1bn	Up $200m	Down $14m	Up $67m	Up $118m

Capital Expenditure	Free Cash Flow	Net Debt[2]	Debt to EBITDA	Dividend
$419 million	$1.8 billion	$4.7 billion	3.4x	5 cents
Down $181m	Up $733 million	Down $1.1b	From 4.4x	Up 5 cents

Note: Unless stated otherwise metrics presented are for Total Group, which includes Continuing and Discontinued Operations on a normalised basis.
1. Excludes amounts attributable to non-controlling interests.
2. Excludes Discontinued Operations.

Reported profit after tax up $1.2 billion

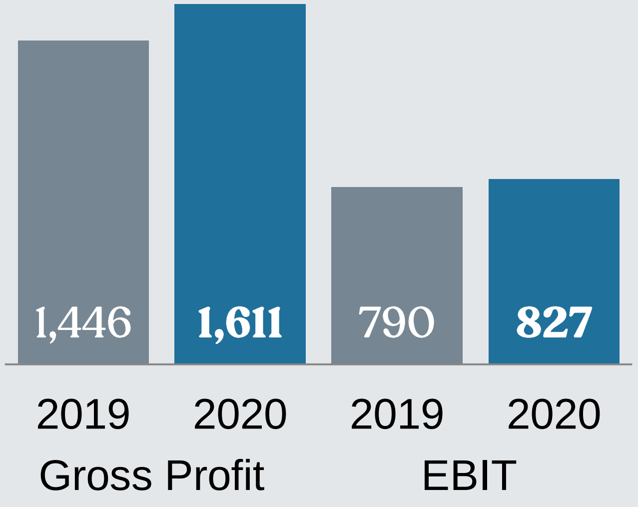


Note: Figures presented are on a after tax attributable to equity holders basis. Excludes amounts attributable to non-controlling interests.

1. Earnings per share.
2. $(104) million of Significant items, including a provision for change in treatment of holiday pay pending judicial interpretation of the requirements of legislation in New Zealand. Refer to appendix for detailed breakdown.
3. Comprised of $549 million and $(245) million positive and negative normalised items, respectively. Refer to appendix for detailed breakdown.
4. FY19 reported loss and normalised profit after tax attributable to equity holders are restated from $(557) million and $269 million, as stated in FY19 Annual Report, to $(562) million and $264 million, respectively. Restatement due to change in timing of revenue recognition for sales to distributor in Greater China.

Segment performance

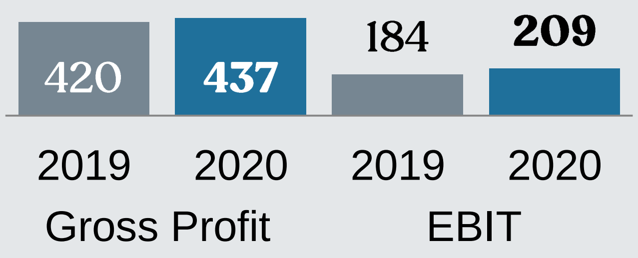
Ingredients[1,2]



2020 gross profit reflects favourable pricing relativities

2019 EBIT includes $44 million from DFE Pharma

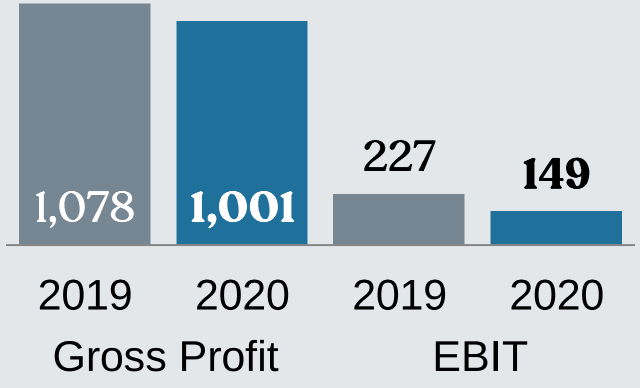
Foodservice[1]



Strong first half before COVID-19

Greater China rebounded in third quarter, but challenging fourth quarter across other regions

Consumer[1]



2020 EBIT includes $57 million of impairments

Challenges remain in Chile and Hong Kong

Note: EBIT and gross margin are normalised in NZD millions. Figures presented are for FY20 and FY19 as a comparative.

1. Does not add to Total Group due to including inter-segment sales, and excludes Discontinued Operations.
2. Ingredients performance includes the China Farming joint venture. For FY19 and FY20 China Farming joint venture reported a loss of $(19) million and $(12) million, respectively.

Improved cash flow and reduced leverage

Fonterra
Dairy for life

NET CASH FLOW[1]
$1.4 billion
Up $736m

NET DEBT[2]
$4.7 billion
Down $1.1b

DEBT/EBITDA[3]
3.4x
From 4.4x

GEARING[4]
41.4%
From 48.5%

- Net cash flow improved by $736 million:
  - Normalised EBIT up $67 million to $879 million
  - $623 million from divestments[5]
  - Capital expenditure down $181 million
- Net debt and gearing both down:
  - Improved net cash flows
  - $266 million transferred from net borrowings to disposal groups held for sale
  - Additional $533 million lease liability, which includes capitalised operating leases under new accounting rules[6]

1. Net Cash Flow is Free Cash Flow less net interest paid, dividends paid and other net financing cash flows.
2. Economic net interest-bearing debt reflects total borrowings plus bank overdraft less cash and cash equivalents and non-current interest-bearing advances, adjusted for derivatives used to manage changes in hedged risks on debt instruments. It excludes the borrowings attributed to Discontinued Operations.
3. Debt to EBITDA is calculated as total borrowings, plus bank overdraft, plus the effect of debt hedging, less a cash allowance of 75% of Cash and cash equivalents, divided by normalised earnings before interest, tax, depreciation and amortisation (normalised EBITDA) excluding Share of loss/profit of equity accounted investees and Net foreign exchange losses/gains. Both Debt and EBITDA are adjusted to include amounts relating to businesses classified as held for sale and Discontinued Operations. Prior years restated to align with credit rating methodology.
4. 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. It excludes the borrowings attributed to Discontinued Operations.
5. Includes DFE Pharma and foodspring®.
6. Represents year-on-year impact. On 1 August 2019, the adjustment to recognise operating lease liabilities on balance sheet was $581 million.

Working together to care for people and make a positive community impact

10 YEARS of providing valuable nutrition through **KickStart Breakfast**

Extended production to deliver whey protein to a customer, providing **medical nutrition** to those suffering from COVID-19

INJECTING ALMOST **$11** billion into regional communities through milk price payments

Fonterra Brands New Zealand ranked **#1** in independent Advantage customer survey

Launched **Good Together**

2 million litres of ethanol supplied to help with hand sanitiser shortage in NZ during COVID-19

Working together to achieve a healthy environment

20% reduction by 2020

Delivered on target to reduce energy intensity at our NZ manufacturing sites, from a 2003 baseline

Finalising **farm-specific greenhouse gas emissions reports.** To be sent to supplying farms in October 2020

Switching from **coal to wood pellets** at Te Awamutu site, which will reduce our coal use by almost 10%

34%

of supplying farms now have **Farm Environment Plans**

from **23%** at the start of year

Delivered on our 2020 priorities

Fonterra
Dairy for life

Healthy People – Supported regional New Zealand and focused on building a great team

Healthy Environment – Reduced our environmental footprint

Healthy Business – Hit our financial targets

Our 2021 priorities

1 Co-operative

Being here for farmers and employees

Competitive milk price

Participation in The Co-operative Difference

Health & Safety

2 Performance

Deliver on our promises

Return on Capital

Debt/EBITDA

Sustainable performance to enable continued dividend

3 Community

Do what's right for customers, communities and environment

Exceed customer expectations

Support communities through nutrition programmes

Make our low carbon footprint model a powerful point of differentiation

Our Co-op, empowering people to create goodness for generations
You, me, us together – Tātou, tātou

2021 Outlook

Forecast Farmgate Milk Price

$5.90 – $6.90
per kgMS

- Forecast Farmgate Milk Price range of $5.90-$6.90 per kgMS maintained
    - Assumes no significant impact to product pricing from global economic impact of COVID-19
    - Subject to product pricing and FX changes, as still early in the season with normal levels of high uncontracted volume
    - Dairy demand and supply is finely balanced

Forecast Earnings

20-35
cents
per share

- Full year normalised earnings per share range of 20-35 cents
- Key assumptions include:
    - Improved trading performance, driven by Asia and Greater China as COVID-19 restrictions ease
    - Lower financing costs and less significant items
    - Favourable price relativities of 2020 second half not replicated

Capital structure update

Our fundamentals

Building a financially sustainable NZ Co-op

Maintaining farmer ownership & control

Ensuring we have a sustainable milk supply

We have identified the principles that should inform the capital structure review

Ownership & Control	Sustainable Milk Supply	Protect Value	Align Incentives	Build Resilience	Transition Effectively	Access Capital	Simple
Does the structure preserve farmer ownership and control of the Co-operative for the long term?	Does the structure support our ability to attract and retain high quality, sustainable milk and provide financial flexibility for farmers?	Does the structure protect value for current Co-operative members and allow farmers to transact their membership / shareholding in a way that is fair?	Does the structure align incentives between shareholders, unitholders and management, to maximise value?	Does the structure manage redemption risk and economic shocks in a way that makes the Co-operative resilient?	Is the transition to a potential new structure affordable, achievable and fair to unitholders and farmer shareholders?	Does the structure preserve balance sheet strength and provide access to capital at a reasonable cost in the future?	Is the structure simple to understand and simple to operate for both farmers and the Co-operative?

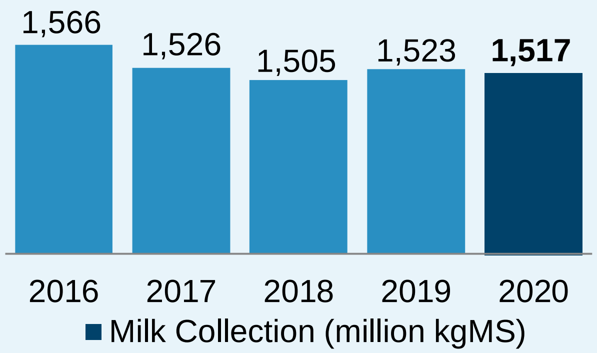
The capital structure review remains a key priority for the Co-op

1. Problems to solve
2. Principles
3. Detailed analysis of options, trade-offs, risks and benefits
4. Engagement with farmers and stakeholders

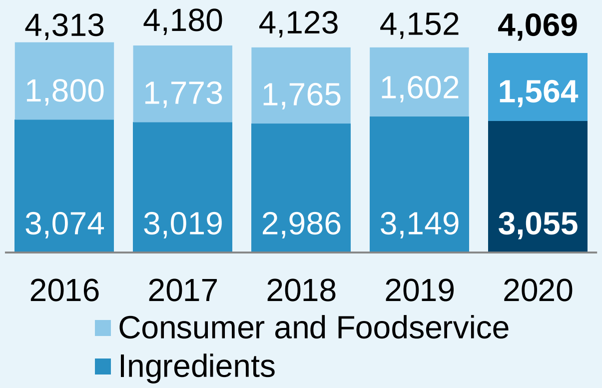
Appendix

Key financial metrics for Total Group FY20

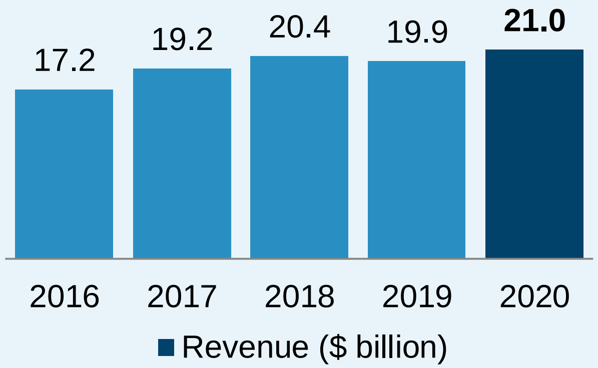
New Zealand Milk Collection



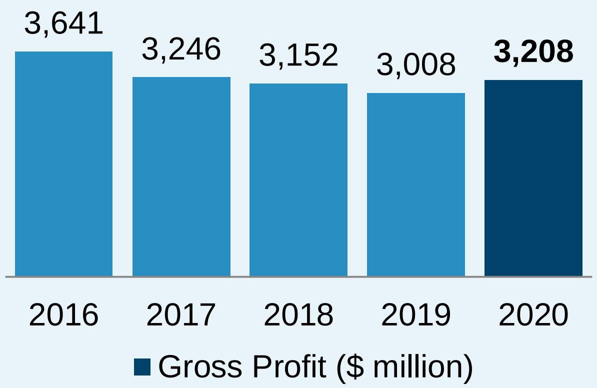
Sales Volume[1] ('000 MT)



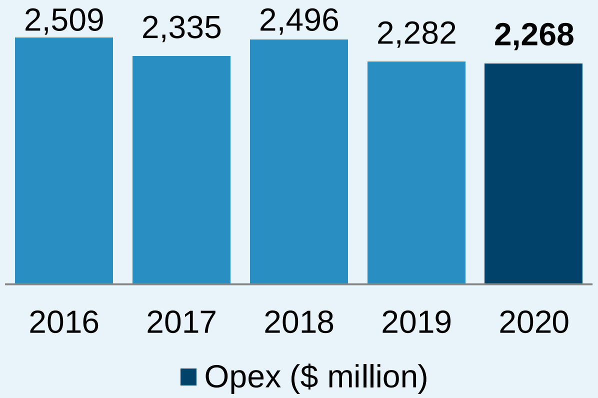
Normalised Revenue



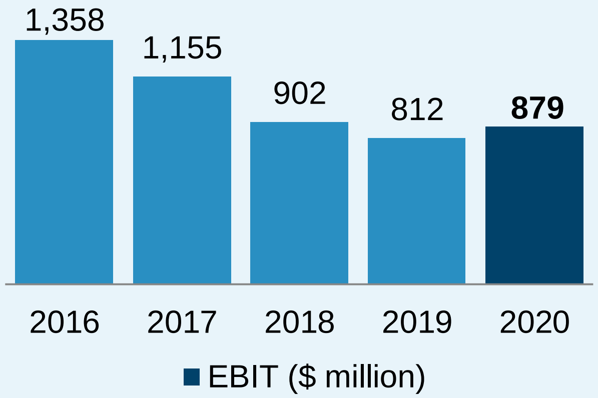
Normalised Gross Profit



Normalised OPEX



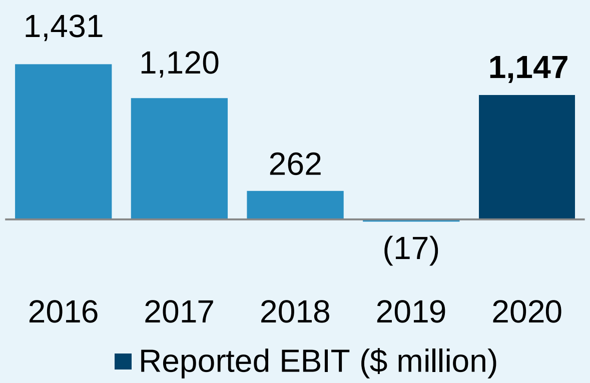
Normalised EBIT



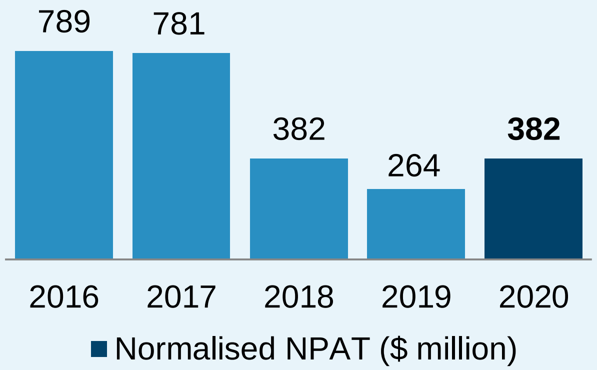
1. Consumer and Foodservice and Ingredients sales volumes do not add to total volumes displayed due to inter-group eliminations and exclude Discontinued Operations.
2. Capital expenditure comprises purchases of property, plant and equipment and intangible assets, and net purchases of livestock.

Key financial metrics for Total Group FY20

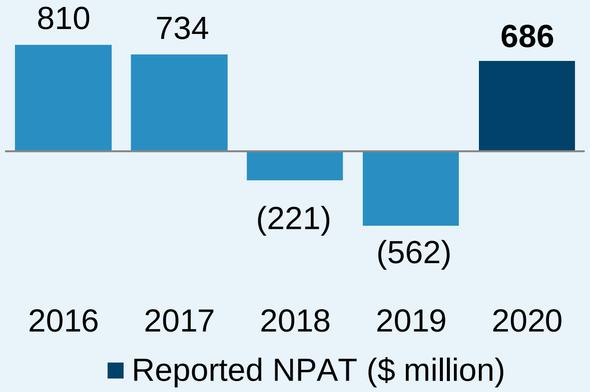
Reported EBIT



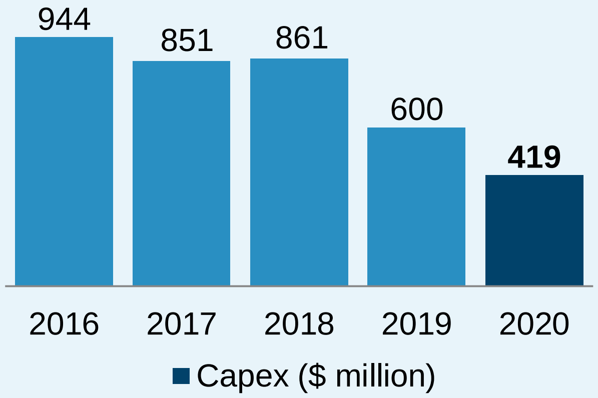
Normalised Profit After Tax[1]



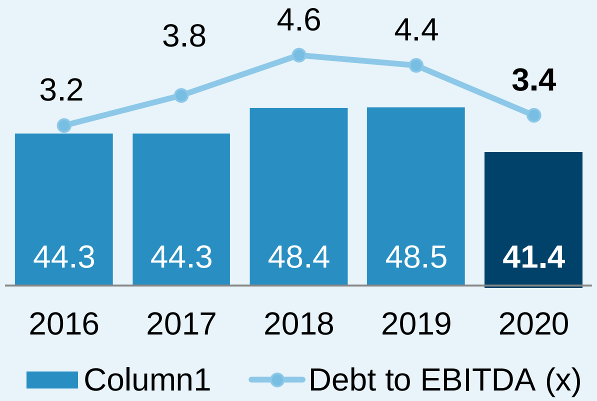
Reported Profit After Tax[1]



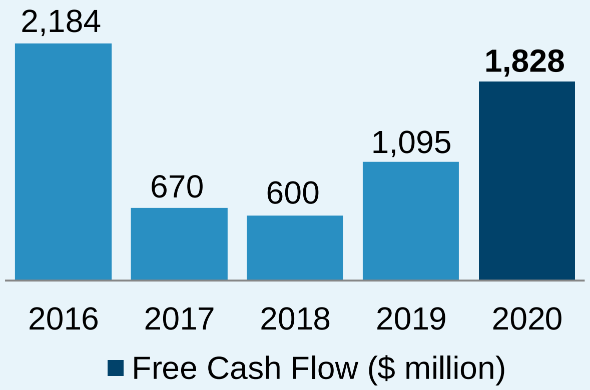
Capex[2]



Leverage



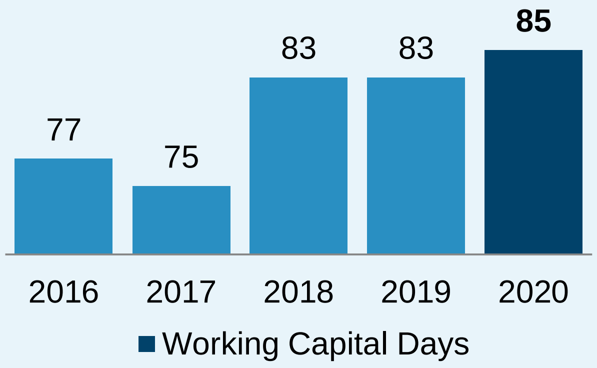
Free Cash Flow



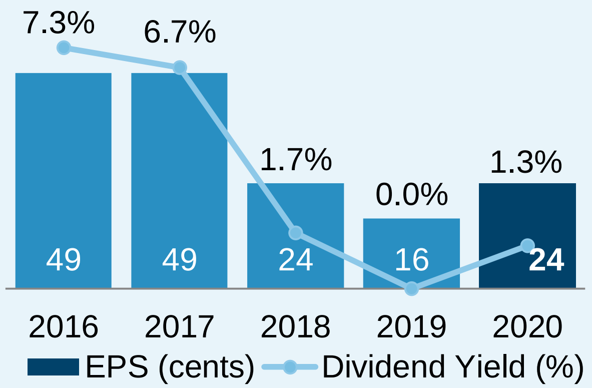
1. Profit after tax attributable to equity holders of the Co-operative.
2. Capital expenditure comprises purchases of property, plant and equipment and intangible assets, and net purchases of livestock.

Key financial metrics for Total Group FY20

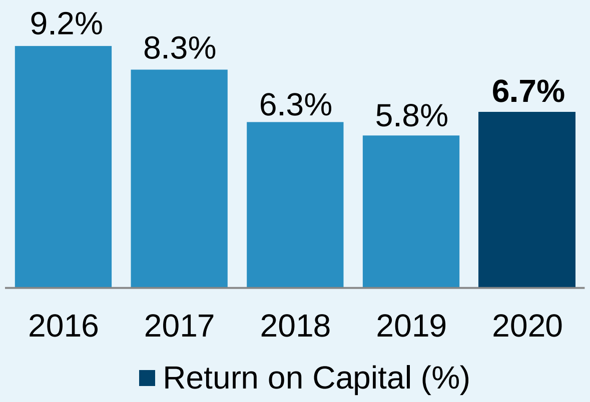
Working Capital Days



Normalised EPS and Dividend Yield[1]



Return on Capital[2]



1. Dividend over volume weighted average share price from 1 August to 31 July.
2. Including intangibles and equity accounted investments.

Breakdown of Total Group performance

NZD million	31 July 2019 Continuing Operations[1]	31 July 2019 Discontinued Operations[1]	31 July 2019 Total Group[2]	31 July 2020 Continuing Operations[1]	31 July 2020 Discontinued Operations[1]	31 July 2020 Total Group[2]
Revenue	19,255	665	19,920	20,282	693	20,975
Cost of Goods Sold	(16,349)	(563)	(16,912)	(17,236)	(531)	(17,767)
Gross Profit	2,906	102	3,008	3,046	162	3,208
Gross Margin	15.1%	15.3%	15.1%	15.0%	23.4%	15.3%
Operating Expenses	(2,143)	(139)	(2,282)	(2,139)	(129)	(2,268)
Other[3]	70	16	86	(60)	(1)	(61)
Normalised EBIT	833	(21)	812	847	32	879
Normalisations	(483)	(346)	(829)	435	(167)	268
EBIT	350	(367)	(17)	**1,282**	**(135)**	**1,147**

1. Refer to Note 1a and 2c of the FY20 Financial Statements.
2. Total Group includes Continuing Operations and Discontinued Operations.
3. Consists of other operating income and expenses, which includes net foreign exchange gains and losses, share of profit or loss on equity accounted investees and impairment of intangible assets not included in the strategic review.

Impact of major initiatives from strategic review

Significant net positive impact on earnings and cash flow

Businesses sold

DFE Pharma and foodspring™

- $623 million of cash proceeds received and $467 million gain on sale

Businesses in sale process

China Farms and DPA Brazil

- Impaired asset values to align with information from sale processes:
  - China Farms, $63 million impairment
  - DPA Brazil, $104 million[1]
    (After-tax split $45 million, Fonterra and $43 million, non-controlling interest)
- Classified as 'held for sale' and 'Discontinued Operations' in financial accounts

Business performance review

China Farming Joint Venture

- Continuing to look for opportunities to improve the performance of the business
- $65 million impairment to align with updated valuation information

Full reconciliation of impairments and other normalisations is provided on the subsequent slide and the Annual Report.

1. $104 million impact to EBIT. After-tax impact is $88 million, $45 million to Fonterra and $43 million to joint venture partner.

Normalised items

NZD million	Gain on Sale	Impairment	Other	Profit Before Tax	Tax Impact	Profit After Tax	Non-controlling Interests	Attributable to Equity Holders
Portfolio Review								
DFE Pharma	401		26	**427**		**427**		**427**
foodspring®	66			**66**		**66**		**66**
China Farms		(63)		**(63)**		**(63)**		**(63)**
DPA Brazil		(104)		**(104)**	16	**(88)**	43	**(45)**
China Farming JV		(65)		**(65)**		**(65)**		**(65)**
Sub total	**467**	**(232)**	**26**	**261**	**16**	**277**	**43**	**320**
Beingmate			50	**50**		**50**		**50**
Chile					(30)	**(30)**		**(30)**
Other[1]	12		(55)	**(43)**	7	**(36)**		**(36)**
Total	**479**	**(232)**	**21**	**268**	**(7)**	**261**	**43**	**304**

Note: Refer to Note 2 in the FY Financial Statements for further detail of impairments.

1. $12 million gain on sale relates to the sale of the Dennington site. The $55 million of costs are associated with implementing the new operating model and other legal costs.

Significant items included in normalised Profit after tax

Normalised earnings of 24 cent per share includes negative six cents of significant items

Impairments

Chesdale™ and Fonterra Brands New Zealand

- $57 million impairment of intangible asset values due to uncertainty of future long-term growth in their respective markets:
  - Chesdale™, an Asia brand, $36 million brand impairment shared between Greater China and Asia
  - New Zealand Consumer, $21 million goodwill impairment

Provision

Employee related provision

- Includes $28 million provision for potential payment relating to holiday pay, pending judicial interpretation of the requirements of legislation in New Zealand

Trading entity company closure

Fonterra (Europe) GmbH

- Related to our Europe business restructure in 2010. Final closure of German trading entity requires the foreign currency translation reserve to be released to the Income Statement
- $19 million impact to profit after tax

Operating expenses[1]

$ million		2018	2019[2]	2020
Ingredients	Selling and marketing	128	114	142
	Distribution	237	239	228
	Administrative expenses	331	333	363
	Research and development	3	20	24
	Other expenses	109	56	25
	Total	**808**	**762**	**782**
Consumer and Foodservice	Selling and marketing	493	414	391
	Distribution	335	277	252
	Administrative expenses	223	262	240
	Research and development	13	44	40
	Other expenses	149	92	86
	Total	**1,213**	**1,089**	**1,009**
Unallocated Costs	Operating and administration	380	282	338
	Research and development	64	10	10
	Total	**444**	**292**	**348**
Total Normalised Operating Expenses		**2,465**	**2,143**	**2,139**
Discontinued Operations[3]		**31**	139	129
Normalised Operating Expenses		**2,496**	**2,282**	**2,268**

- Total Group normalised operating expenses decreased $14 million
  - 2019 benefited from not paying employee performance incentives
  - 2020 excluded Tip Top, divested during 2019, and main reason Consumer and Foodservice was down $80 million
  - 2020 includes increased provisions, held within Unallocated Costs
- Additional $69 million of costs previously held at Group allocated to segments in FY20
  - FY19 restated to provide comparability
- Unallocated Costs up $24 million due to increased provisions

1. Normalised basis.
2. Increased allocation of unallocated costs to business segments in FY20. FY19 restated to provide improved comparability.
3. Includes the China Farms and DPA Brazil business units which are classified as 'held for sale' in the FY20 Financial Statements.

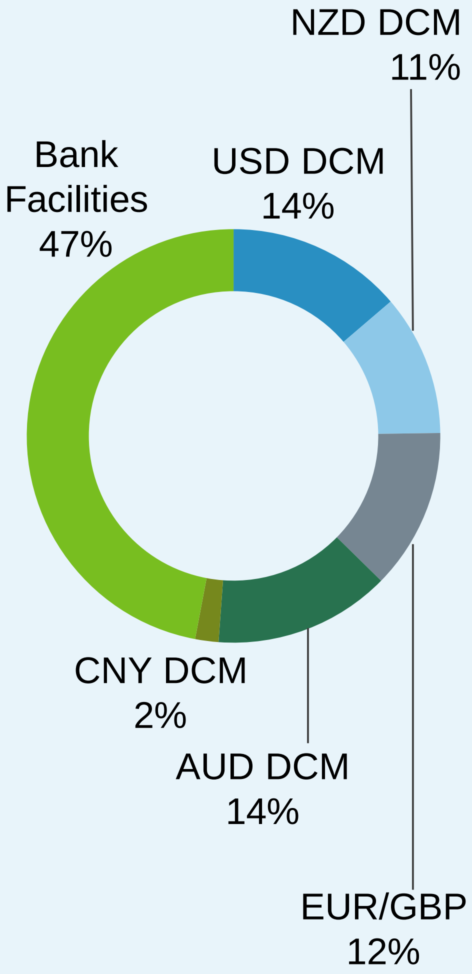
Unallocated costs

Unallocated Costs[2] ($ million)	2019[3]	2020[3]	Ingredients	Consumer and Foodservice	Not Allocated	Total
			Illustrative Business Unit Distribution of 2020 Unallocated Costs[1]			
Research and Development	10	10	7	3	–	10
Group Finance and Support	54	59	–	–	59	59
IT	63	71	48	23	–	71
Farmer Services	39	37	37	–	–	37
People and Culture	21	20	13	7	–	20
Advertising and Promotion Costs	16	15	–	–	15	15
Food Safety and Quality	14	9	6	3	–	9
Property	8	6	4	2	–	6
Trade Relations and Compliance	10	9	6	3	–	9
Governance	9	8	–	–	8	8
Other[4]	48	104	21	4	79	104
Total	**292**	**348**	**142**	**45**	**161**	**348**

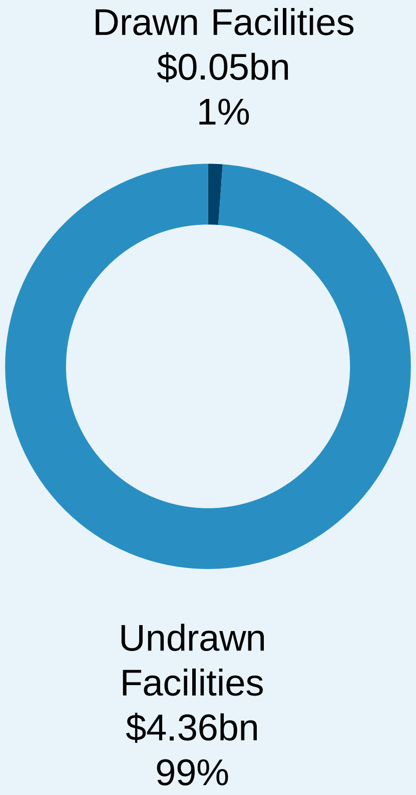
1. For illustrative purposes, in this table the unallocated costs for 2020 have been shown against the business units where the primary function of the cost item is to support the business units. The distribution is based on sales revenue. The balance is retained as "Not Allocated".
2. Normalised basis, excludes impairment of intangible assets not included in strategic review as shown separately.
3. Increased allocation of unallocated costs to business segments in FY20. FY19 restated to provide improved comparability.
4. Includes provision for potential change in legislative interpretation of holiday pay for New Zealand employees.

Diversified and prudent funding position

Diversified Profile[1]

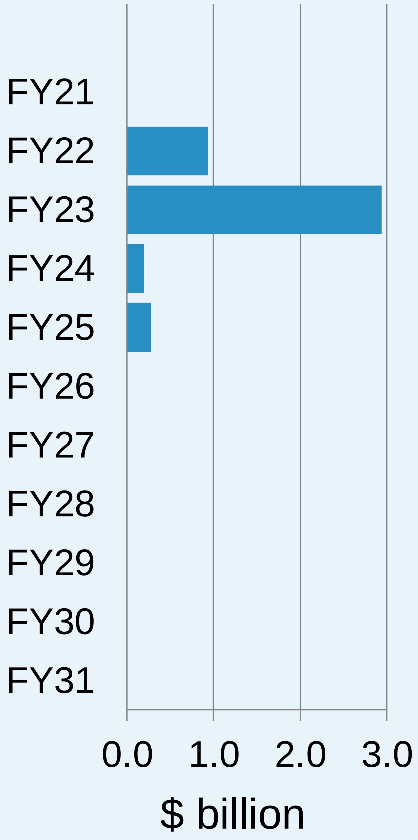


Prudent Liquidity[2]



Bank Facilities[3]

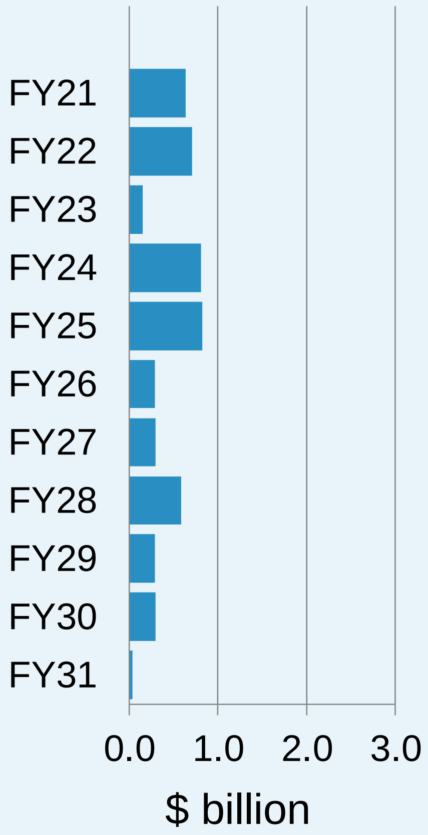
Maturity Profile



WATM⁴: 2.5 years

Debt Capital Markets

Maturity Profile

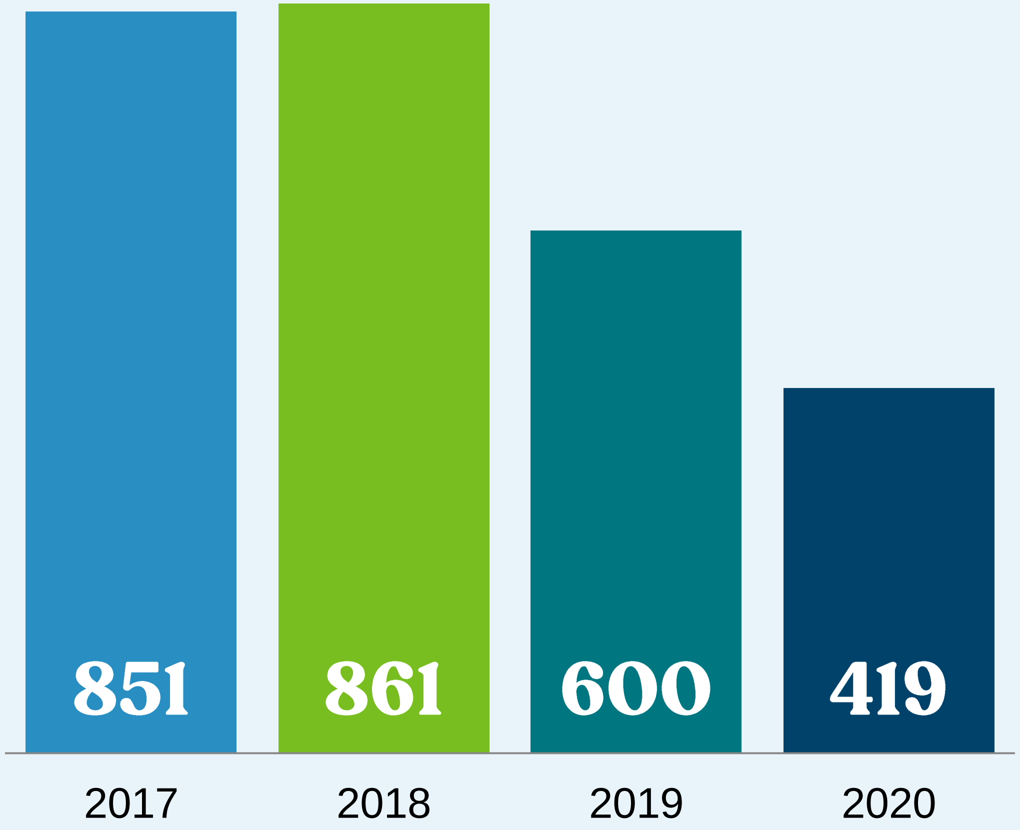


WATM⁴ : 4.4 years

Note: As at 31 July 2020.
1. Includes undrawn facilities but excludes Discontinued Operations.
2. Includes parent and subsidiary facilities.
3. Parent bank facilities.
4. WATM is weighted average term to maturity

Capital expenditure

$ million



- Capital expenditure is down $181 million to $419 million
  - Discretionary spend decreased from $260 million to $37 million, down $223m, partially offset by;
  - Essential spend increased from $340 million to $382 million, up 12%
- Key drivers of the reduction:
  - COVID-19 impacted timing of current projects with increased accruals
- FY21 forecast capital expenditure of $550 million:
  - Includes investing in sustainability toward carbon emission reduction, wastewater management, and packaging
  - Completion of FY20 projects partially impacted by COVID-19
  - Total capital investment envelope of $600 million including the $550 million capital expenditure

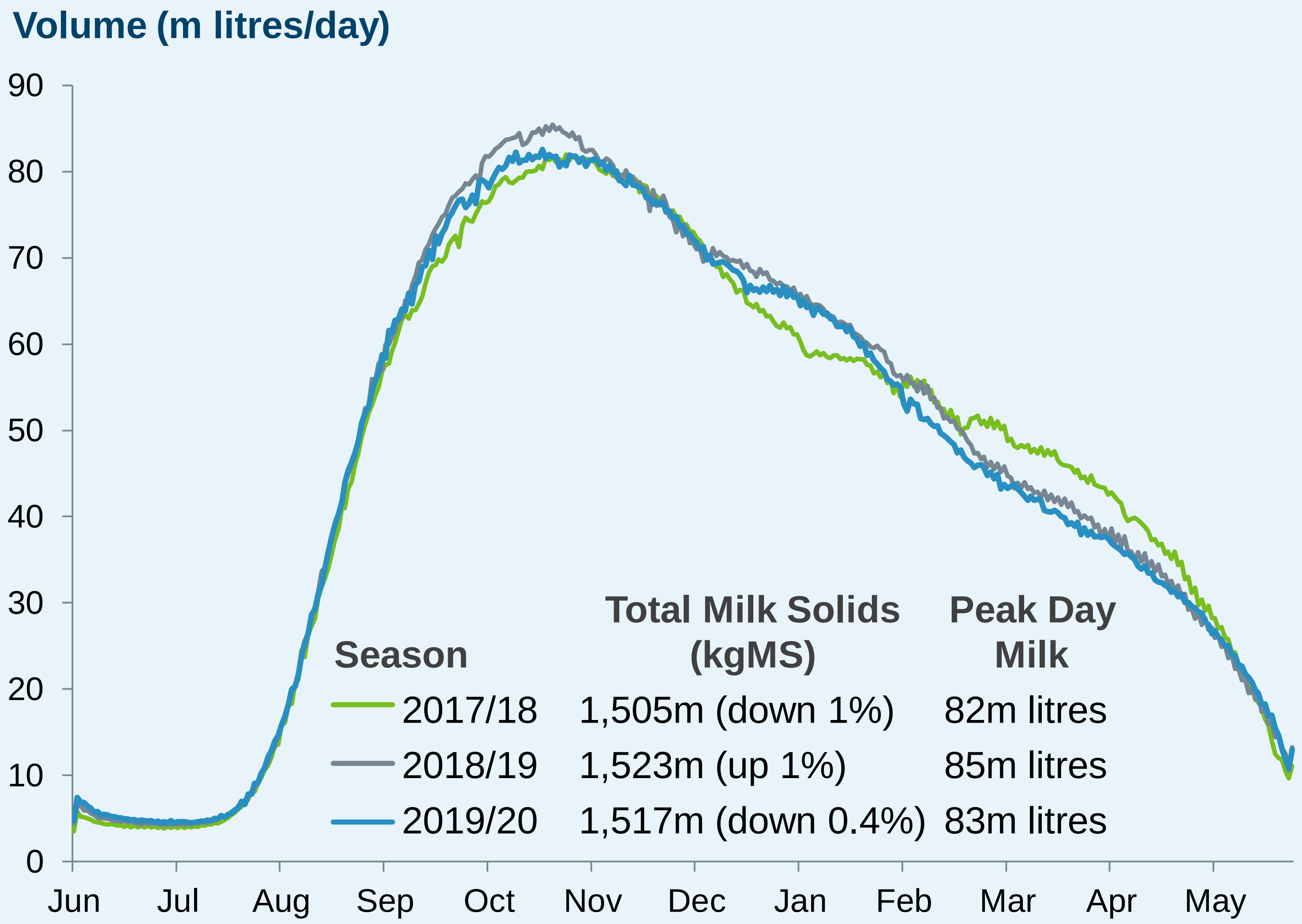
Number of full time employees decreasing

- Efficiency and reorganisation efforts reduced FTE permanent employees by 420
  - 103 FTE reduction in Australia due to Dennington closure
  - Increase in New Zealand Ingredients and decrease in New Zealand Consumer and Foodservice reflects realignment of R&D FTE

				Breakdown of 2020 by Geographic Region						
Function	**FY18**	**FY19**	**FY20**	**New Zealand**	**Australia**	**Asia and MEA**	**Greater China**	**Latin America**	**Rest of World**	**Total**
Ingredients	10,391	10,317	10,754	8,812	936	333	87	397	189	10,754
Consumer and Foodservice	8,245	6,893	6,172	1,228	248	1,599	554	2,543	–	6,172
China Farms	1,065	1,103	1,028	–	–	–	1,028	–	–	1,028
Group Functions	1,780	1,700	1,639	1,432	35	89	53	23	7	1,639
Total	**21,481**	**20,013**	**19,593**	**11,472**	**1,219**	**2,021**	**1,722**	**2,963**	**196**	**19,593**

Note: Figures represent full time employees. Defined as permanent, salary and wage, employees as at 31 July.

Fonterra's New Zealand milk collections

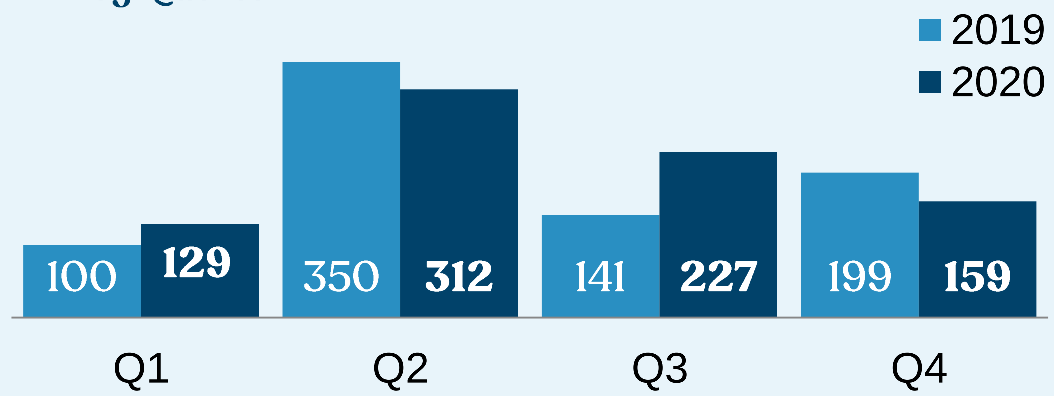


- Fonterra's New Zealand milk collections for the 2019/20 Season were 1,517 million kgMS, down 0.4% on last season
  - North Island collections down 2.1%, impacted by dry weather
  - South Island collections up 2.1%:
    - Favourable weather conditions across Canterbury, resulting in good pasture growth and strong milk production
    - Lower South Island impacted by heavy rain and flooding
- 2020/21 Season forecast of 1,525 million kgMS

Ingredients[1]

million	2019	2020	%△ [2]
Volume³ ('000 MT)	3,149	**3,055**	(3)%
Revenue ($)	16,291	**17,365**	7%
Gross Profit ($)	1,446	**1,611**	11%
Gross Margin (%)	8.9%	**9.3%**	
Operating Expenses ($)	(762)	**(782)**	(3)%
Other⁴ ($)	106	**(2)**	-
EBIT ($)	790	**827**	5%
Discontinued Operations	(14)	**–**	

EBIT by Quarter[5]



- Sales volumes down 3%, 94,000 MT, mainly due to decline in Australia Ingredients' milk collections
- Gross profit increased $165 million
  - New Zealand up $131 million, mainly due to favourable price relativities in second half
  - Australia up $21 million due to Dennington closure savings, better product mix and utilisation of our Stanhope site
  - Chile up $13 million due to improved product pricing
- Increase in operating expenses reflect not paying employee performance incentives in FY19
- DFE Pharma earnings included in 'Other' in FY19
- EBIT from continuing operations increased $37 million, up 5%

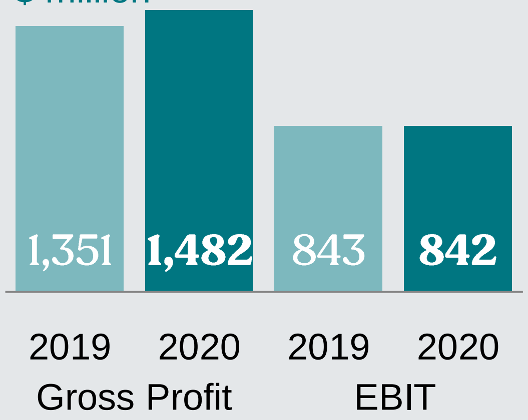
1. Ingredients' performance restated to include China Farming joint venture. China Farms business unit is classified as a Discontinued Operation, financials relating to sales of milk from China Farms have been removed from the Ingredients segment for FY19. FY19 restated to provide improved comparability after increased allocation of unallocated costs to business segments in FY20.
2. 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.
3. Includes sales to other strategic platforms.
4. Includes other income, net foreign exchange gain/(loss) and share of equity accounted investees.
5. Summing of EBIT margin figures may not add up to total EBIT displayed in table above due to rounding.

Note: Figures are NZD millions on a normalised basis. Numerical or percentage changes are expressed relative to the performance of FY19.

Ingredients by region

	New Zealand Ingredients[1]	Australia	Other and Eliminations
Volume[2]	**2,881,000** MT From 2,951,000 MT	**269,000** MT From 328,000 MT	**(95,000)** MT From (130,000) MT
Gross Margin	**9.3%** From 9.1%	**2.1%** From 0.6%	

$ million

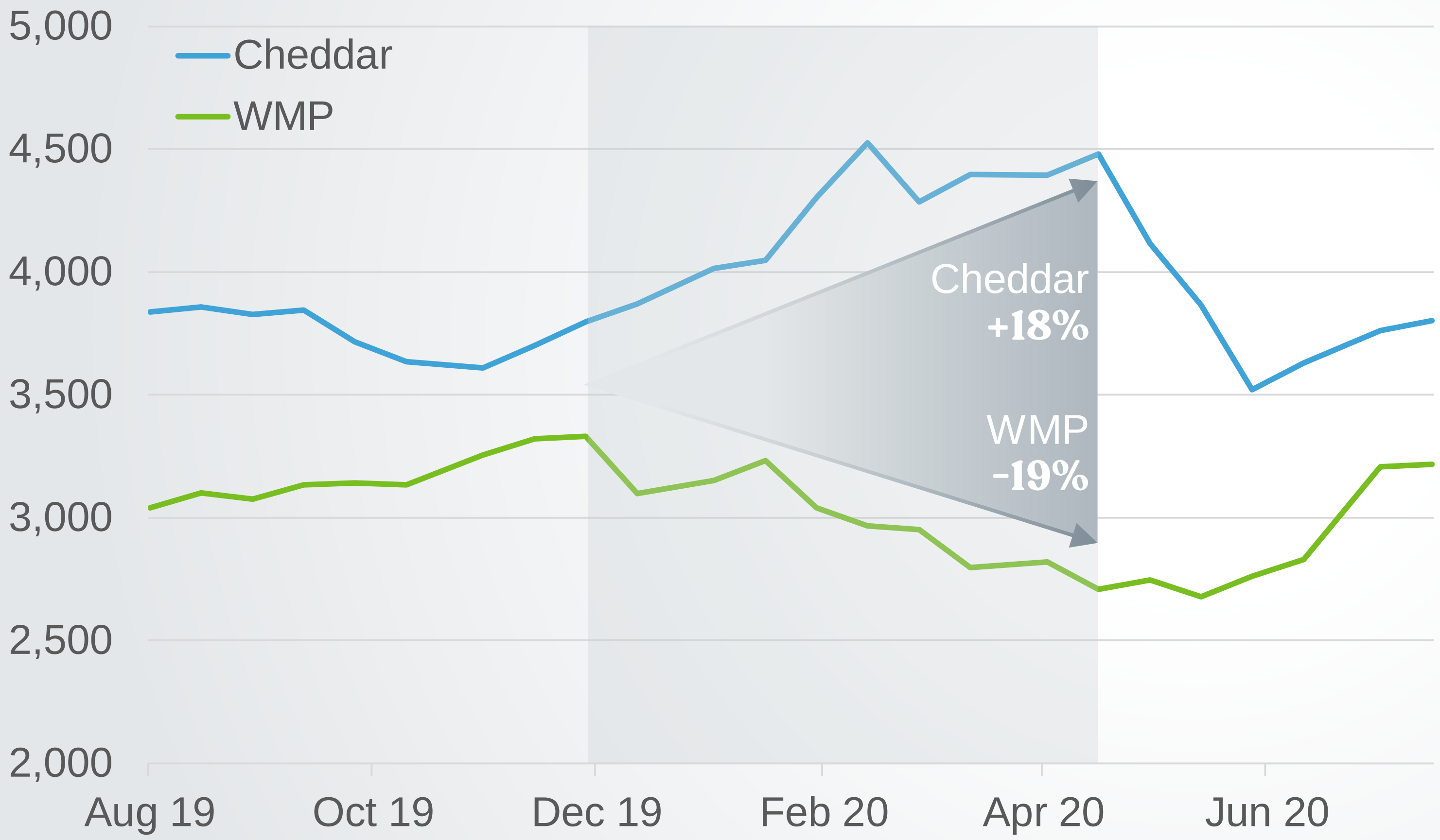


1. Ingredients' performance restated to include China Farming joint venture. China Farms business unit is classified as a Discontinued Operation, financial performance relating to sales of milk from China Farms have been removed from the Ingredients segment for FY19. FY19 restated to provide improved comparability after increased allocation of unallocated costs to business segments in FY20.
2. Includes sales to other strategic platforms.

Note: EBIT and gross margin are normalised in NZD millions. Figures presented are for FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the performance of FY19.
Sum of individual numbers from the regional and divisional breakdown may not add to the totals in each category due to rounding.

New Zealand Ingredients

Favourable pricing relativities contributed to second half performance



- Favourable pricing relativities between reference and non-reference products
  - Characterised by the price movements of WMP (Reference product) and Cheddar (Non-reference product)
- Significant improvement in second half of financial year
  - WMP prices declined 19% from early December to late April
  - Cheddar prices rose 18% from early December to late April

Note: WMP refers to Whole Milk Powder.

New Zealand Ingredients product mix

	2019		2020	
	$ million	$ per MT	$ million	$ per MT
Sales Volume (000 MT)[1]				
Reference	1,864	–	1,820	–
Non-Reference	774	–	794	–
Revenue[1]				
Reference	8,833	4,739	9,450	5,192
Non-Reference	4,202	5,427	4,770	6,006
Cost of Milk				
Reference	(6,673)	(3,580)	(7,207)	(3,959)
Non-Reference	(2,398)	(3,098)	(2,829)	(3,562)
Gross Profit				
Reference	626	336	648	356
Non-Reference	701	905	727	916

- Favourable product prices, increase in Non-reference revenue higher compared to Reference revenue increase
- Milk cost of protein has increased by proportionally more than the milk cost of fat
  - Non-reference products' portfolio is weighted to protein products
  - Reference products' portfolio is weighted to fat products
- Greater increase in Reference gross margin relative to Non-reference due to cost of milk
- Both reference and non-reference gross profit increased 4%
  - Reference higher gross margin
  - Non-reference increased volumes and gross margin

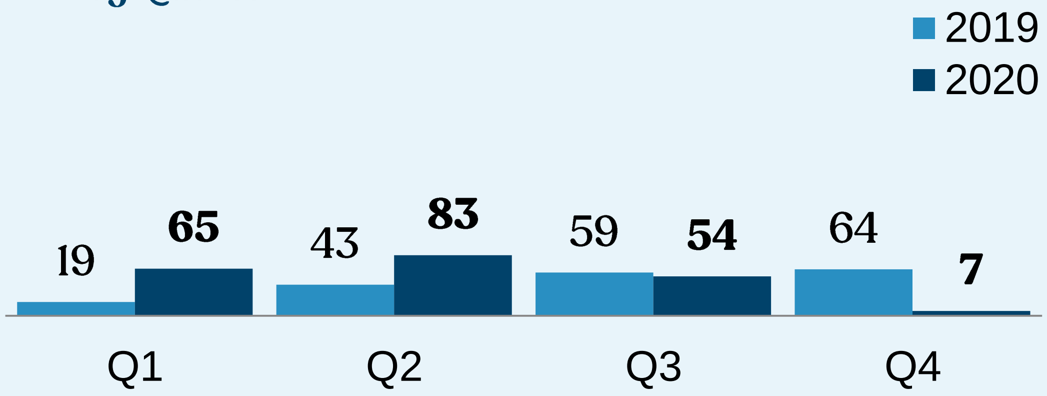
1. Excludes bulk liquid milk. Bulk liquid milk for the year ended 31 July 2020 was 69,000 MT of kgMS equivalent (year ended 31 July 2019 was 73,000 MT of kgMS equivalent).

Note: Figures represent Fonterra-sourced New Zealand milk only. 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 1,023 million kgMS in reference and 404 million kgMS non-reference (previous comparable period 1,046 million kgMS reference and 397 million non-reference).

Foodservice

million[1]	2019	2020	%△ [2]
Volume[3] (‘000 MT)	465	444	(5)%
Revenue ($)	2,673	2,652	(1)%
Gross Profit ($)	420	437	4%
Gross Margin[4] (%)	15.7%	16.5%	
Operating Expenses ($)	(233)	(226)	3%
Other[5] ($)	(3)	(2)	
EBIT ($)	184	209	14%
Discontinued Operations	–	–	

EBIT by Quarter[6]



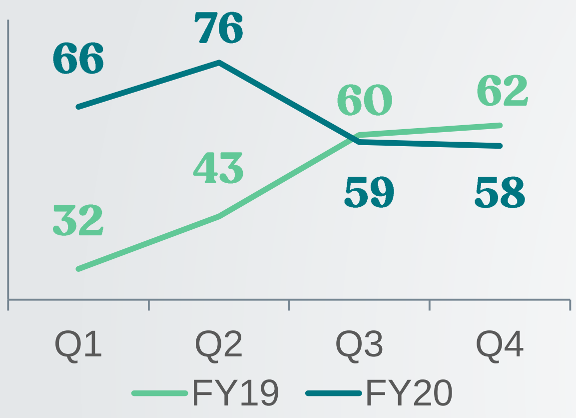
- Full year EBIT growth due to strong first half. Second half impacted by COVID-19, particularly fourth quarter
- Strong first half in Greater China and Asia, due to a recovery in butter margins and selling more higher gross margin products
- $148 million EBIT in first half decreasing to $61 million EBIT in second half, impacted by COVID-19
  - Greater China, COVID-19 impacted early Q3 but rebounded quickly. Q4 impacted by COVID-19 outbreaks
  - Asia and Oceania, significantly impacted in Q4 by the restrictions put in place to manage the pandemic
- Operating expenses decreased $7 million due to lower distribution costs as a result of the lower sales volume
- EBIT increased $25 million, up 14%

1. Individual Consumer and Foodservice tables may not align to combined Consumer and Foodservice table due to rounding.
2. 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.
3. Includes sales to other strategic platforms.
4. 2019 impacted by change in timing of revenue recognition for sales to distributor in Greater China. Refer to Note 28 in the FY20 Financial Statements.
5. Includes other income, net foreign exchange gain/(loss) and share of equity accounted investees.
6. Summing of quarterly EBIT figures may not add up to total EBIT displayed in table above due to rounding.

Note: EBIT is normalised in NZD millions. Figures presented are for FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the performance of FY19.

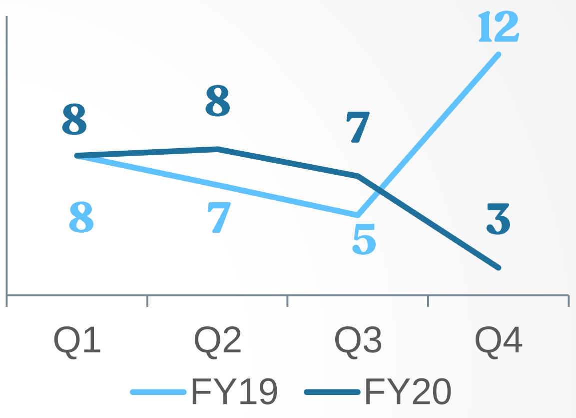
COVID-19 impact on Foodservice gross profit

Greater China



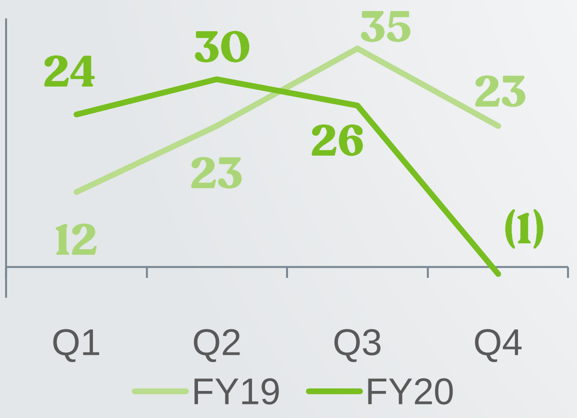
- Strong first half
- COVID-19 impacted early Q3 but rebounded quickly
- Q4 impacted by COVID-19 outbreaks

Latin America



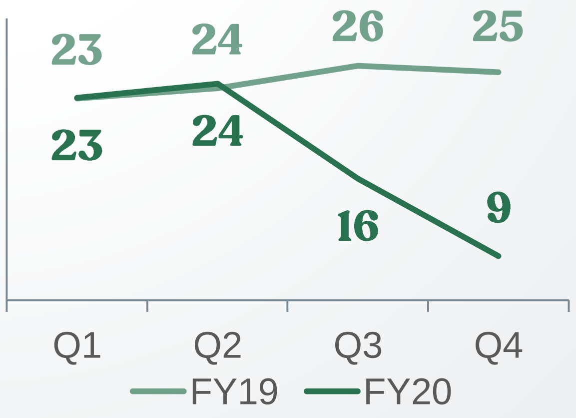
- Slight improvement during first three quarters
- COVID-19 impacted during Q4

Asia



- Good first half
- Impact of COVID-19 began late Q3
- Significant impact in Q4
- Slower recovery than Greater China

Oceania

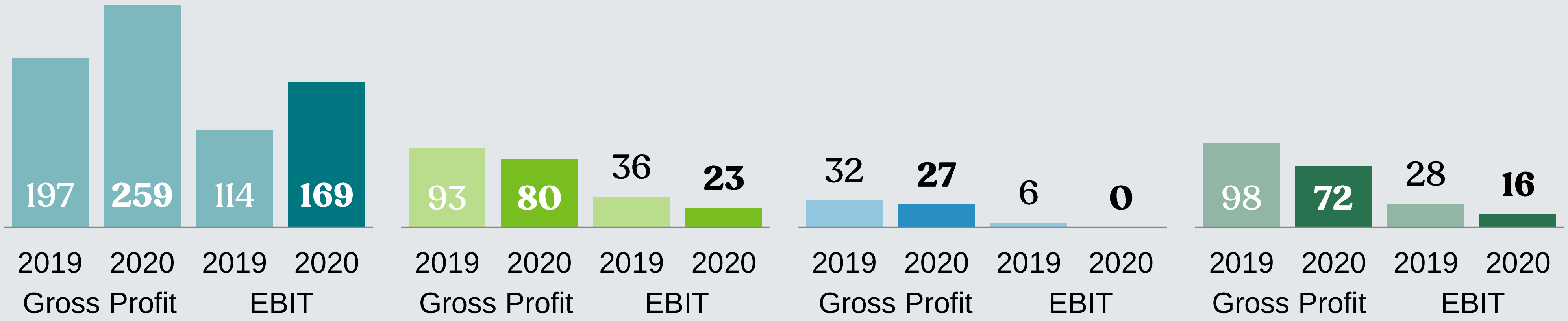


- Steady first half
- COVID-19 impacted progressively during second half

Foodservice by region

	Greater China	Asia	Latin America	Oceania
Volume[1]				
	257,000 MT	**81,000** MT	**30,000** MT	**76,000** MT
	From 237,000 MT	From 93,000 MT	From 32,000 MT	From 104,000 MT
Gross Margin				
	16.3%	**14.9%**	**24.1%**	**17.3%**
	From 13.8%	From 15.8%	From 22.7%	From 18.9%

$ million



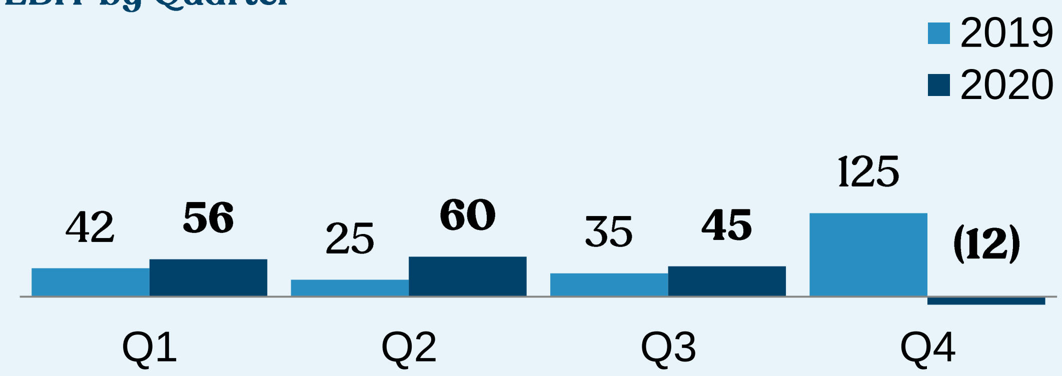
1. Includes sales to other strategic platforms.

Note: Figures presented are for FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the performance of FY19. Sum of individual numbers from the regional and divisional breakdown may not add to the totals in each category due to rounding.

Consumer

million[1,2]	2019[3]	2020	%△[4]
Volume[5] ('000 MT)	1,137	**1,120**	(1)%
Revenue ($)	4,223	**4,251**	1%
Gross Profit ($)	1,078	**1,001**	(7)%
Gross Margin (%)	25.5%	**23.5%**	
Operating Expenses ($)	(856)	**(783)**	9%
Other[6] ($)	5	**(69)**	-
EBIT ($)	227	**149**	(35)%
Discontinued Operations[7]	(8)	**21**	

EBIT by Quarter[8]



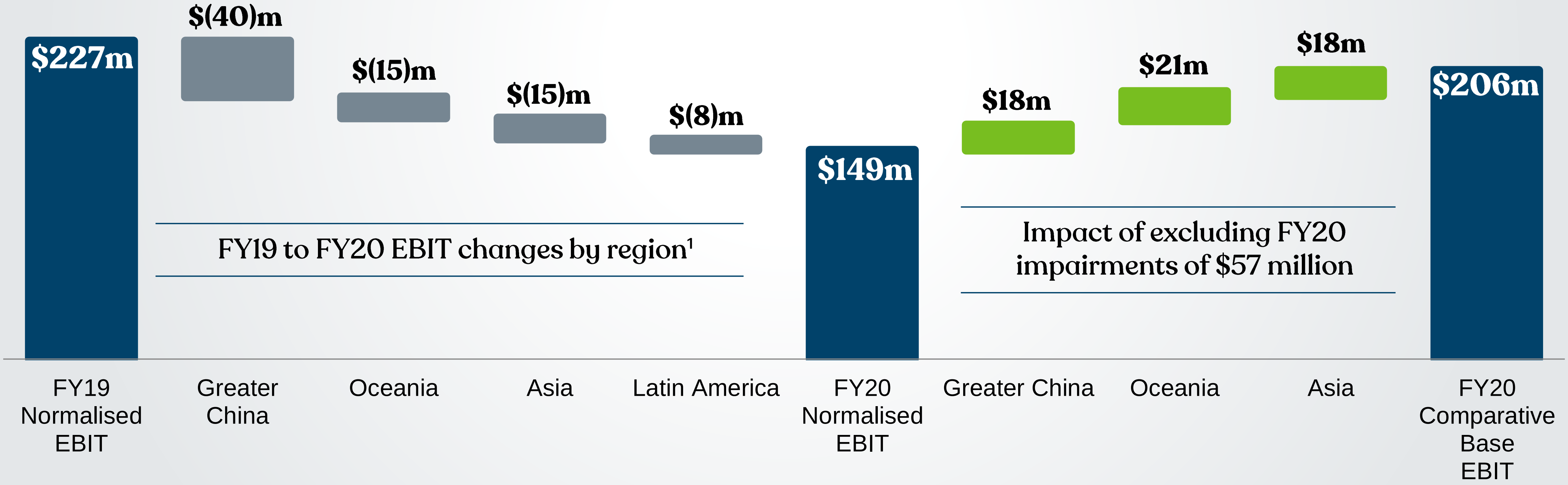
- Consumer EBIT, excluding $57 million of impairments, is down 10% mainly due to challenging market conditions in Hong Kong and Chile
- Gross profit declined $77 million due to:
  - Greater China down $31 million, due to the challenging market conditions in Hong Kong
  - Oceania gross margin reduced $26 million predominantly due to the sale of Tip Top, which is in 2019 numbers
- Not adjusting for impairments, Consumer EBIT was $149 million
- EBIT for DPA Brazil, shown as a Discontinued Operation, EBIT increased $29 million due to growth in market share[6]

1. Normalised basis and excludes Discontinued Operations. Discontinued EBIT provided on separate line for comparative purposes.
2. Individual Consumer and Foodservice tables may not align to combined Consumer and Foodservice table due to rounding.
3. FY19 restated to provide improved comparability after increased allocation of unallocated costs to business segments in FY20.
4. 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.
5. Includes sales to other strategic platforms.
6. Includes other income, net foreign exchange gain/(loss) and share of equity accounted investees.
7. DPA Brazil is a Discontinued Operation as of 31 January 2020, and as a result does not incur depreciation going forward. The depreciation associated with DPA Brazil would have been $5 million for the period 1 February – 31 July 2020.
8. 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. Figures presented are for FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the performance of FY19.

Consumer EBIT impacted by impairments

- Our Consumer normalised EBIT declined from $227 million to $149 million, a decrease of $78 million
  - The $78 million year-on-year decrease includes $57 million of impairments
- Excluding the impairments, FY20 Consumer EBIT is down $21 million on the prior year

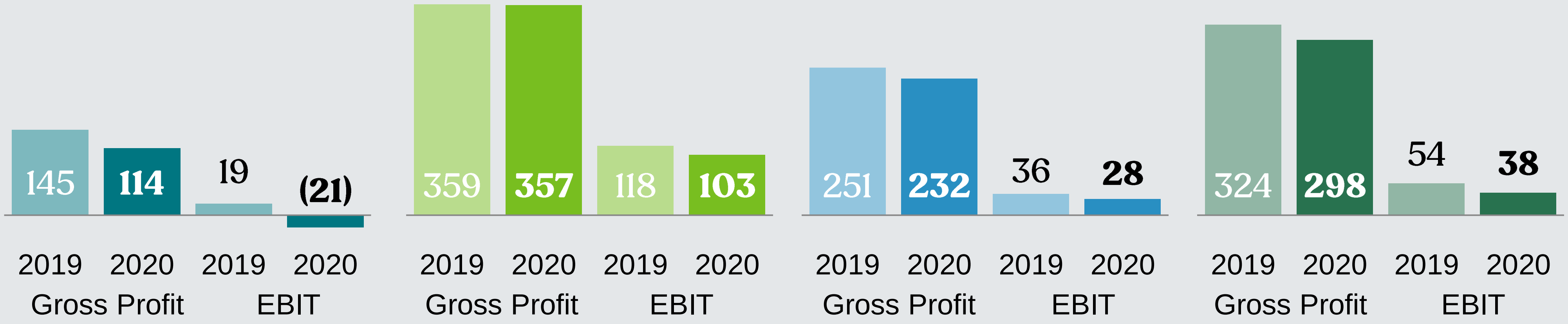


1. FY19 to FY20 EBIT changes by region may not align to nominal change between FY19 EBIT and FY20 EBIT due to rounding

Consumer by region[1]

	Greater China	Asia	Latin America	Oceania
Volume²				
	73,000 MT	198,000 MT	322,000 MT	527,000 MT
	From 76,000 MT	From 204,000 MT	From 333,000 MT	From 524,000 MT
Gross Margin				
	32.8%	27.5%	25.0%	17.8%
	From 40.1%	From 28.1%	From 26.6%	From 19.7%

$ million



1. Normalised basis and excludes Discontinued Operations. FY19 restated to provide improved comparability after increased allocation of unallocated costs to business segments in FY20.
2. Includes sales to other strategic platforms.

Note: Figures presented are for FY20 and FY19 as a comparative. Numerical or percentage changes are expressed relative to the performance of FY19. 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	2019	2020	%Δ [1]
Volume[2] ('000 MT)	20	22	8%
Revenue ($)	247	282	14%
Gross Profit[3] ($)	(14)	33	–
Gross Margin (%)	(5.7)%	11.9%	
Operating Expenses ($)	(16)	(23)	46%
Other[4] ($)	16	1	(91)%
China Farms EBIT[3] ($)	(14)	11	–
End-to-End EBIT Perspective			
Ingredients EBIT[5] ($)	(20)	(5)	
Consumer and Foodservice EBIT[6] ($)	4	6	
China Farms End-to-End[7] ($)	(30)	12	–

- China Farms' sales volumes increased 8% due to higher productivity, and recovery from flood in Yutian
- China Farms' gross profit improved $47 million due to a flatter milk supply curve and improved milk prices
- Operating expenses increased due to rightsizing herd, livestock removed from the herd were sold below carrying value
- Other declined $15 million due to last year benefiting from an increase in livestock valuation
- China Farms' EBIT increased $25 million
- The China Farming joint venture loss reduced from a $19 million loss last year to a loss of $12 million this year, assisted by lower animal husbandry costs

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. China Farms is a Discontinued Operation as of 31 January 2020, and as a result does not incur depreciation going forward. The depreciation associated with China Farms would have been $6 million for the period 1 February – 31 July 2020.
4. Includes other income, net foreign exchange gain/(loss).
5. Includes China Farming joint venture and associated management fees.
6. EBIT impact of milk from China Farms sold by Consumer and Foodservice businesses.
7. Provides end-to-end perspective, comprising China Farms, the China Farming joint venture, and financials from Consumer and Foodservice related sales of milk from China Farms.

Note: Figures presented are for FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the performance of FY19.

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. It excludes the borrowings attributed to Discontinued Operations.

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.

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

Farmgate Milk Price Statement

FOR THE SEASON
ENDED 31 MAY 2020

Contents

2020 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[1]. 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.

2020 Season Farmgate Milk Price

$7.14 per kgMS

The 2020 season Farmgate Milk Price of **$7.14** per kgMS is:

- The Aggregate Farmgate Milk Price of $10.829 billion; *divided by*
- New Zealand milk supplied to Fonterra in the 2020 season of 1.517 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).[2]
- 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 fixed assets and working capital, and corporate tax.
- **Additional Commodity Milk Payments and Standard Supply Adjustments[3]:** 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%.

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

2 Almost all the increase in milk supplied over the past decade in New Zealand to 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.

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

2020 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

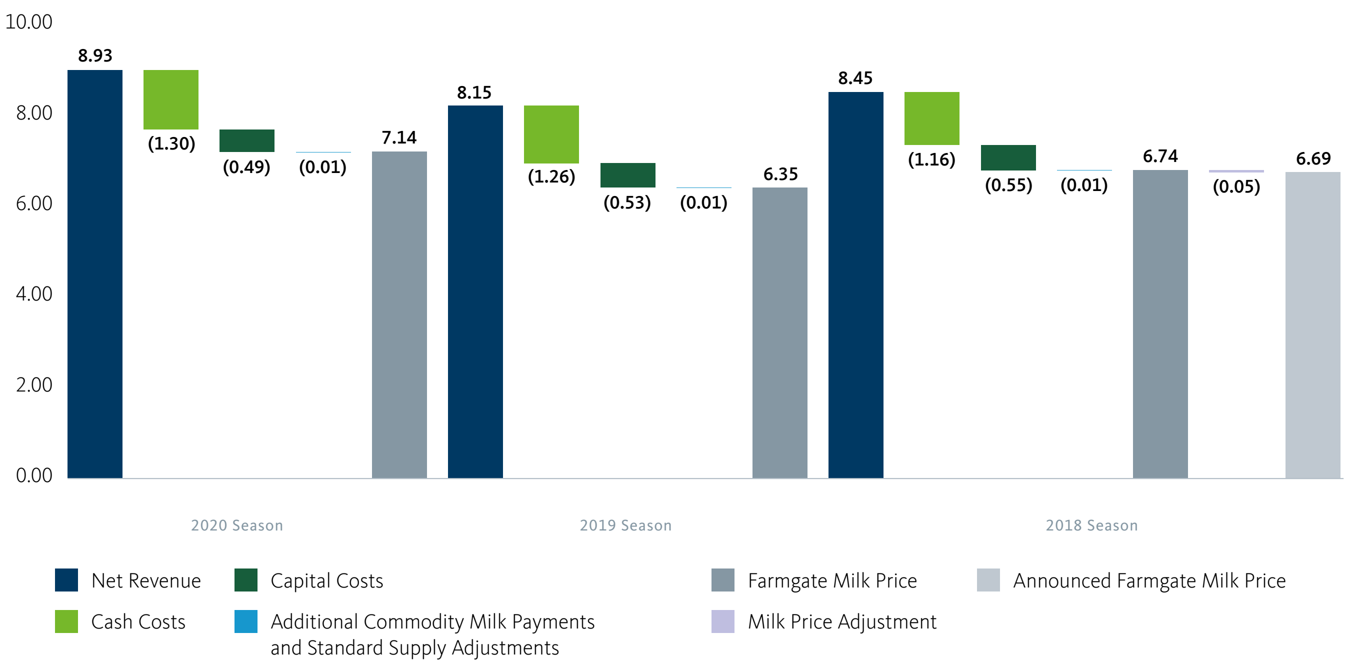


Table 1 shows the summary Farmgate Milk Price calculation for the last three seasons.

TABLE 1: FARMGATE MILK PRICE SUMMARY

SEASON	2020 $ MILLION	2019 $ MILLION	2018 $ MILLION
Farmgate Milk Price Revenue	14,061	12,831	13,164
Lactose	(508)	(423)	(441)
Net Revenue	**13,553**	**12,408**	**12,723**
Farmgate Milk Price Cash Costs	(1,968)	(1,915)	(1,749)
Farmgate Milk Price Capital Costs	(746)	(803)	(822)
Additional Commodity Milk Payments and Standard Supply Adjustments	(11)	(14)	(11)
Aggregate Farmgate Milk Price	**10,829**	**9,676**	**10,142**
Million kgMS	1,517	1,523	1,505
Farmgate Milk Price calculated under the Manual ($ per kgMS)	7.14	6.35	6.74

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:

- 1.517 billion kgMS of milk actually supplied to Fonterra during the 2020 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

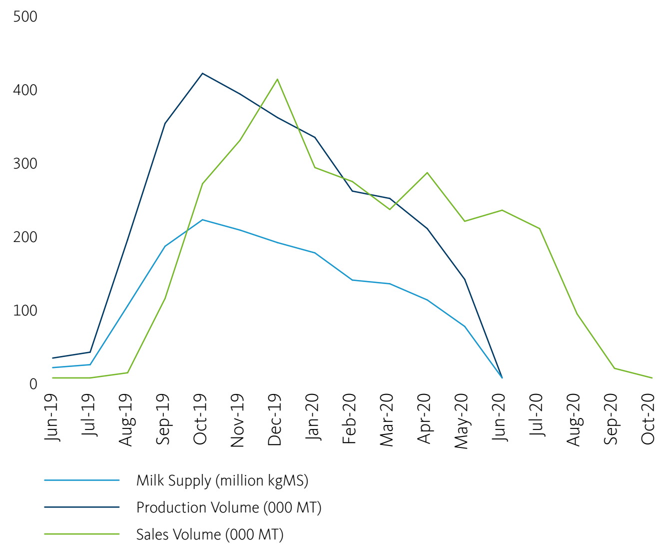
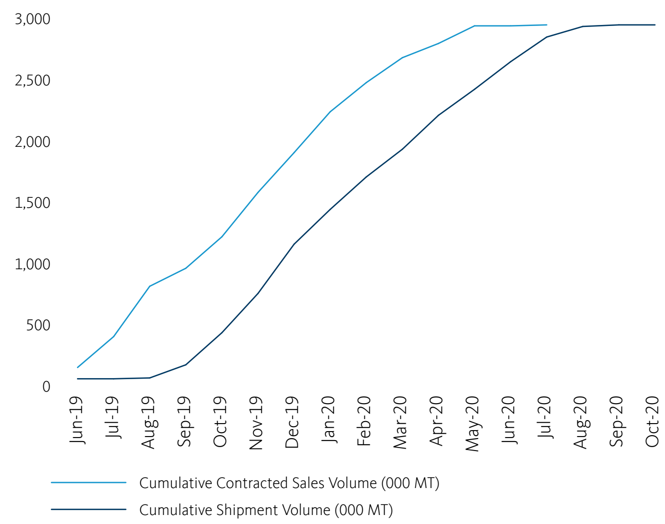


FIGURE 3: AVERAGE LAG BETWEEN WHEN PRICES WERE STRUCK AND SHIPMENT



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 2020 season, the inclusion of these off GDT sales of WMP, SMP and AMF in the Farmgate Milk Price resulted in an increase of 11 cents per kgMS relative to not including off GDT sales.

Table 2 shows weighted average selling prices for each RCP for the last three seasons. It shows that weighted average USD selling prices per metric tonne (MT) were 5.7% higher for the 2020 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 2020 season of 0.6638, against an average spot rate of 0.6381. Table 3 shows this across the last three seasons.

LACTOSE

Lactose is contained in the raw milk supplied and used as an ingredient in the production of WMP, SMP and BMP. 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

WEIGHTED AVERAGE PRICE (USD) PER MT	2020	2019	2018	2020/2019 % CHANGE	2019/2018 % CHANGE
WMP	3,110	2,907	3,091	7.0%	(6.0)%
SMP	2,755	2,216	1,968	24.3%	12.6%
Butter	4,140	4,448	5,575	(6.9)%	(20.2)%
AMF	4,891	5,540	6,474	(11.7)%	(14.4)%
BMP	2,833	3,032	2,057	(6.6)%	47.4%
				5.7%	(5.9)%

TABLE 3: IMPACT ON THE FARMGATE MILK PRICE OF FONTERRA'S HEDGING, RELATIVE TO NOT HEDGING

SEASON	2020	2019	2018
Average Hedged Rate (NZD/USD)	0.6638	0.6905	0.7074
Average Spot Rate (NZD/USD)	0.6381	0.6697	0.7014
Impact on Milk Price of hedging, relative to not hedging ($ per kgMS)	**(0.37)**	**(0.26)**	**(0.08)**

TABLE 4: PURCHASED LACTOSE AND PRICE

SEASON	2020	2019	2018	2020/2019 % CHANGE	2019/2018 % CHANGE
Purchased Lactose (000 MT)	361	348	342	3.7%	1.7%
Average Price (USD per MT)	946	851	908	11.2%	(6.3)%
Total Lactose Purchases (USD m)	342	296	311	15.3%	(4.7)%

4 Fonterra's hedging policies are outlined in Fonterra's annual financial statements.

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

Farmgate Milk Price Cash Costs

Farmgate Milk Price Cash Costs are comprised of:

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

Figure 4 and Table 5 summarise the major categories of cash costs and movements between the 2019 and 2020 Seasons.

FIGURE 4: SOURCES OF MOVEMENTS IN AVERAGE CASH COSTS

TABLE 5: SUMMARY OF MOVEMENTS IN CASH COSTS

$ MILLION	2019[6]	VOLUME[7]	COST/PRICE[8]	STRUCTURAL[9]	ONE-OFF	2020	% CHANGE COST/PRICE	TOTAL % CHANGE
Sales costs	121	(0)	6	3	–	130	**4.9%**	**7.1%**
Variable manufacturing and supply chain costs	711	(4)	(7)	5	–	705	**(1.0)%**	**(0.8)%**
Fixed manufacturing (including repairs and maintenance)/site overheads and supply chain costs	425	–	5	(6)	–	424	**1.2%**	**(0.2)%**
Collection costs	372	(1)	12	(16)	–	367	**3.3%**	**(1.4)%**
Other costs	285	–	10	41	6	342	**3.4%**	**20.0%**
Total cash costs	**1,915**	**(5)**	**26**	**27**	**6**	**1,968**	**1.3%**	**2.8%**
% movement		(0.3)%	1.3%	1.4%	0.3%			

Movements between the 2019 and 2020 season were due to:

- A decrease in volume-related costs due to a reduction in milk collected to 1.517 billion kgMS from 1.523 billion kgMS.
- Increases in the cost of inputs primarily due to the impacts of inflation and foreign exchange. Higher collection and insurance-related costs were also key factors.
- Structural changes in the 2020 season arising from:
  - The recognition of additional costs identified in the four-yearly review of overhead costs undertaken in 2019.
  - Fonterra's adoption of NZ IFRS 16: Leases from 1 August 2019. This resulted in a decrease in collection costs; from lease payments which were previously recorded in collection costs; to depreciation and interest which are included in capital costs. This has a net nil impact on the Milk Price.

The Manual requires a review of the overhead structure of the Milk Price business every four years, with the results generally implemented in the following season. The review assesses the adequacy of the overhead cost base with respect to characteristics relevant to the Milk Price business and where necessary, for changes in the operating environment.

The latest four-yearly review was undertaken in the 2019 season. It identified some additional activities the Milk Price business is required to undertake and that some costs had increased by more than inflation. In the 2019 season, the Farmgate Milk Price included a portion of the additional costs identified in the review resulting in a 3 cents per kgMS increase in cash costs. The 2020 season incorporates the balance of the outcomes of the review.

6 2019 season costs have been reallocated to better reflect the impact of the 2019 overhead review consistently across years. 2019 season sales costs were increased by $12m, variable manufacturing and supply chain costs were decreased by $5m, and other costs were decreased by $7m. In addition, energy-related costs of $24m were reallocated from fixed manufacturing, site overheads and supply chain costs to variable manufacturing and supply chain costs to better reflect the nature of the cost.

7 Considers only the change to the cost base due to the change in milk solids collected between the seasons.

8 Captures the impact of inflation and movements in market prices of inputs.

9 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 Milk Price business manufactures RCPs in modern plants with current industry-standard technology. These plants have manufacturing capacity that approximates the average of Fonterra's RCP plants. The average daily processing capacity of the standard WMP and SMP plants installed prior to the 2013 season is approximately 1.9 million litres. Incremental and replacement WMP and SMP plants incorporated in the asset base since 2013 have an average daily processing capacity of approximately 2.5 million litres, equivalent to plants installed by Fonterra at Darfield in 2011 and Pahiatua in 2015. The Milk Price business ensures there is always sufficient capacity processing capacity to process all milk collected by Fonterra and it does so by maintaining or adding incremental plants where necessary.

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

WACC has been declining since 2012. This is primarily because it incorporates a rolling five-year average of the five-year New Zealand Government bond rates, which have declined from an average of 5% over the five year period to June 2012 to 2% over the five year period to June 2020. An amendment to DIRA passed into law in July 2020 mandates a change to the methodology used to determine the asset beta, a key input into the WACC, for the F22 season. Fonterra has determined the revised DIRA methodology will be applied to the F21 season asset beta. At the time of preparing this Statement, Fonterra had not finalised the impact of this change on the F21 season WACC. Solely as a reference point, the WACC for the F21 season would decrease to 4.6% if the asset beta remained unchanged from its previous value of 0.38.

For the 2020 season the lower WACC, in isolation, resulted in:

- A decrease of $19 million in the capital charge on fixed assets.
- A decrease of $1 million in the capital charge on net working capital.
- A decrease of $9 million in the provision for corporate tax.
- Higher depreciation of $7 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 the 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	2020	2019	2018
WACC % (post-tax)	**5.00%**	**5.30%**	**5.40%**
Depreciation	269[10]	260	262
WACC Charge – Fixed Assets	330	358	374
WACC Charge – Net Working Capital[11]	31	47	41
Tax	116	138	144
Total Capital Costs	**746**	**803**	**822**
Total Fixed Assets (Book Value)	6,684	6,832	7,021
Average Net Working Capital	635	791	729

10 Consistent with Fonterra's adoption of NZ IFRS 16 Leases from 1 August 2019, depreciation for the 2020 season includes the depreciation charge required for newly recognised right of use leased collection assets.
11 Certain 2018 season funding costs have been reclassified from cash to capital costs to better reflect their nature.

Appendix 1: Independent Reasonable Assurance Report

KPMG

TO THE DIRECTORS OF FONTERRA CO-OPERATIVE GROUP LIMITED

OPINION

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

In our opinion, the Farmgate Milk Price has been calculated, in all material respects, in accordance with the Farmgate Milk Price Manual for the season ended 31 May 2020.

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

INFORMATION SUBJECT TO ASSURANCE

We have performed an engagement to provide reasonable assurance in relation to the Fonterra Co-operative Group Limited (Fonterra) Farmgate Milk Price and Farmgate Milk Price Statement for the season ended 31 May 2020.

CRITERIA

The Farmgate Milk Price Calculation and the Farmgate Milk Price Statement are assessed against the requirements of the Farmgate Milk Price Manual for the season ended 31 May 2020, dated 1 August 2019.

KEY ASSURANCE MATTERS

Key assurance matters are those matters that, in our professional judgement, were of most significance in our reasonable assurance engagement in relation to the Farmgate Milk Price and the Farmgate Milk Price Statement for the season ended 31 May 2020. We summarise below those matters and our key procedures to address those matters in order that the Directors may better understand the process by which we arrived at our opinion. Our procedures were undertaken in the context of and solely for the purposes of our opinion on the Farmgate Milk Price and the Farmgate Milk Price Statement as a whole and we do not express discrete opinions on separate elements of the Farmgate Milk Price and the Farmgate Milk Price Statement.

NET SALES

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

The procedures we performed to evaluate Net Sales included:

- examining the processes, judgements and models used to extract sales data from underlying Fonterra systems, considering whether there is manipulation of the transactional price and quantity data that forms the basis of the statutory financial statements of the Co-operative. We also examined the bespoke IT program that extracts the data;
- evaluating these assumptions and judgements used in the models that calculate Net Sales. This involved challenging management and the Milk Price Group regarding the basis for each assumption; and
- assessing whether the requirements of the Fonterra Farmgate Milk Price Manual had been correctly applied in the models used to calculate Net Sales.

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

OVERHEADS

We consider the calculation of Overheads to be a key assurance matter due to the complexity and judgment involved in ascertaining the Fonterra Co-operative overheads that should be attributed to the Milk Price, in the context of a four-yearly Overhead reset process that is required by the Farmgate Milk Price Manual.

The procedures we performed to evaluate Overheads included:

- the last Overhead reset took place in F19 and was examined by the predecessor assurance provider. We examined the assurance files to understand the work undertaken, comparing it to the requirements of the Farmgate Milk Price Manual (including having been subject to an Independent Review in F19).
- evaluating the assumptions and judgements used in the models to calculate overheads. This involved challenging management and the Milk Price Group regarding the basis for each assumption and assessing if all requirements of the Fonterra Farmgate Milk Price Manual had been correctly applied;
- inspecting correspondence with the New Zealand Commerce Commission surrounding their review of the F19 Farmgate Milk Price to understand how their observations relating to overheads have been incorporated into the F20 Farmgate Milk Price calculation.

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

Appendix 1: Independent Reasonable Assurance Report to the Directors of Fonterra Co-Operative Group Limited CONTINUED

STANDARDS WE FOLLOWED

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

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

HOW TO INTERPRET REASONABLE ASSURANCE AND MATERIAL MISSTATEMENT

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

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

USE OF THIS ASSURANCE REPORT

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

To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Milk Price Panel and Directors of Fonterra for our work, for this independent reasonable assurance report, or for the opinions we have reached.

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

MILK PRICE GROUP'S RESPONSIBILITY FOR THE FARMGATE MILK PRICE AND FARMGATE MILK PRICE STATEMENT

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

OUR RESPONSIBILITY

Our responsibility is to express an opinion to the Directors on:

- whether the Farmgate Milk Price has been calculated, in all material respects, in accordance with the Farmgate Milk Price Manual, and
- whether the information presented in the Farmgate Milk Price Statement is materially consistent with the data in the calculation of the Farmgate Milk Price.

OUR INDEPENDENCE AND QUALITY CONTROL

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

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

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

KPMG

KPMG
Auckland
17 September 2020

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 Board or Milk Price Panel may initiate additional reviews if circumstances warrant.

FARMGATE MILK PRICE MANUAL UPDATES

The Fonterra Board approved a number of amendments to the Manual for the 2021 season. The most substantive amendments were:

- Amendments to clarify the Manual's provisions dealing with the four yearly overheads review and within-period reviews within a four yearly reset period.

  These amendments make it explicit that the Milk Price Group is responsible for conducting the four yearly 'reset' reviews and 'within-period' reviews and clarify the outcome from a within-period review can be implemented in the year in which the review is undertaken.

- Amendments to streamline the Manual's requirements for independent review of various Milk Price inputs.

  These amendments provide that the Milk Price Group, which is independent of Fonterra, is responsible for determining specialised Milk Price inputs. They remove the explicit requirements to obtain a further level of independent review. In accordance with existing practice, where members of the Milk Price Group do not have the depth of experience needed, the Milk Price Group will continue to engage external experts.

- Amendments to the approach to establishing the asset beta and specific risk premium used in the calculation of the Milk Price.

  Under the current rules the Milk Price Panel must adopt the asset beta and specific risk premium recommended by an independent expert and is unable to adopt a different estimate. These inputs were last updated in 2015 and are scheduled for review for the F21 season. An amendment to DIRA passed into law in July 2020 mandates a change to the methodology used to determine the asset beta, a key input into the WACC, for the F22 season. Fonterra has determined the revised DIRA methodology will be applied to the F21 season asset beta. The amendments shift responsibility for determining the asset beta to the Milk Price Group in its role as independent expert.

The Manual for the 2021 season is available at:
https://www.fonterra.com/content/dam/fonterra-public-website/fonterra-new-zealand/documents/pdf/milk-prices/2010/F21_Milk_Price_Manual_Final_1_August_2020.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 2019/20 Manual was released on 12 December 2019. That report can be found at:
https://comcom.govt.nz/regulated-industries/dairy/milk-price-manual-and-calculation/milk-price-manual/milk-price-manual-201920-season

CHANGES IN APPROACH TO THE CALCULATION OF THE FARMGATE MILK PRICE

There were no changes in the application of the Manual for the 2020 season that resulted in materially different values of inputs into the Farmgate Milk Price calculation.

Appendix 3: Farmgate Milk Price Overview

RATIONALE FOR FARMGATE MILK PRICE

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

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

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

RATIONALE FOR REFERENCE COMMODITY PRODUCTS

Manufacture of the RCPs comprised approximately 70% of Fonterra's total New Zealand ingredients production in the 2020 season.

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

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

The Farmgate Milk Price approach does not include any returns earned by Fonterra from 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.[12]

Since the 2012 season, the methodology has been 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.

An amendment to DIRA passed into law in July 2020 mandates a change to the methodology used to determine the asset beta, a key input into the WACC, for the F22 season. As stated earlier in this Milk Price Statement, Fonterra has determined the revised DIRA methodology will be applied to the F21 season asset beta. At the time of preparing this Statement, Fonterra had not finalised the impact of this change on the F21 season WACC. Solely as a reference point, the WACC for the F21 season would decrease to 4.6% if the asset beta remained unchanged from its previous value of 0.38.

FARMGATE MILK PRICE GOVERNANCE

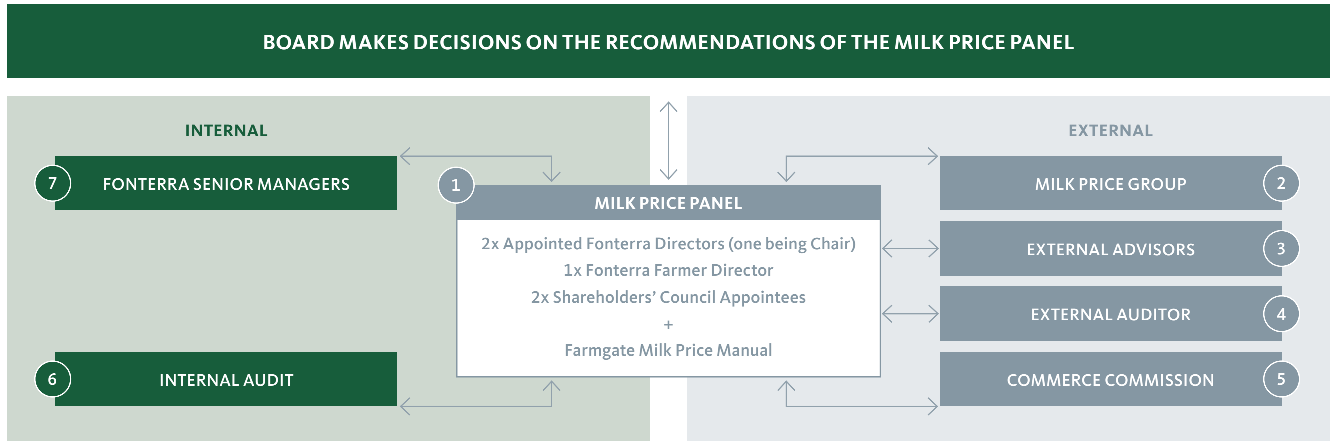
The Fonterra Board sets the total amount to be paid by Fonterra for all milk supplied to it in New Zealand in each season.

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

The Fonterra Board has established a robust governance structure to oversee the setting of the Farmgate Milk Price, which comprises the elements illustrated in the diagram on page 11.

12 For example, http://www.comcom.govt.nz/regulated-industries/input-methodologies-2/input-methodologies-review/cost-of-capital-im-review/

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 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 Advisors

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

4 External Auditor

The external auditor 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 KPMG.

5 Commerce Commission

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

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

6 Internal Audit

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

7 Fonterra Senior Managers

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

Appendix 4: Milk Supplied and Production Volumes

2020 SEASON	MILK SUPPLIED (MILLION KGMS)	PRODUCTION (000 MT) OF FINISHED PRODUCT					
		WMP	SMP	BUTTER	AMF	BMP	TOTAL
JUN 19 TO AUG 19	130	151	61	11	23	6	**250**
SEP 19 TO NOV 19	595	760	222	87	55	21	**1,145**
DEC 19 TO FEB 20	488	609	182	82	42	19	**934**
MAR 20 TO MAY 20	304	401	96	41	30	13	**581**
TOTAL	**1,517**	**1,921**	**561**	**221**	**150**	**58**	**2,911**

2019 SEASON	MILK SUPPLIED (MILLION KGMS)	PRODUCTION (000 MT) OF FINISHED PRODUCT					
		WMP	SMP	BUTTER	AMF	BMP	TOTAL
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					
		WMP	SMP	BUTTER	AMF	BMP	TOTAL
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**

Appendix 5: Sales Volumes

2020 SEASON	SHIPMENTS (000 MT) OF FINISHED PRODUCT					
	WMP	SMP	BUTTER	AMF	BMP	TOTAL SALES
AUG 19 TO OCT 19	251	83	22	20	3	**379**
NOV 19 TO JAN 20	662	203	94	38	17	**1,014**
FEB 20 TO APR 20	514	146	52	43	19	**774**
MAY 20 TO JUL 20	434	115	35	44	17	**644**
AUG 20 TO OCT 20	60	14	19	5	3	**100**
TOTAL	**1,921**	**561**	**221**	**150**	**58**	**2,911**

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**

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

2020 SEASON	AVERAGE NUMBER OF MONTHS PRIOR TO SHIPMENT				
	WMP	SMP	BUTTER	AMF	BMP
AUG 19 TO OCT 19	2.6	2.9	2.9	2.2	1.8
NOV 19 TO JAN 20	2.8	3.1	2.8	2.7	2.9
FEB 20 TO APR 20	2.8	2.9	3.3	3.0	2.6
MAY 20 TO JUL 20	2.6	2.9	2.6	2.6	2.4
AUG 20 TO OCT 20	2.7	2.9	2.7	2.8	2.3
	2.7	**3.0**	**2.9**	**2.7**	**2.6**

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**

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

2020 SEASON	AVERAGE PERCENTAGE OF SALES CONTRACTED IN EACH OF MONTHS 1-5 PRIOR TO SHIPMENT				
	WMP	SMP	BUTTER	AMF	BMP
1	10%	6%	13%	12%	20%
2	39%	35%	31%	39%	38%
3	28%	27%	24%	24%	23%
4	14%	19%	22%	14%	10%
5	9%	13%	11%	10%	9%

2019 SEASON	AVERAGE PERCENTAGE 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 PERCENTAGE 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%

Appendix 8: Average USD Prices

2020 SEASON	USD PER MT OF FINISHED PRODUCT				
SHIPMENT PERIOD	WMP	SMP	BUTTER	AMF	BMP
AUG 19 TO OCT 19	3,129	2,549	4,420	5,408	2,820
NOV 19 TO JAN 20	3,184	2,680	4,257	5,210	2,794
FEB 20 TO APR 20	3,203	2,980	4,128	4,954	3,033
MAY 20 TO JUL 20	2,916	2,761	3,883	4,394	2,691
AUG 20 TO OCT 20	2,825	2,673	3,732	4,198	2,561
	3,110	**2,755**	**4,140**	**4,891**	**2,833**
Full season GDT-only prices	**3,069**	**2,719**	**4,108**	**4,835**	**2,758**

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**

Appendix 9: Average NZD/USD Conversion and Spot Rates

2020 SEASON	FONTERRA'S AVERAGE CONVERSION RATE	SPOT EXCHANGE RATE
AUG 19 TO OCT 19	0.6651	0.6366
NOV 19 TO JAN 20	0.6693	0.6541
FEB 20 TO APR 20	0.6627	0.6079
MAY 20 TO JUL 20	0.6565	0.6496
AUG 20 TO OCT 20	0.6568	0.6694[13]
Revenue-weighted annual average	**0.6638**	**0.6381**

2019 SEASON	FONTERRA'S AVERAGE CONVERSION RATE	SPOT EXCHANGE RATE[14]
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	0.6573
AUG 19 TO OCT 19	0.6809	0.6354
Revenue-weighted annual average	**0.6905**	**0.6697**

2018 SEASON	FONTERRA'S AVERAGE CONVERSION RATE	SPOT EXCHANGE RATE
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**

As at 31 July 2020, Fonterra had hedged approximately 63% of the forecast cash flows related to the 2021 season Farmgate Milk Price. If the remaining 37% of the forecast cash flows were to be hedged at the 31 July spot rate, the average NZD/USD conversion rate would be around 65 cents

13 This Milk Price Statement presents the spot exchange rate for August to October 20 as the spot rate at 9am on 31 July 2020, which is the last day of Fonterra's financial year.
14 Certain average spot exchange rate figures for the 2019 season differ from those disclosed in the 2019 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 2020 season.

Aggregate Farmgate Milk Price as defined in the Manual for the 2020 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 2020 season.

Farmgate Milk Price Capital Costs as defined in the Manual for the 2020 season.

Farmgate Milk Price Cash Costs as defined in the Manual for the 2020 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 2020 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 2020 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 2020 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 2020 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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Dairy for life

Fonterra Co-operative Group Limited

Distribution Notice

Section 1: Issuer information				
Name of issuer	Fonterra Co-operative Group Limited			
Financial product name/description	Fonterra Co-operative Group Limited Shares			
NZX ticker code	FCG			
ISIN (If unknown, check on NZX website)	NZFCGE000157			
Type of distribution (Please mark with an X in the relevant box/es)	Full Year	X	Quarterly	
	Half Year		Special	
	DRP applies	X		
Record date	25/09/2020			
Ex-Date (one business day before the Record Date)	24/09/2020			
Payment date (and allotment date for DRP)	15/10/2020			
Total monies associated with the distribution[1]	$80,604,853			
Source of distribution (for example, retained earnings)	Retained earnings			
Currency	NZD			
Section 2: Distribution amounts per financial product				
Gross distribution[2]	$80,604,853			
Gross taxable amount [3]	$80,604,853			
Total cash distribution[4]	$80,604,853			
Excluded amount (applicable to listed PIEs)	$-			
Supplementary distribution amount	$-			

[1] Continuous issuers should indicate that this is based on the number of units on issue at the date of the form

[2] "Gross distribution" is the total cash distribution plus the amount of imputation credits, per financial product, before the deduction of Resident Withholding Tax (**RWT**).

[3] "Gross taxable amount" is the gross distribution minus any excluded income.

[4] "Total cash distribution" is the cash distribution excluding imputation credits, per financial product, before the deduction of RWT. This should *include* any excluded amounts, where applicable to listed PIEs.

Section 3: Imputation credits and Resident Withholding Tax[5]		
Is the distribution imputed	~~Fully imputed~~	
	~~Partial imputation~~	
	No imputation	
If fully or partially imputed, please state imputation rate as % applied[6]	N/A	
Imputation tax credits per financial product	N/A	
Resident Withholding Tax per financial product	$0.0165	
Section 4: Distribution re-investment plan (if applicable)		
DRP % discount (if any)	2.5%	
Start date and end date for determining market price for DRP	24/09/2020	30/09/2020
Date strike price to be announced (if not available at this time)	01/10/2020	
Specify source of financial products to be issued under DRP programme (new issue or to be bought on market)	New issue	
DRP strike price per financial product	N/A – available on 01/10/2020	
Last date to submit a participation notice for this distribution in accordance with DRP participation terms	28/09/2020	
Section 5: Authority for this announcement		
Name of person authorised to make this announcement	Anya Wicks	
Contact person for this announcement	Anya Wicks	
Contact phone number	(09) 374 9341	
Contact email address	Anya.wicks@fonterra.com	
Date of release through MAP	18/09/2020	

Audited financial statements accompany this announcement.

[5] The imputation credits plus the RWT amount is 33% of the gross taxable amount for the purposes of this form. If the distribution is fully imputed the imputation credits will be 28% of the gross taxable amount with remaining 5% being RWT. This does not constitute advice as to whether or not RWT needs to be withheld.
[6] Calculated as (imputation credits/gross taxable amount) x 100. Fully imputed dividends will be 28% as a % rate applied.