You, me, us together Tātou, tātou

ANNUAL REPORT 2019

We know when we work together we can create goodness.

CONTENTS

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

Please refer to page 113 for the reconciliation of the NZ IFRS measures to the non-GAAP measures and page 115 for definitions of the non-GAAP measures used by Fonterra.

A year of fundamental change

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

John Monaghan
CHAIRMAN

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

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

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

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

Underlying business performance

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

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

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

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

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

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

Farmgate Milk Price for 2018/19 season

$6.35 per kgMS

New Zealand milk collections for 2018/19 season

1,523 million kgMS

Share price, down 26.4% year/year[1]

$3.77[2]

Dividend

0 No dividend

1 For the period 31 July 2019
2 Fonterra Shareholders Fund (FSF) unit price as at 31 July 2019
Note: the Fonterra unit price as at 25th September 2019 was $3.22 NZD

Shareholder Value

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

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

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

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

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

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

Leadership changes

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

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

New Strategy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

John Monaghan

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

Resetting the business

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

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

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

Reflecting changing realities in our asset valuations and future earnings

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

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

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

Lifting the level of discipline

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

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

$826m
Reduction in Net Profit After Tax attributable to equity holders, as a result of the strategy review

$605m
Net Loss After Tax

$261m
Reduction in capital expenditure

$185m
Reduction in normalised operating expenses

$1,095m
Free cashflow, an improvement of 83%

$469m
Reduction in debt

$1 billion
Proceeds from all announced asset sales available for debt reduction[1]

1 Final amount dependent on exchange rates and final settlement adjustments

Our new strategy will:

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

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

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

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

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

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

Getting clear on why we exist – our purpose

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

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

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

Completing our new strategy

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

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

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

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

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

Priorities for FY20

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

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

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

Miles Hurrell
Chief Executive Officer

Our Goals

Healthy people

Healthy environment

Healthy business

Our Values

Co-operative spirit

Do what's right

Challenge boundaries

Make it happen

Our Purpose

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

Fonterra
Dairy for life

Our Co-operative

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

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

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

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

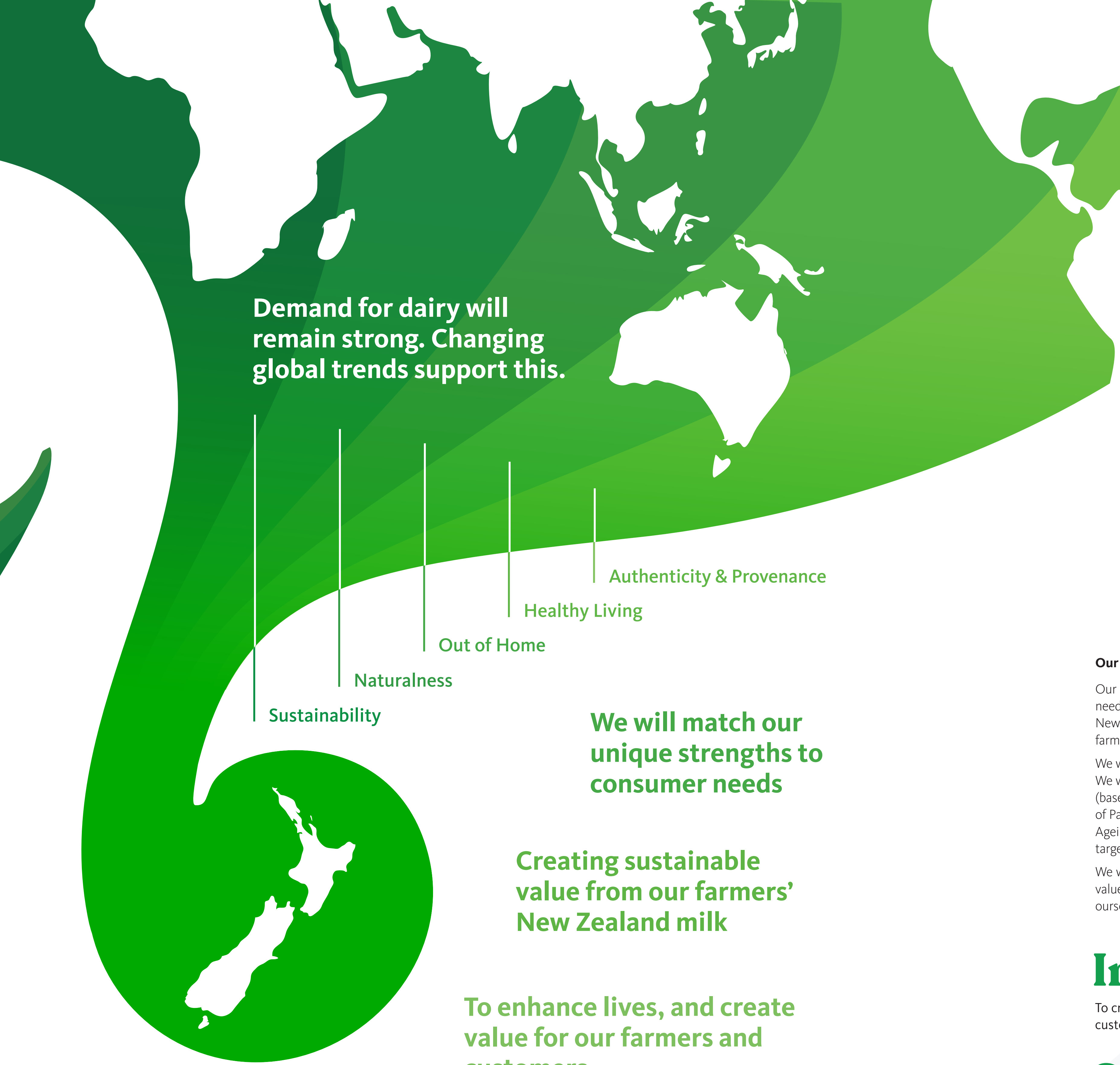
It also reinforced the importance of our Co-operative's values, and the need to change the way we behave, connecting our strategy, our decisions and actions to our purpose and values.

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

We are clear what our goals are:

Healthy people
Healthy environment
Healthy business

This comes to life through our new strategy



WE WILL CONCENTRATE ON THESE CONSUMPTION CATEGORIES

CORE DAIRY | FOODSERVICE | PAEDIATRICS | SPORTS & ACTIVE | MEDICAL & AGEING

Our Strategy

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

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

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

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

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

Our New Strategy

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

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

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

Innovation

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

Sustainability

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

Efficiency

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

What Needs To Change

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

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

How We Measure Progress And Success

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

Healthy people	Value nutrition, strong relationships, supporting communities
Healthy environment	Lower footprint, zero waste, restoring nature
Healthy business	Sustainable pay-out, return on capital, reliable dividends

Our Co-operative Difference

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

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

4 — All on-farm activities aligned across five focus areas.

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

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

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

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

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

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

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

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

The Co-operative Difference:

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

Working with our farmers

On-Farm Support

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

$40.8m

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

10 cents per kgMS

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

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

A new electricity deal

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

Co-operative

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

This year, farmers engaged with our Co-operative in a number of ways. They attended local events, site visits, global tours, watched webinars, participated in various learning opportunities, and used our digital platforms and smartphone apps.

585

co-operative events.

435

farmers attended the MyConnect Conference.

90% of farms use our apps.

71%

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

Fixed Milk Price

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

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

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

440 farms

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

Environment

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

23%

of our farms now have a Farm Environment Plan.

27

Sustainable Dairy Advisors.

$4,700

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

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

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

Working with our farmers CONTINUED

Animals

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

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

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

$97m

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

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

People and Community

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

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

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

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

Milk

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

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

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

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

1,780

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

Honour Roll for Milk Quality Excellence

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

Legend

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

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

Achievement

Top 10 farming entities with the lowest Somatic Cell Count.

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

Gold

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

5 M Trust
A Holten & N Brown
A J & K L Murdoch
Abacus Dairy Limited
Abbey Farm Partnership
Acacia Farms Ltd
Ahipaipa Farms Ltd
Amberhay Limited
Aramaunga Farms Ltd
Arataki Dairies Limited
Ashgrove Dairy Farms Limited
B & D Dodunski
B N & P A Jones
B P & P N Kennedy
B S & S K Dhaliwal
Barmac Dairies Ltd
Beechbank Dairies Ltd
Bibberne Farms Ltd
Browne Pastoral Enterprises Limited
Bullot Family Trust
C B Farms Ltd
C J & C J McKenzie Ltd
C J & V K Taylor
C W & J Redshaw
C W & M Y Matthews Family Trust
C.D. Farms Ltd
Clutha Lea Ltd
Collins Family Trust
Conlan Trust
Cranief Clifton Ltd
D & D Alexander Trust
D & E J Pringle
D & K Miles Limited
D C & V F Frew
D J & R E G Goodwin
D J & S A McMillin
D J Noble & K M Jones
D R & E M Henman
D S & L R Wilson Ltd
Daisy Dairying Ltd
DDB Dairy Enterprises Limited
Drysdale Holdings Ltd
Dugald McKenzie Family Trust
E F & J A Allcock
F A & R C M Smits Ltd
Fairview Trust
Far South Farms Ltd
Fardale Dairies Ltd
Farmer Fred Ltd
Farview Farms Ltd
G A & K T Lynch
G B & D G Hodges Trust
G K & D J Landon Family Trust
G R J & R J Saddleton
Golden Mile Farms Ltd
Hard Road Dairies
Hillcrest at Fairfax Ltd
Hudson Trust
I J Oliver
J A & Estate of KJ Jolly
J B & L M Suisted Limited
J E & C T Brien
J H & H R Smyth
J L & K S Gwerder Family Trust
J L & M A Cooke
J R & A T M Hale
J Van Der Kooy
J W & A M Steeghs
J W Prictor
James Lyttle
JJ & AB Roskam Ltd
K & S Richards Limited
K B Olesen & R J Stephens
K J & H Chalmers Ltd
Kainui Peatlands Ltd
L J Bleakley
Lockerbie Farms 2001 Ltd
M & A Schrader Family Trust
M & C O'Grady Ltd
M & J Barker Trust
M E Hunt & Son Ltd
M R & K J Luke Ltd
Malandra Downs Limited
Mary Allen Farm Ltd
McFetridge Farms Ltd
Michael O'Connor
Miroc Limited
Molehill Farm Ltd
N J & M Bleakley
Oceanview Farms Ltd
O'Reilly Family Trust
P V & P G Mullin Trust
Parkhill Farms Ltd
Paul Turner Farm Trust
Pikowai Transport Ltd
PJ Nelson Farming Ltd
Puketi Farming Enterprises Ltd
R & P Woods Farms Ltd
R J Mandeno No.2 Family Trust
R N Cornes
R P & M G Frank
R W & W J Cudby Family Trust
Rainbowcreek Farms Limited
Ritson Holdings Limited
River Heights Limited
Rodney G & S J Joblin
Roseneath Farm Limited
S & S Iorns
S G & B L Thirkell
S M Duynhoven & Estate of JB Duynhoven
S M Shead
Sea Breeze Farms
Sean McErlean Trust
Steffert Farms Ltd
Stephen Zink
Stopford Road Limited
Te Ngutu Land Holding Co Ltd
Te Repo Farms Ltd
V E & D M Grant
Valley Road Farm Ltd
W B Scott Family Trust
W.A & H.R Simpson Farming Ltd
Waituna Investments Ltd
Watershed Ventures Ltd
Webber Farm Ltd
Whenuakura Farm Limited
Willowfields Ltd
A H & A C Webster
Abbott Brothers
AGC Farms Limited
Airlie Lodge (Walton) Ltd
Allison Family Farms Ltd
Alton Pastures Limited
Auroam Tahi Limited
B & E V Blake
B J & D A Verryt Family Trust
B M & B C & JH Geddes
B M & R M Sarten
B S & P J Strang
Barneyco Trust Partnership
Bent River Farms
BJ & DM Ahlers
Bonezco Farms Ltd
Burton Trust
C & M Tippett
C & M Young Ltd
C C J & F A Jones
Carnarvon Farms Ltd
Casey Coxhead Ltd
Cavan Downs Trust
Chetwynd
Colhaven Limited
Cotlands Ltd
Creekside Pastures Ltd
D P & T G Schumacher
Daybreak Farms Limited
Eichler Farms Limited
F B Bonenkamp & J B Cunningham
Farmbuild Milk Company Ltd
Forest Hill Downs Limited
Fowler Family Prosperity Trust
Frisia Farm Trust
G A & J M Fox
G A & V M Weir
G C & J M Knowles
G C Hall
G J Farms Ltd
G M & A J Gower
Gee 'N' Tee Ltd
Glen Eden Otago Ltd
Grat Farms Ltd
Gregory Farms Ltd
Hines Family Trust
I H & D J Bryant
I Hampton & A Golvin
I J Sutherland Partnership
Inishbulfin Farm Ltd
J & J Anderson Family Trust Partnership
J E & D M Cooper
J H & R Cotman
J L Hooper & A L Robertson
J P & J S Adams
JDQ Ltd
JE & KL Gilbert

Gold continued

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

To qualify, farms must have supplied 45 days or more in each season.

Farmer spotlight

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

Fonterra Dairy Woman of the Year

Trish Rankin

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

Dairy Business of the Year

Okaihau Pastoral Holdings Ltd

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

Responsible Dairying Award

Damian and Jane Roper

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

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

New Zealand Share Farmer of the Year

Colin and Isabella Beazley

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

Dairy Trainee of the Year

Nicola Blowey

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

Young Farmer of the Year Award

James (Jimmy) Robertson

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

Ballance Farm Environment Award

Adrian and Pauline Ball

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

Employee spotlight


Image supplied by Tim Collins and RNZ First Up.

Our Te Rapa tanker drivers

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

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

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

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

> "A big outfit like Fonterra doesn't have to do that. They simply could've ignored the request but no, they came through and we're very grateful."
>
> *Ken Oliver, farmer owner.*

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

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

Our Energy team

A small team guiding big changes

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

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

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

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

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

Our NZMP Team

Protein packed pantries and a perfect partnership

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

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

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

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

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

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

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

Board of Directors


1


5


9


2


6


10


3


7


11


4


8

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

1. John Monaghan

Board Responsibilities *Farmer-elected Director, Chairman, Chair of the Appointments and Remuneration Committee*
Term of Office *Elected 2008, last re-elected 2017*
John Monaghan was elected to the Fonterra Board in 2008 and became Chairman in 2018. Prior to joining the Fonterra Board, John was Chairman of the Fonterra Shareholders' Council and the Inaugural Chair of the Governance Development Programme. He is also a Director of Centreport Limited and Centreport Properties Limited, and is a member of the Executive Board of the New Zealand China Council. John is a Chartered Member of the Institute of Directors. He holds a number of farming directorships and is a trustee of the Wairarapa Irrigation Trust. John has dairy farming interests in the Wairarapa and Otago regions. John has taken a lead role in representing Fonterra's interests on global trade issues and has strong networks domestically and internationally with key stakeholders.

2. Clinton Dines

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

3. Brent Goldsack

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

4. Leonie Guiney

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

5. Bruce Hassall

Board Responsibilities *Appointed Director, Chair of the Audit and Finance Committee, Member of the Safety and Risk Committee and the Milk Price Panel and is an observer on the Appointments and Remuneration Committee*
Term of Office *Appointed 2017*
Bruce Hassall was appointed to the Fonterra Board in 2017. Bruce is a Chartered Accountant and has had a 35-year career at PwC, including holding the position of Chief Executive Officer of the New Zealand practice from 2009 to 2016. Bruce is Chairman of The Farmers Trading Company Limited, Prolife Foods Limited and Fletcher Building Limited and serves as a director on the Board of Bank of New Zealand. He was previously a member of the University of Auckland Business School Advisory Board and was a founding Board Member of the New Zealand China Council. Bruce has extensive experience in financial reporting information system processes, risk management, business acquisitions, capital raising and IPOs across both listed and private companies.
BCom, FCA (CAANZ)

6. Simon Israel

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

7. Andrew Macfarlane

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

8. Peter McBride

Board Responsibilities *Farmer-elected Director, Member of the Audit and Finance Committee, Co-operative Relations Committee and the Governance Development Programme Committee*
Term of Office *Elected 2018*
Peter McBride was elected to the Fonterra Board in 2018. He is a member of the Zespri China Advisory Board. Peter was previously the Chairman and a Director of Zespri Group Limited and other related companies. Peter is a Managing Director of South-East Hort Limited and subsidiaries and Ellett Beach Farms Joint Venture. He was previously a Director of the New Zealand International Business Forum and a member of the Executive Board of the New Zealand China Council. Peter has shareholding interests in the Waikato.
B. Horticulture, PG Dip Com Agribusiness

9. John Nicholls

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

10. Donna Smit

Board Responsibilities *Farmer-elected Director, Member of the Audit and Finance Committee and the Co-operative Relations Committee*
Term of Office *Elected 2016*
Donna Smit was elected to the Fonterra Board in December 2016. Donna serves on the Board of the Manager of the Fonterra Shareholders' Fund. Donna lives and farms at 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 Chartered Accountant and was a company administrator at kiwifruit co-operative EastPack for 24 years. Donna's strong focus on financial and risk management has been built through her extensive business experience and financial background, and complements her deep dairy farming experience.
FCA

11. Scott St John

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

Management Team

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

1. Miles Hurrell

Chief Executive Officer

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

2. Marc Rivers

Chief Financial Officer

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

3. Deborah Capill

Managing Director, People and Culture

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

4. Mike Cronin

Managing Director, Co-operative Affairs

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

5. Robert Spurway

Chief Operating Officer, Global Operations

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

6. Judith Swales

Chief Operating Officer, Global Consumer and Food Service

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

7. Kelvin Wickham

Chief Operating Officer, NZMP™

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

Our year in review

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

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

July 2018
- John Monaghan becomes Chairman

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

September 2018
- We outline three immediate steps to lift performance: Take stock of the business, get the basics right and ensure more accurate forecasting

October 2018
- Introduced a forecast Farmgate Milk Price range and revised down the forecast milk price to $6.25-$6.50 per kgMS
- We drop our volume ambition, refocus the business on value and set clear cost saving targets

November 2018
- Our Brightwater site begins co-firing its coal boiler on wood biomass

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

January 2019
- John Wilson passed away (retired from Board November 2018)

February 2019
- We buy a stake in US based food company, Motif Ingredients, a company developing and commercialising bio-engineered animal and food ingredients
- 2018/19 forecast Farmgate Milk Price range increases to $6.30-$6.60 per kgMS
- FY19 forecast earnings per share revised down to 15-25 cents and we announce a full strategic review is underway

March 2019
- Miles Hurrell becomes permanent CEO
- We sell our interest in Venezuelan consumer joint venture Corporacion Inlaca
- We start a sales process for our 50% share of DFE Pharma

April 2019
- The Co-operative Difference launches, helping our farmer owners know what is expected now and in the future
- MPI sets three national goals to eradicate Mycoplasma bovis
- Trialled wood pellets in our Te Awamutu site's boiler

May 2019
- We sell Tip Top to global ice cream company Froneri
- We announce that we are closing our Dennington site in Australia
- 2018/19 forecast Farmgate Milk Price range narrows to $6.30 - $6.40 per kgMS
- Forecast earnings per share range revised down to 10-15 cents
- We announce a strategic review of our farm-hubs in China and that we are reviewing ownership of our DPA Brazil joint venture

June 2019
- We announce the sale of our interest in foodspring

July 2019
- We put a stop to installing any new coal boilers or increasing capacity to burn coal
- We set new waste targets of zero solid waste to landfill by 2025 and 100% recyclable, reusable or compostable packaging by 2025

Spring
Good pasture growth leads to strong start to season

Summer
Hot and dry summer in New Zealand, drought in Australia

Autumn
Dry in some regions

Our Approach

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

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

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

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

Environment:
Achieving a healthy environment for farming and society.

Community:
Delivering prosperity for our farmers and wider communities.

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

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

Nutrition

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

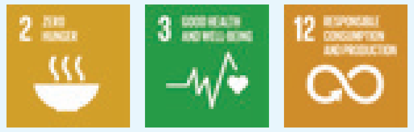
FY19 delivery

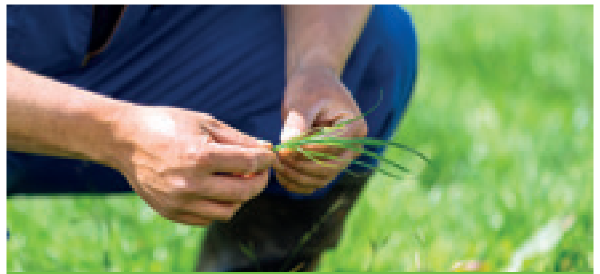
- Launch a new affordable product.
- Continue to reformulate products to nutritional guidelines.
- Continue to rollout electronic product traceability.

Targets

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

Long-term contribution





Environment

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

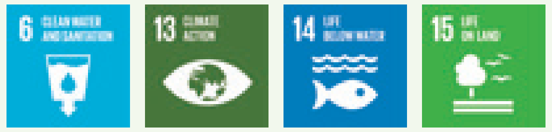
FY19 delivery

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

Targets

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

Long-term contribution



Community

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

FY19 delivery

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

Targets

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

Long-term contribution

On-track.
Behind plan.

1 94% of sites globally are already certified.

We expanded our range of Soprole Protein+ products.

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

We extended our range of Mozzarella cheeses.

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

Protein innovation

No.1 Soprole™ Protein+ Plain yoghurt was voted by consumers as the Product of the Year for innovation.

Providing nutrition

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

Nutrition

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

Soprole™ Protein+

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

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

Anchor™ Greek Yoghurt

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

Anmit™ – Affordable nutrition

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

NZMP™ NutriWhite Dairy-Based Powder

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

NZMP™ Mozzarella Range

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

NZMP™ SureStart™ MFGM Lipid 70

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

NZMP™ Lifestyle Probiotics

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

Environment

Water and Biodiversity

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

Farming

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

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

Manufacturing

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

To achieve this, there are a large number of initiatives underway across our manufacturing sites. For example, at Edendale, by capturing the steam generated by one of the dryers and treating it appropriately, we can reuse it instead of using fresh water. This means we draw less water from the aquifer and have less wastewater to treat. We estimated this initiative saved between 700-750m^3 water per day in February when it went live, and can save about 1,000m^3 water per day in optimal operating conditions.

Climate Change

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

Farming

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

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

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

Manufacturing

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

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

At Brightwater, we converted the boiler so it can co-fire wood biomass with coal. It went live in November 2018, reducing GHG emissions by about 480 tonnes CO_2-e during FY19.

Building on the lessons learned at Brightwater, we completed a successful trial at Te Awamutu where we converted the coal boiler to burn wood pellets and tested for three days. We are working to ensure security and quality of the wood pellet supply, but at this stage it is estimated that moving to this solution would reduce annual emissions by 84,000 tonnes CO_2-e.

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

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

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

New packaging target

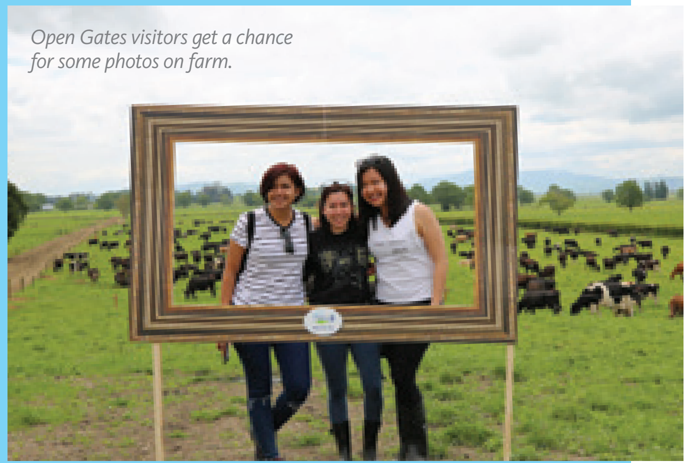
100% 100% recyclable, reusable or compostable packaging by 2025.

New waste target

Zero Zero solid waste to landfill from our sites by 2025.

On-Farm emissions

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



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

A tanker up close at Open Gates.

Enjoying Kickstart Breakfast Club at Putaruru Primary School.

Open Gates

8,000

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

Milk for Schools

18m

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

KickStart Breakfast

30m

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

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

Community

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

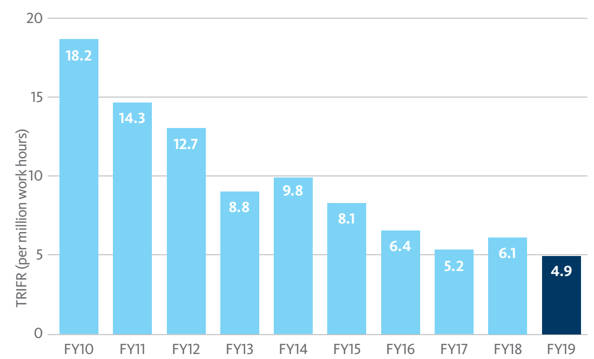
At Fonterra, we contribute to three interconnected communities:

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

Caring for our people

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

Total recordable injury frequency rate



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

Connecting our communities – Open Gates

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

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

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

In-school Programmes

Fonterra Milk for Schools

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

KickStart Breakfast

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

Caring for communities through social procurement

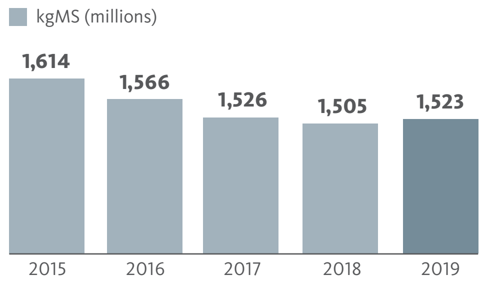
We joined other leading organisations and signed up as founding members of New Zealand's first social procurement buyer group. Established by the Ākina Foundation, the Fwd: platform connects procurement teams with social enterprises that have a positive impact on society as they deliver various goods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

OUR PERFORMANCE

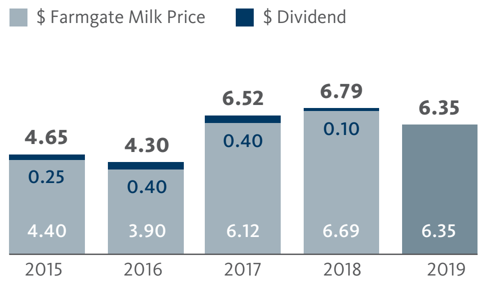
Group Financial Metrics

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

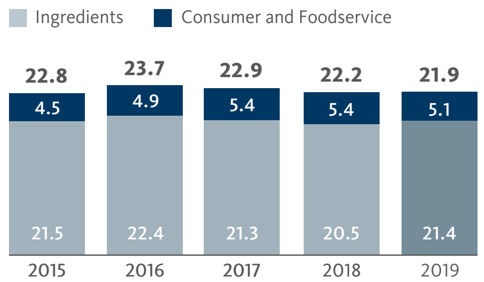
Milk Collection



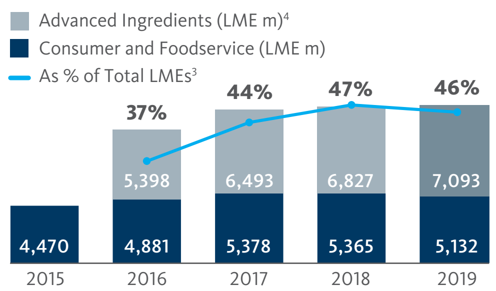
Total Cash Payout



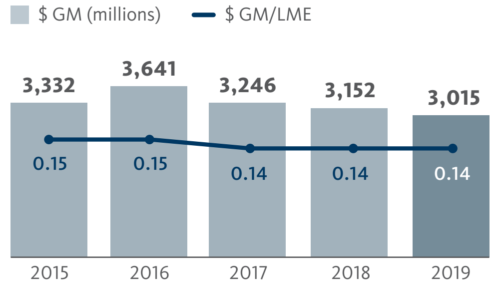
Sales Volume (LME bn)[1]



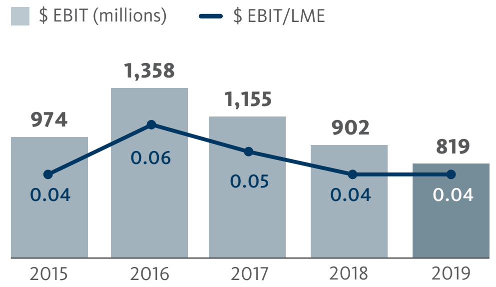
Volume to Higher Value[2]



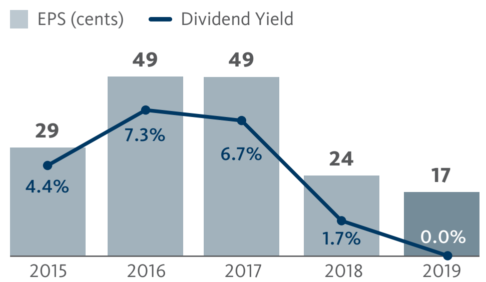
Normalised Gross Margin



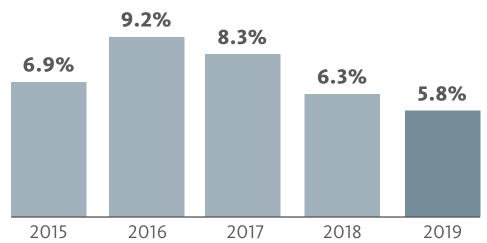
Normalised EBIT



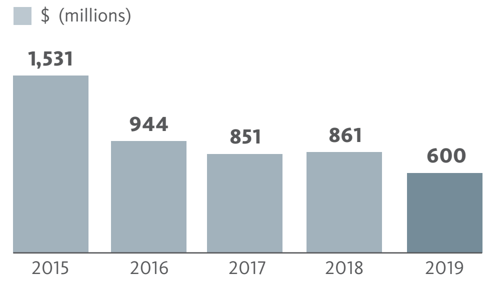
Dividend Yield and Normalised EPS



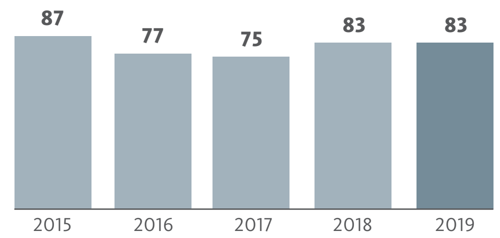
Return on Capital (including intangibles and EAI[5])



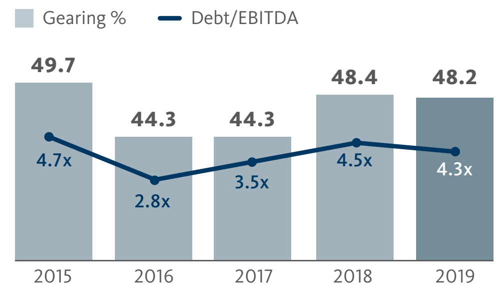
CAPEX[6]



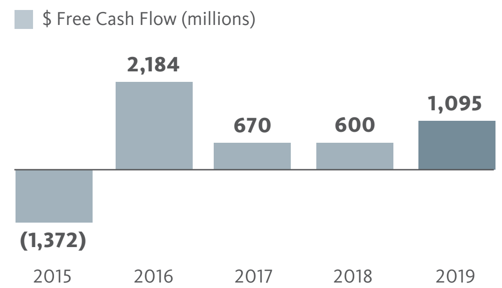
Working Capital Days



Leverage



Free Cash Flow



1 Does not add to total due to inter-group eliminations.
2 Advanced Ingredients split only from 2016.
3 Advanced Ingredients and Consumer and Foodservice products as a percentage of total LMEs.
4 The way in which Ingredients presents certain inter-segment sales between Ingredients and Foodservice was revised in FY19. This increased FY19 Advanced Ingredients sales volumes for the 12 months ended 31 July 2019 by 946 million LMEs.
5 Equity accounted investments.
6 Capital expenditure comprises purchases of property (less specific disposals where there is an obligation to repurchase), plant and equipment and intangible assets, and net purchases of livestock.

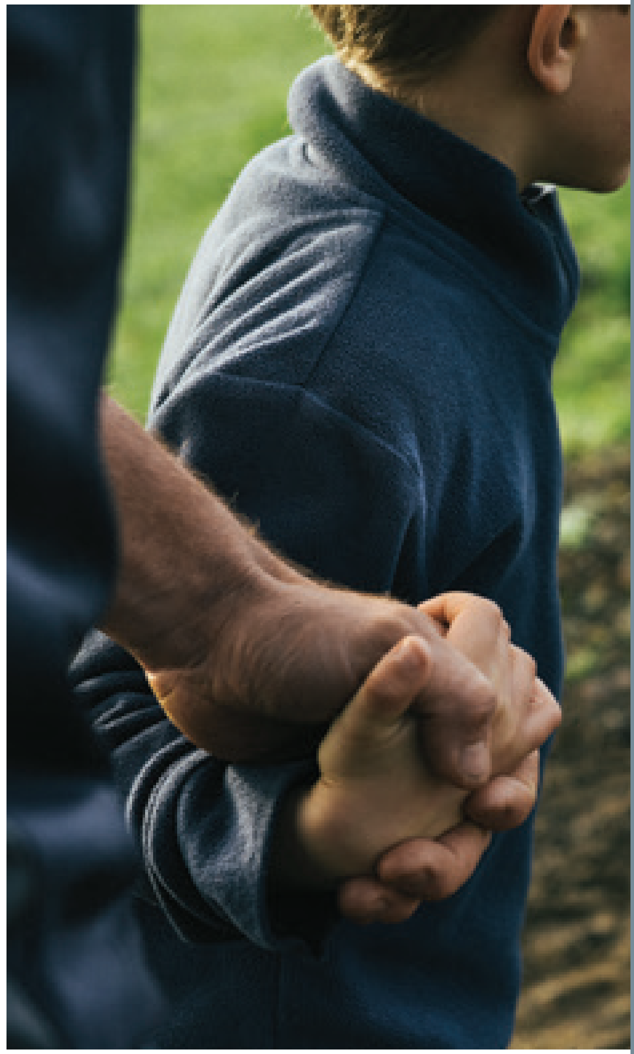
Group Overview

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

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

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

1 Percentages as shown in tables may not align to the calculation based on numbers in the tables due to rounding.
2 Refer to note 2 of the Notes to the Financial Statements.
3 Includes other operating income, net foreign exchange gain/(loss) and share of equity accounted investees.
4 Debt payback ratio is economic net interest bearing debt divided by earnings before interest, tax, depreciation and amortisation (known as Debt/EBITDA). Both Debt and EBITDA are adjusted, from reported amounts, for the impact of operating leases, certain normalisations and non-cash amounts.
5 Gearing ratio is economic net interest bearing debt divided by total capital. Total capital is equity excluding the hedge reserves, plus economic net interest bearing debt.
6 Return on capital is calculated as normalised EBIT, less a notional tax charge divided by capital employed including brands, goodwill and equity-accounted investments. Return on capital, excluding brands, goodwill and equity-accounted investments was 7.6% (31 July 2018: 8.0%).
7 Includes asset divestments.



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

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

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

Net Loss After Tax

$605m

Normalised EBIT

$819m 9%

Return on Capital

5.8% from 6.3%

Normalised Earnings Per Share

0.17c 29%

Group Overview CONTINUED

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Normalised Operating Expenses

$2,311m 7%

Free Cash Flow

$1,095m 83%

Capital Expenditure

$600m 30%

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

Ingredients

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

Summary Financials

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

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

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

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

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

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

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

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

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

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

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

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

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

New Zealand Ingredients' Normalised Gross Margin

$1,332m 3%

Normalised Total Gross Margin

$1,427m 3%

New Zealand Ingredients' Revenue and Volume[1]

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

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

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

Consumer and Foodservice

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

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

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

Summary Financials

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

Normalised EBIT: key performance drivers

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

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

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

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

Greater China

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

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

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

Latin America

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

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

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

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

Greater China Normalised Gross Margin

$349m 4%

Latin America Normalised Gross Margin

$399m 13%

Asia Normalised Gross Margin

$451m 1%

Oceania Normalised Gross Margin

$422m 3%

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

Consumer and Foodservice CONTINUED

Consumer and Foodservice Performance

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

Asia

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

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

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

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

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

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

Oceania

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

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

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

Foodservice Normalised Gross Margin

$426m 10%

Greater China Foodservice Normalised Gross Margin

$203m 9%

Oceania Normalised EBIT

$92m 38%

China Farms

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

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

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

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

China Farms Reported Financials

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

End-to-End China Farms Normalised EBIT

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

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

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

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

Normalised Gross Margin

$5m 6%

Costs down

33% FROM 2018

Historical Financial Summary

Market Statistics

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

Group Overview[10,11]

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

Historical Group Summary CONTINUED

Ingredients[10,11]

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

Divisional Breakdown – Ingredients[10,11,33]

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

Regional Breakdown – Consumer and Foodservice[10,11,33,34]

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

Historical Group Summary CONTINUED

Regional Breakdown – Consumer[10,11,33,34]

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

Regional Breakdown – Foodservice[10,11,33,34]

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

Historical Group Summary CONTINUED

China Farms[10,11]

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

Notes to the Historical Financial Summary

1 All seasonal statistics are based on the 12-month milk season of 1 June – 31 May.

2 The Farmgate Milk Price has been determined by the Board. In making that determination, the Board takes into account the Farmgate Milk Price calculated in accordance with the Farmgate Milk Price Manual.

3 Dividend yield is dividend (per share) over volume weighted average share price for the period 1 August – 31 July.

4 Average payout for a 100% share-backed supplier.

5 Retentions (per share) are calculated as net profit after tax attributable to Fonterra Co-operative Group Limited shareholders for the year ended 31 July divided by the number of shares at 31 May, less dividend per share. Retentions are reported as nil where Fonterra has reported a net loss after tax.

6 Weighted average share price represents the average price Fonterra Co-operative Group Limited shares traded at, weighted against the trading volume at each price over the period 1 August – 31 July.

7 Source: Fonterra Farmgate Milk Price Statement representing the weighted-average United States Dollar contract prices of Reference Commodity Products.

8 Source: Oceania Export Series, Agricultural Marketing Service, US Department of Agriculture.

9 Fonterra's average NZD/USD conversion rate is the rate that Fonterra has converted net United States Dollar receipts into New Zealand Dollars including hedge cover in place.

10 Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of reported figures.

11 Includes normalisation adjustments.

12 Normalised EBITDA is calculated as profit for the period before net finance costs, tax, depreciation and amortisation, adjusted for normalisations.

13 Represents earnings before finance income, finance costs and tax.

14 Normalised NPAT attributable to equity holders of the Parent.

15 Normalised EBITDA divided by normalised sales revenue.

16 Normalised EBIT divided by normalised sales revenue.

17 Normalised NPAT divided by normalised sales revenue.

18 Refer to Cash Flow Statement for detail on Operating cash flow. Free cash flow is the total of net cash flows from operating activities less cash flows from investing activities.

19 Net working capital is calculated as total trade and other receivables plus inventories, less trade and other payables. It excludes amounts owing to suppliers and employee entitlements. Previously shown on an inclusive basis.

20 Economic net interest-bearing debt reflects total borrowings less cash and cash equivalents and non-current interest-bearing advances, adjusted for derivatives used to manage changes in hedged risks.

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

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

23 Capital employed includes brands, goodwill and equity accounted investments.

24 Capital employed excludes brands, goodwill and equity accounted investments.

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

26 Return on capital is calculated as normalised EBIT, less a notional tax charge divided by capital employed including brands, goodwill and equity accounted investments.

27 Return on capital is calculated as normalised EBIT, less a notional tax charge divided by capital employed excluding brands, goodwill and equity accounted investments.

28 Figures exclude bulk liquid milk. The bulk liquid milk volume for the year ended 31 July 2019 was 73,000 MT of kgMS equivalent (year ended 31 July 2018 was 68,000 MT of kgMS equivalent).

29 The way in which Ingredients presents certain inter-segment sales between Ingredients and Foodservice was revised in FY19. This increased sales volumes for the year ended 31 July 2019 by 188,000 MT and increased sales revenue by $901 million. This change had no impact to the reported gross margin for the Ingredients business.

30 Includes sales to other strategic platforms.

31 Normalised gross margin divided by normalised sales revenue.

32 Normalised earnings divided by normalised sales revenue.

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

34 Includes share of Consumer and Foodservice overhead allocations, the total impact of which is $67 million.

Corporate Governance

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

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

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

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

CHANGES TO THE FONTERRA BOARD

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

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

COMPLIANCE WITH BEST PRACTICE GOVERNANCE STANDARDS

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

Fonterra focuses on governance in a way that promotes:

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

Corporate Governance CONTINUED

Principle 1: Code of Ethical Behaviour

CODE OF ETHICS

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

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

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

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

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

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

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

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

SECURITIES TRADING POLICY

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

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

Principle 2: Board Composition and Performance

BOARD CHARTER

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

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

BOARD APPOINTMENTS

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

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

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

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

Corporate Governance CONTINUED

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

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

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

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

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

DISCLOSURE

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

DIVERSITY AND INCLUSION POLICY

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

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

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

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

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

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

DIVERSITY AND INCLUSION TARGETS AND OBJECTIVES

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

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

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

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

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

Corporate Governance CONTINUED

EXECUTIVE LEADERSHIP GENDER COMPOSITION

As at 31 July 2018

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

As at 31 July 2019

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

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

BOARD GENDER COMPOSITION

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

As at 31 July 2018

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

As at 31 July 2019

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

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

ONGOING TRAINING

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

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

Directors are expected to keep themselves abreast of changes and trends in the business, Fonterra's environment and markets, and the economic, political, social and legal climate generally. The Board holds training and workshops on relevant subjects each year, is provided with strategic readings each month and Directors are also expected to keep up to date with governance issues. Board visits to Fonterra's global businesses occur regularly.

ASSESS PERFORMANCE

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

Corporate Governance CONTINUED

DIRECTOR INDEPENDENCE

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

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

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

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

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

DIVISION OF ROLES

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

Principle 3: Board Committees

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

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

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

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

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

Corporate Governance CONTINUED

BOARD AND COMMITTEE ATTENDANCE

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

AUDIT AND FINANCE COMMITTEE

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

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

MILK PRICE PANEL

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

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

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

NOMINATIONS COMMITTEE

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

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

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

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

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

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

TAKEOVER OFFER

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

Corporate Governance CONTINUED

Principle 4: Reporting and Disclosure

DISCLOSURE POLICY

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

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

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

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

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

WEBSITE DISCLOSURE

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

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

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

NON-FINANCIAL REPORTING

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

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

Corporate Governance CONTINUED

Principle 5: Remuneration

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

DIRECTOR REMUNERATION

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

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

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

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

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

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

REMUNERATION OF OUR PEOPLE

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

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

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

REMUNERATION BENCHMARKING

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

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

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

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

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

INCENTIVE PLANS

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

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

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

EXECUTIVE REMUNERATION AND INCENTIVE PLANS

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

Fixed Remuneration

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

Corporate Governance CONTINUED

Short-Term Incentives

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

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

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

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

Long-Term Incentives

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

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

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

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

CEO REMUNERATION

Chief Executive Officer[3] – Total Remuneration FY19

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

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

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

4 Employer superannuation contribution.

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

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

Corporate Governance CONTINUED

REMUNERATION AND INCENTIVE PLANS FOR SALARIED STAFF

Fixed Remuneration

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

Review of Fixed Remuneration

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

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

Short Term Incentive Plans

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

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

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

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

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

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

Other Incentive Plans

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

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

Long Term Incentive Plans

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

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

Velocity Leadership Incentive (FY17)

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

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

FY18–FY20 Long-Term Incentive

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

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

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

FY18 and FY18-19 Long-Term Incentives

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

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

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

Corporate Governance CONTINUED

Principle 6: Risk Management

RISK MANAGEMENT FRAMEWORK

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

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

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

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

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

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

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

HEALTH AND SAFETY

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

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

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

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

Corporate Governance CONTINUED

Principle 7: Auditors

AUDITOR FRAMEWORK

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

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

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

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

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

The fees paid to Fonterra's auditor, PricewaterhouseCoopers, are detailed in Note 6 to the Annual Financial Results for the year ended 31 July 2019.

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

ANNUAL MEETING

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

INTERNAL AUDIT

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

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

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

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

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

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

Corporate Governance CONTINUED

Principle 8: Shareholder Rights and Relations

WEBSITE

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

SHAREHOLDERS' COUNCIL

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

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

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

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

FARMER COMMUNICATIONS

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

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

FARMER MEETINGS

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

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

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

FONTERRA.COM AND FARM SOURCE™ DIGITAL TOOLS

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

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

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

ANNUAL OR SPECIAL MEETING

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

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

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

Corporate Governance CONTINUED

ANNUAL REPORT

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

OTHER DISCLOSURES

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

VOTING

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

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

Summary Financial Statements

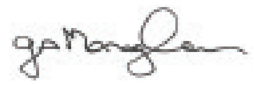
FOR THE YEAR ENDED 31 JULY 2019

Contents

Directors' Statement

FOR THE YEAR ENDED 31 JULY 2019

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



JOHN MONAGHAN
Chairman
25 September 2019

BRUCE HASSALL
Director
25 September 2019

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

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

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

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

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

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

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

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

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

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

Income Statement

FOR THE YEAR ENDED 31 JULY 2019

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

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

The accompanying notes form part of these summary financial statements.

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 JULY 2019

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

The accompanying notes form part of these summary financial statements.

Statement of Financial Position

AS AT 31 JULY 2019

		GROUP $ MILLION	
	NOTES	31 JULY 2019	31 JULY 2018
ASSETS			
Current assets			
Cash and cash equivalents		**550**	446
Trade and other receivables		**1,900**	2,355
Inventories		**2,944**	2,917
Tax receivable		**45**	47
Derivative financial instruments		**48**	59
Assets held for sale		**229**	–
Other current assets		**116**	141
Total current assets		**5,832**	5,965
Non-current assets			
Property, plant and equipment	9	**6,512**	6,810
Equity accounted investments		**202**	615
Livestock	10	**295**	288
Intangible assets		**2,597**	3,227
Deferred tax assets		**592**	667
Derivative financial instruments		**440**	204
Other non-current assets		**604**	323
Total non-current assets		**11,242**	12,134
Total assets		**17,074**	18,099
LIABILITIES			
Current liabilities			
Bank overdraft		**34**	161
Borrowings	7	**1,175**	831
Trade and other payables		**1,869**	2,116
Owing to suppliers	8	**1,534**	1,579
Tax payable		**37**	35
Derivative financial instruments		**215**	296
Provisions		**63**	14
Other current liabilities		**71**	101
Total current liabilities		**4,998**	5,133
Non-current liabilities			
Borrowings	7	**5,361**	5,907
Derivative financial instruments		**537**	480
Provisions		**141**	130
Deferred tax liabilities		**99**	89
Other non-current liabilities		**57**	11
Total non-current liabilities		**6,195**	6,617
Total liabilities		**11,193**	11,750
Net assets		**5,881**	6,349
EQUITY			
Subscribed equity		**5,887**	5,887
Retained earnings		**360**	934
Foreign currency translation reserve		**(183)**	(364)
Hedge reserves		**(268)**	(267)
Other reserves		**8**	29
Total equity attributable to equity holders of the Co-operative		**5,804**	6,219
Non-controlling interests		**77**	130
Total equity		**5,881**	6,349

The accompanying notes form part of these summary financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 31 JULY 2019

	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 2018	**5,887**	**934**	**(364)**	**(267)**	**29**	**6,219**	**130**	**6,349**
Loss after tax	**–**	**(557)**	**–**	**–**	**–**	**(557)**	**(48)**	**(605)**
Other comprehensive (expense)/income	**–**	**(17)**	**181**	**(1)**	**(21)**	**142**	**16**	**158**
Total comprehensive (expense)/income	**–**	**(574)**	**181**	**(1)**	**(21)**	**(415)**	**(32)**	**(447)**
Transactions with equity holders in their capacity as equity holders:								
Equity instruments issued	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**1**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(22)**	**(22)**
As at 31 July 2019	**5,887**	**360**	**(183)**	**(268)**	**8**	**5,804**	**77**	**5,881**
As at 1 August 2017	5,858	1,637	(552)	192	5	7,140	108	7,248
(Loss)/profit after tax	–	(221)	–	–	–	(221)	25	(196)
Other comprehensive (expense)/income	–	–	188	(459)	24	(247)	10	(237)
Total comprehensive (expense)/income	–	(221)	188	(459)	24	(468)	35	(433)
Transactions with equity holders in their capacity as equity holders:								
Dividend paid to equity holders of the Co-operative	–	(482)	–	–	–	(482)	–	(482)
Equity instruments issued	29	–	–	–	–	29	15	44
Dividend paid to non-controlling interests	–	–	–	–	–	–	(28)	(28)
As at 31 July 2018	5,887	934	(364)	(267)	29	6,219	130	6,349

The accompanying notes form part of these summary financial statements.

Cash Flow Statement

FOR THE YEAR ENDED 31 JULY 2019

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

The accompanying notes form part of these summary financial statements.

Notes to the Summary Financial Statements

FOR THE YEAR ENDED 31 JULY 2019

NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Impact of adopting NZ IFRS 15 Revenue from Contracts with Customers

Fonterra adopted NZ IFRS 15 from 1 August 2018.

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

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

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

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

ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

NZ IFRS 16 Leases

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

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

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

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

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

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

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

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

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

PERFORMANCE

1 SEGMENT REPORTING

a) Operating segments

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

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

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

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

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) Operating segments CONTINUED

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

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

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

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

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

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

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

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) Operating segments CONTINUED

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

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

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

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

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

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

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

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

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

b) Geographical revenue

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

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

c) Non-current assets

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

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

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

2 STRATEGY REVIEW

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

The Strategy Review had three dimensions:

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

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

The New Zealand consumer and foodservice business, including Tip Top, is reported in the Oceania consumer and foodservice segment.

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

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

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

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

Consumer and Foodservice New Zealand goodwill and brand impairment

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

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

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

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

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

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

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

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

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

Assumptions used in the impairment assessment

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

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

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

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

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

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

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

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

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

Notes to the Summary Financial Statements CONTINUED
FOR THE YEAR ENDED 31 JULY 2019

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

Sale of Tip Top

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

	$ MILLION
Sales proceeds[1]	**380**
Net assets disposed excluding goodwill	(200)
Transaction costs	(15)
	165
Goodwill balance allocated to Tip Top at divestment	(176)
Loss on sale[2]	**(11)**

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

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

The net assets allocated to the sale transaction were:

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

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

PP&E impairment and other costs

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

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

b) China Farms impairment

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

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

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

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

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

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

Assumptions used in the impairment assessment

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

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

The long-term growth rate applied to the future cash flows at year five of the forecast is 2.6 per cent (31 July 2018: 3.0 per cent). The post-tax discount rate is 9.1 per cent (31 July 2018: 9.1 per cent).

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

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

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

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

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

c) Brazil consumer and foodservice business impairments

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

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

Consumer and foodservice Brazil goodwill impairment

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

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

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

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

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

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

Assumptions used in the impairment assessment

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

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

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

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

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

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

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

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

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

c) Brazil consumer and foodservice business impairments CONTINUED

Provision for utilisation of indirect taxes

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

Future divestment considerations

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

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

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

d) Disposal of Venezuelan operations

Due to the continued economic and political instability, Fonterra has divested its operations in Venezuela.

The impact of the divestment of the businesses in Venezuela on these financial statements is shown below:

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

Venezuelan consumer business

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

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

The loss on disposal is shown below.

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

The net assets disposed of were:

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

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

Venezuelan ingredients business

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

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

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

e) Australian strategic reset

The Australian ingredients business is reported within the Ingredients segment.

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

Impairment assessment

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

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

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

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

Assumptions used in the impairment assessment

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

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

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

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

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

Strategic Review implications

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

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

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

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

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

f) Other strategic reset costs

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

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

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

Acquisition of Darnum manufacturing plant

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

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

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

Classification of the investment in Beingmate

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

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

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

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

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

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

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

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

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

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

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

Intention to reduce the shareholding in Beingmate

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

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

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

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

h) Assets held for sale

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

Goodminton AG (Goodminton)

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

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

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

In March 2019, Fonterra announced that it had commenced a sales process for its 50 per cent shareholding in DFE Pharma. As at 31 July 2019 this process was well advanced and it was reasonable to believe that a transaction would be highly probable.

The investment in DFE Pharma is presented in the Ingredients reportable segment. Fonterra's share of earnings relating to the investment in DFE Pharma was $44 million for the year ended 31 July 2019 (31 July 2018: $47 million).

DFE Pharma Post Balance Sheet Event

On 24 September 2019, Fonterra approved the sale of its 50 per cent shareholding in DFE Pharma. The sales price of €363 million ($633 million at the 24 September foreign exchange conversion rate) is made up of cash of €308 million ($537 million) and an interest bearing loan of €55 million ($96 million). The sale and purchase agreement also contains earnout clauses in relation to earnings before interest, tax, depreciation and amortisation for the 2019 and 2020 financial year, and specifies completion adjustments, which are not included in the sales price above. Given the proximity to the date of authorising the financial statements, being 25 September 2019, an estimate of the financial effect of the sale and any earnout clauses has not yet been determined.

i) Foreign Currency Translation Reserve

A summary of the amounts transferred to the income statement from the foreign currency translation reserve, including amounts triggered by items identified in this note are summarised below.

	NOTE	$ MILLION
Disposal of Venezuelan consumer business	d)	124
Closure of Venezuelan ingredients operations	d)	22
Change in classification of investment in Beingmate	g)	30
Other		17
Foreign currency translation reserve losses transferred to the income statement		**193**

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

3 REVENUE FROM SALE OF GOODS

Revenue from the Group's reportable segments is shown below.

	GROUP $ MILLION	
	31 JULY 2019	31 JULY 2018
Ingredients external revenue	**13,328**	13,485
Consumer and Foodservice external revenue	**6,786**	6,946
China Farms external revenue	**–**	–
Total external revenue	**20,114**	20,431

4 COST OF GOODS SOLD

	GROUP $ MILLION	
	31 JULY 2019	31 JULY 2018
Opening inventory	**2,917**	2,593
Cost of milk:		
– New Zealand sourced	**9,748**	10,115
– Non-New Zealand sourced	**966**	1,245
Other costs	**6,412**	6,243
Impairment of production related assets[1]	**235**	–
Closing inventory	**(2,944)**	(2,917)
Total cost of goods sold	**17,334**	17,279

1 Impairments of production related assets in New Zealand, China and Australia are included with cost of goods sold (refer to Note 2).

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

DEBT AND EQUITY

5 SUBSCRIBED EQUITY INSTRUMENTS

Co-operative shares, including shares held within the Group

Co-operative shares may only be held by a shareholder supplying milk to the Company (farmer shareholder), by former farmer shareholders for up to three seasons after cessation of milk supply, or by Fonterra Farmer Custodian Limited (the Custodian). Voting rights in the Company are dependent on milk supply supported by Co-operative shares.[1]

	CO-OPERATIVE SHARES (THOUSANDS)
Balance at 1 August 2018	**1,611,923**
Shares issued under the Farm Source Rewards scheme	**69**
Balance at 31 July 2019	**1,611,992**
Balance at 1 August 2017	1,606,933
Shares issued under the dividend reinvestment plan[2]	4,990
Balance at 31 July 2018	1,611,923

1 These rights are also attached to vouchers when backed by milk supply (subject to limits).

2 Total value of $29 million.

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

Units in the Fonterra Shareholders' Fund

The Custodian holds legal title of Co-operative shares of which the Economic Rights have been sold to the Fund on trust for the benefit of the Fund. At 31 July 2019, 102,934,582 Co-operative shares (31 July 2018: 111,423,603) were legally owned by the Custodian, on trust for the benefit of the Fund.

	UNITS (THOUSANDS)
Balance at 1 August 2018	**111,424**
Units issued	**17,769**
Units surrendered	**(26,258)**
Balance at 31 July 2019	**102,935**
Balance at 1 August 2017	126,047
Units issued	20,946
Units surrendered	(35,569)
Balance at 31 July 2018	111,424

The rights attaching to units are set out in the Fonterra Shareholders' Fund 2019 Annual Report, available in the 'Investors/Fonterra Shareholder's Fund' section of Fonterra's website.

Capital management and structure

The Board's objective is to maximise equity holder returns over time by maintaining an optimal capital structure. Trading Among Farmers (TAF) allows shares in Fonterra to be traded between shareholders, on the Fonterra Shareholders' Market (a private market operated by NZX Limited). The Fund supports this by allowing investors, including farmers, to trade in units backed by Economic Rights in Fonterra. The Fund also allows farmer shareholders to acquire units and exchange them for shares in Fonterra, and to exchange shares for units and dispose of those units on the NZX or ASX.

The Group provides returns to farmer shareholders through a milk price, and to equity holders through dividends and changes in the Company's share price.

The Fund is subject to the issue and redemption of units at the discretion of Fonterra and Fonterra's farmer shareholders. Fonterra has an interest in ensuring the stability of the Fund and has established a Fund Size Risk Management Policy which requires that the number of units on issue remain within specified limits and that, within these limits, the number of units is managed appropriately. Fonterra may use a range of measures to ensure the Fund size remains within the specified limits, including: introducing or cancelling a dividend reinvestment plan, operating a unit/or share repurchase programme and issuing new shares.

Post balance date equity instrument prices

After balance date, Fonterra's share and unit prices fell below the book value of Fonterra's consolidated net assets. Fonterra determined that this share and unit price movement did not require further impairment testing for all, or for further components of, Fonterra's business. This is because it was not, in itself, an indicator of further impairment. This determination considered Fonterra's view that the share and unit price does not fully reflect the fair value of Fonterra's business. Key contributors are: the lower liquidity in Fonterra shares and units combined with prospective investor requirements for Fonterra to deliver on communicated targets; and broader movements in NZX indices. Further, Fonterra shares and units trade without a full control premium.

6 DIVIDENDS PAID

No dividend was paid during the year ended 31 July 2019.

The Dividend Reinvestment Plan applied to all dividends paid during the year ended 31 July 2018 in the table below.

	$ MILLION	
DIVIDENDS	YEAR ENDED 31 JULY 2019	YEAR ENDED 31 JULY 2018
2018 Interim dividend – 10 cents per share[1]	–	161
2017 Final dividend – 20 cents per share[2]	–	321

1 Declared on 20 March 2018 and paid on 20 April 2018 to all Co-operative shares on issue at 6 April 2018.

2 Declared on 23 September 2017 and paid on 20 October 2017 to all Co-operative shares on issue at 9 October 2017.

7 BORROWINGS

Economic net interest-bearing debt

Economic net interest-bearing debt reflects the effect of debt hedging in place at balance date.

	GROUP $ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Net interest-bearing debt position		
Total borrowings	**6,536**	6,738
Cash and cash equivalents	**(550)**	(446)
Interest-bearing advances[1]	**(142)**	(332)
Bank overdraft	**34**	161
Net interest-bearing debt	**5,878**	6,121
Value of derivatives used to manage changes in hedged risks on debt instruments	**(148)**	78
Economic net interest-bearing debt	**5,730**	6,199

1 The balance as at 31 July 2018 included $177 million of Fonterra Co-operative Support Loan receivables (31 July 2019: nil) which were netted against amounts owing to suppliers.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

7 BORROWINGS CONTINUED

Total borrowings in the table above are represented by:

	GROUP $ MILLION						
	BALANCE AS AT 1 AUGUST 2018	PROCEEDS	REPAYMENTS	FOREIGN EXCHANGE MOVEMENT	CHANGES IN FAIR VALUES	OTHER	BALANCE AS AT 31 JULY 2019
Commercial paper	**304**	**1,219**	**(1,271)**	**–**	**–**	**7**	**259**
Bank loans	**1,128**	**2,034**	**(2,547)**	**4**	**–**	**–**	**619**
Finance leases[1]	**131**	**–**	**(60)**	**–**	**–**	**–**	**71**
Capital notes[2]	**35**	**–**	**–**	**–**	**–**	**–**	**35**
NZX-listed bonds	**500**	**100**	**–**	**–**	**–**	**–**	**600**
Medium-term notes	**4,640**	**393**	**(271)**	**(27)**	**214**	**3**	**4,952**
Total borrowings[3]	**6,738**	**3,746**	**(4,149)**	**(23)**	**214**	**10**	**6,536**

	GROUP $ MILLION						
	BALANCE AS AT 1 AUGUST 2017	PROCEEDS	REPAYMENTS	FOREIGN EXCHANGE MOVEMENT	CHANGES IN FAIR VALUES	OTHER	BALANCE AS AT 31 JULY 2018
Commercial paper	164	1,054	(919)	–	–	5	304
Bank loans	854	2,849	(2,551)	(24)	–	–	1,128
Finance leases[1]	137	–	(7)	1	–	–	131
Capital notes[2]	35	–	–	–	–	–	35
NZX-listed bonds	500	–	–	–	–	–	500
Medium-term notes	4,573	431	(600)	293	(61)	4	4,640
Total borrowings[3]	6,263	4,334	(4,077)	270	(61)	9	6,738

1 Finance leases are secured over the related item of property, plant and equipment.

2 Capital notes are unsecured subordinated borrowings.

3 All other borrowings are unsecured and unsubordinated.

Leverage ratios

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

- Debt payback. The main debt payback ratio is adjusted for the impact of operating leases and it is calculated as economic net interest-bearing debt divided by earnings before interest, tax, depreciation and amortisation (EBITDA). This is a key ratio considered by the credit rating agencies when determining Fonterra's credit rating.
- Gearing. The gearing ratio is calculated as economic net interest-bearing debt, divided by equity plus economic net interest-bearing debt. Equity is as presented in the statement of financial position, excluding hedge reserves. The gearing ratio as at 31 July 2019 was 48.2 per cent (31 July 2018: 48.4 per cent).

The Group is not subject to externally imposed capital requirements.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure that it will always have sufficient funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group has a policy in place to ensure that it has sufficient cash or facilities on demand to meet expected operational expenses for a period of at least 80 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In such situations back-up funding lines are maintained and as set out in the Company's constitution, the Company can defer payments to farmer shareholders if necessary.

The Group manages its liquidity by retaining cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Fonterra's funding facilities are reviewed at least annually, which is one of the key financial risk management activities undertaken by the Group to ensure an appropriate maturity profile given the nature of the Group's business. At balance date the Group had undrawn lines of committed credit totalling $3,149 million (31 July 2018: $3,732 million).

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

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

WORKING CAPITAL

8 OWING TO SUPPLIERS

The Board uses its discretion in establishing the rate at which Fonterra will pay suppliers for the milk supplied over the season. This is referred to as the advance rate. The following table provides a breakdown of the advance payments made to suppliers:

	GROUP	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Owing to suppliers ($ million)	**1,534**	1,579
Farmgate Milk Price[1] (per kgMS)	**$6.35**	$6.69
Of this amount:		
– Total advance payments made during the year	**$5.40**	$5.55
– Total owing as at 31 July	**$0.95**	$1.14
Amount advanced during the year as a percentage of the milk price for the season ended 31 May	**85%**	83%

1 Represents the average price for milk supplied on standard terms of supply. The Fonterra Farmgate Milk Price Statement sets out information about the Farmgate Milk Price as calculated in accordance with the Farmgate Milk Price Manual. It can be found in the 'Investors/Farmgate Milk Prices' section of the Fonterra website.

LONG TERM ASSETS

9 PROPERTY, PLANT AND EQUIPMENT

	GROUP $ MILLION				
	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	PLANT, VEHICLES AND EQUIPMENT	CAPITAL WORK IN PROGRESS	TOTAL
As at 31 July 2019					
Cost	**354**	**2,965**	**8,553**	**295**	**12,167**
Accumulated depreciation and impairment	**–**	**(1,200)**	**(4,455)**	**–**	**(5,655)**
Net book value at 31 July 2019	**354**	**1,765**	**4,098**	**295**	**6,512**
As at 31 July 2018					
Cost	354	2,787	8,210	721	12,072
Accumulated depreciation and impairment	–	(1,042)	(4,220)	–	(5,262)
Net book value at 31 July 2018	354	1,745	3,990	721	6,810

New Zealand Ingredients manufacturing assets

Fonterra considers there are no indicators of impairment for Fonterra's New Zealand Ingredients manufacturing sites. Fonterra's New Zealand Ingredients manufacturing sites are considered to be, with limited exceptions, a single CGU, because these manufacturing plants are utilised as a single network for processing raw milk supply, including meeting peak milk processing requirements.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

10 LIVESTOCK

The quantity of livestock owned by the Group is presented below:

	HEADCOUNT	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Young dairy cows	**28,702**	32,630
Mature dairy cows	**37,997**	34,561
Other livestock	**444**	3,054
Total livestock headcount	**67,143**	70,245

During the year the Group collected 292 million litres of milk (31 July 2018: 312 million litres) from its dairy cows.

The value of livestock at 31 July is as follows:

	GROUP $ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Opening balance	**288**	319
Rearing costs of young livestock	**38**	45
Changes in fair value recognised in the income statement		
– Change in fair value – birth and growth	**11**	–
– Change in fair value – price changes	**4**	6
Subtotal changes in fair value	**15**	**6**
Disposal of livestock	**(51)**	(107)
Effect of movements in exchange rates	**5**	25
Closing balance	**295**	288
Represented by:		
Young dairy cows	**109**	134
Mature dairy cows	**186**	153
Other livestock	**–**	1
Total livestock at 31 July	**295**	288

The changes in the fair values of livestock are reflected in the Group's income statement as follows:

	GROUP $ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Cost of goods sold	**(22)**	(34)
Other operating income	**37**	40
Total changes in fair value	**15**	6

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

10 LIVESTOCK CONTINUED

Valuation techniques and significant unobservable inputs

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

TYPE	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	RELATIONSHIP BETWEEN KEY UNOBSERVABLE INPUTS AND FAIR VALUE MEASUREMENT
Mature dairy cows	Discounted cash flows	Raw milk yield	A three per cent increase/(decrease) in the raw milk yield from a base of 31.0 kg per cow per day would result in a $7 million (31 July 2018: $6 million) increase/(decrease) in fair value.
		Milk price	A RMB 0.10 increase/(decrease) in the selling price of milk from a base price of RMB 3.78 per kg would result in a $13 million (31 July 2018: $12 million) increase/(decrease) in fair value.
		Feed costs	A RMB 0.10 increase/(decrease) in feed costs from a base cost of RMB 2.06 per kg would result in a $13 million (31 July 2018: $12 million) (decrease)/increase in fair value.
Young dairy cows	Market price	Average market price of a 14-month-old heifer	The average market price of a 14-month-old heifer for the year ended 31 July 2019 was RMB 19,154 (31 July 2018: RMB 21,154). A five per cent increase/(decrease) in the average market price of a 14-month-old heifer would result in a $6 million (31 July 2018: $7 million) increase/(decrease) in fair value.

INVESTMENTS

11 EQUITY ACCOUNTED INVESTMENTS

The Group's significant equity accounted investments are listed below. The ownership interest in these entities is 51 per cent or less and the Group is not considered to exercise a controlling interest.

Equity accounted investees with different balance dates from that of the Group are due to legislative requirements in the country the entities are domiciled or are aligned with their other investors' balance dates or to align with the milk season.

		OWNERSHIP INTERESTS (%)	
EQUITY ACCOUNTED INVESTEE NAME	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	AS AT 31 JULY 2019	AS AT 31 JULY 2018
DMV Fonterra Excipients GmbH & Co. KG[1]	Germany	**–**	50
Beingmate Baby & Child Food Co., Ltd[2]	China	**–**	18.8
Falcon Dairy Holdings Limited	Hong Kong	**51**	51

All investees have balance dates of 31 December.

1 Fonterra's investment in DMV Fonterra Excipients GmbH & Co. KG has been reclassified from an equity accounted investee to a held for sale asset (refer to Note 2 for details).

2 During the year Fonterra's significant influence in Beingmate ceased, and Fonterra subsequently accounts for its investment in Beingmate shares at their fair value, with movements recorded in the income statement (Note 2 explains this). Consequently, Beingmate also ceased being a related party of Fonterra.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

FINANCIAL RISK MANAGEMENT

12 FINANCIAL RISK MANAGEMENT

Overview

The Group's overall financial risk management programme focuses primarily on maintaining a prudent financial risk profile that provides flexibility to implement the Group's strategies, while ensuring optimisation of the return on assets. Financial risk management is centralised, which supports compliance with the financial risk management policies and procedures set by the Board.

KEY FINANCIAL RISK MANAGEMENT ACTIVITIES

Market risks

The Group uses various derivative financial instruments to manage its exposure to changes in foreign currency exchange rates, interest rates and commodity prices.

Liquidity risk

The Group actively manages its minimum on-hand cash facilities, access to committed funds and lines of credit and the maturity profile of its financial obligations. For further detail refer to Note 7.

Capital management

The Group actively manages its capital structure through leverage and coverage ratios. The Fonterra Shareholders' Fund removes the redemption risk associated with Co-operative shares. For further detail refer to Note 5.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

OTHER

13 TAXATION

Taxation – income statement

The total taxation expense in the income statement is summarised as follows:

		GROUP $ MILLION	
	NOTES	31 JULY 2019	31 JULY 2018
Current tax expense		**83**	81
Prior period adjustments to current tax		**4**	(5)
Deferred tax movements:			
– Origination and reversal of temporary differences		**(20)**	(34)
– Derecognition of DPA Brazil's deferred tax asset	2	**110**	–
Tax expense		**177**	42

The taxation charge that would arise at the standard rate of corporation tax in New Zealand is reconciled to the tax expense as follows:

	GROUP $ MILLION	
	31 JULY 2019	31 JULY 2018
Loss before tax	**(428)**	(154)
Prima facie tax expense at 28%	**(120)**	(43)
Add/(deduct) tax effect of:		
– Effect of tax rates in foreign jurisdictions	**(6)**	(27)
– Non-deductible expenses/additional assessable income	**249**	168
– Non-assessable income/additional deductible expenses	**(18)**	(24)
– Prior year under provision	**4**	(5)
Tax expense before distributions and deferred tax	**109**	69
Effective tax rate before distributions and deferred tax[1]	**NA**	NA
Tax effect of distributions to farmer shareholders	**–**	(27)
Tax expense before deferred tax	**109**	42
Effective tax rate before deferred tax[1]	**NA**	NA
Add/(deduct) tax effect of:		
– Origination and reversal of other temporary differences	**(20)**	(2)
– Losses of overseas Group entities not recognised	**88**	2
Tax expense	**177**	42
Effective tax rate[1]	**NA**	NA
Imputation credits		
Imputation credits available for use in subsequent reporting periods	**20**	20
Tax losses		
Gross tax losses available for which no deferred tax asset has been recognised	**356**	54

1 The effective tax rate is the tax charge on the face of the income statement expressed as a percentage of the profit before tax. The Group recorded a net loss before tax, so the calculation of an effective tax rate is not applicable.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

13 TAXATION CONTINUED

New Zealand tax losses

The New Zealand tax consolidated group generated a taxable income in the current year. The deferred tax asset relating to New Zealand tax losses of $522 million (31 July 2018: $554 million) has been recognised on the basis that taxable income will be generated in the future against which the tax losses can be utilised.

The key assumptions in the assessment of future taxable income are New Zealand earnings, and the tax-deductible dividend. The estimate of New Zealand earnings is based on performance of the New Zealand tax consolidated group relative to the overall Group. This ratio has been applied to the profit before tax forecast in the Group's three-year business plan. The tax-deductible dividend assumption is based on the Group's dividend policy and is set at the midpoint of the current policy which is 65 per cent to 75 per cent of normalised net profit after tax. Fonterra determines its dividend policy and therefore has the ability to influence utilisation of the losses.

Changes in the key assumptions used could impact the expected time horizon for utilisation of the tax losses, for example higher dividends could extend the utilisation horizon but would not impact the carrying amount of deferred tax assets available to be utilised against future taxable profits. Any future reduction in offshore income resulting from the strategic review could reduce the timing of utilisation of the tax losses, however, again this will not impact the carrying amount of the deferred tax asset available to be utilised. Therefore, a reasonably possible change in the key assumptions does not change the carrying value of the deferred tax asset recognised.

Offshore tax losses

Deferred tax assets relating to tax losses carried forward of $131 million (31 July 2018: $253 million) are recognised by offshore entities in the current year. DPA Brazil's deferred tax asset which included tax losses has been derecognised in the current year, see Note 2c) for further details.

$114 million of offshore tax losses recognised relate to tax losses in Australia and are recognised on the basis of utilisation through future expected taxable income.

Gross tax losses of $356 million reflecting a deferred tax asset of $118 million (31 July 2018: $54 million gross, deferred tax asset of $17 million) relating to offshore entities have not been recognised as they may not be utilised.

Deferred tax liabilities

Fonterra has made a key judgement to not recognise deferred tax liabilities in respect of unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries. As at 31 July 2019, these earnings amount to $1,085 million (31 July 2018: $1,089 million). These could be subject to withholding and other taxes on remittance. Any offshore divestments made because of the strategic review do not change this judgement on the basis there are a number of exit structures available that do not result in a payment of a dividend.

Fonterra's intention regarding any future possible exit strategies is a key assumption. A reasonably possible change in this assumption is not expected to change the conclusion that a deferred tax liability should not be recognised. This is because Fonterra management has control of the subsidiaries, there are no plans to pay a dividend in the foreseeable future.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

14 CONTINGENT LIABILITIES

Contingent liabilities

In the normal course of business, Fonterra, its subsidiaries and equity accounted investees, are exposed to claims and legal proceedings that may in some cases result in costs to the Group.

In January 2014, Danone initiated legal proceedings against Fonterra in the High Court of New Zealand and separate Singapore arbitration proceedings against Fonterra in relation to Fonterra's Whey Protein Concentrate 80 (WPC80) precautionary recall in August 2013. The New Zealand High Court proceedings have been stayed pending completion of the Singapore arbitration.

The Singapore arbitration panel issued its award (judgement), finding in favour of Danone and ordered Fonterra to pay to Danone €105 million ($183 million) in recall costs. In addition, Fonterra also paid Danone €29 million ($49 million) representing interest on the award amount and Danone's costs in connection with the arbitration proceedings. Fonterra paid these amounts during the financial year ended 31 July 2018.

It is unclear whether Danone will continue to pursue the New Zealand High Court proceedings that were stayed pending the decision in the Singapore arbitration. Due to the uncertainty regarding whether Danone will seek to re-initiate these proceedings, and the nature and scope of these potential proceedings in light of the arbitration findings and award, no amount has been recognised in relation to these proceedings.

There are no additional claims or legal proceedings in respect of this matter that require provision or disclosure in these financial statements.

The Group has no other contingent liabilities as at 31 July 2019 (31 July 2018: nil).

15 NET TANGIBLE ASSETS PER SECURITY

	GROUP	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Net tangible assets per security[1]		
$ per listed debt security on issue	**4.67**	5.18
$ per equity instrument on issue	**2.04**	1.94
Listed debt securities on issue (million)	**703**	603
Equity instruments on issue (million)	**1,612**	1,612

1 Net tangible assets represents total assets less total liabilities less intangible assets.

Independent Auditor's Report

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

pwc

TO THE SHAREHOLDERS OF FONTERRA CO-OPERATIVE GROUP LIMITED

The summary financial statements comprise:

- the statement of financial position as at 31 July 2019;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the summary financial statements.

OUR OPINION

The summary financial statements are derived from the audited financial statements of Fonterra Co-Operative Group Limited (the Company), including its controlled entities (the Group) for the year ended 31 July 2019.

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with FRS-43: *Summary Financial Statements* issued by the New Zealand Accounting Standards Board.

SUMMARY FINANCIAL STATEMENTS

The summary financial statements do not contain all the disclosures required by New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon. The summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.

THE AUDITED FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the audited financial statements in our report dated 25 September 2019.

That report also includes the communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year.

RESPONSIBILITIES OF THE DIRECTORS FOR THE SUMMARY FINANCIAL STATEMENTS

The Directors are responsible, on behalf of the Company, for the preparation of the summary financial statements in accordance with FRS-43: *Summary Financial Statements*.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (New Zealand) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

Independent Auditor's Report CONTINUED

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

AUDITOR INDEPENDENCE

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Bruce Hassall was appointed as an Independent Director and Chair of the Audit and Finance Committee (AFC) of the Company on 2 November 2017. Bruce Hassall was Chief Executive Officer of PricewaterhouseCoopers to 30 September 2016 when he retired from the firm. At the time of his appointment, the Board of the Company (the Board) made the decision that Bruce Hassall would not be involved in the appointment of the Group's auditor or the setting of audit fees for three years from the date of his appointment. Scott St John, Independent Director and member of the AFC, has continued to act as Chair of the AFC in relation to these matters and the Chair of the Board has joined the AFC for deliberation. In addition, the engagement partner on the audit has direct access to the Chair of the Board, John Monaghan, to address any actual or perceived auditor independence threats.

Brent Goldsack was appointed as a Farmer-elected Director of the Company on 2 November 2017. Brent Goldsack retired as a partner of PricewaterhouseCoopers on 22 September 2017. Brent Goldsack was not involved in the provision of any audit services to the Group during his time as a partner of PricewaterhouseCoopers.

Bruce Hassall and Brent Goldsack had no financial relationship with PricewaterhouseCoopers upon their appointment to the Board.

During the year, our firm provided services to the Group as described in note 6 to the audited financial statements, including; assistance with collation of information for a vendor due diligence process; advice on a sale and purchase agreement; facilitation and administration support for the Fonterra Strategic review including board strategy workshops and programme management support; corporate tax advice to an equity accounted investee; access to generic training and technical accounting websites; as well as other assurance and attestation services provided in our capacity as auditors. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group.

These matters have not impaired our independence as auditor of the Group.

WHO WE REPORT TO

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
Auckland
25 September 2019

Statutory Information

FOR THE YEAR ENDED 31 JULY 2019

CURRENT CREDIT RATING STATUS

Standard & Poor's long-term rating for Fonterra is A- with a rating outlook of stable. Fitch's long- and short-term default rating is A with a rating outlook of negative. Retail Bonds have been rated the same as the Company's long-term rating by both Standard & Poor's and Fitch. Capital Notes which are subordinate to other Fonterra debt issued are rated BBB+ by Standard & Poor's and A- by Fitch.

EXCHANGE RULINGS AND WAIVERS

NZX Limited (NZX) has ruled that Capital Notes do not constitute 'equity securities' under the NZX Main Board/Debt Market Listing Rules (Listing Rules). This means that where Capital Notes are quoted on NZX's Debt Market, Fonterra Co-operative Group Limited (Fonterra) is not required to comply with certain Listing Rules which apply to an issuer of quoted equity securities.

Fonterra was issued with a ruling in respect of Rule 1.7.1(d) of the Fonterra Shareholders' Market Rules (FSM Rules) on 27 June 2017 by NZX Regulation (NZXR). The effect of this ruling was to not preclude the appointment of Mr Bruce Hassall to the position of an independent director of Fonterra by virtue of a child of Mr Hassall being employed in a non-decision making and non-senior role at Fonterra.

Fonterra was issued with a ruling in respect of FSM Rule 5.1.2(c) on 22 November 2016 by NZXR. The effect of this ruling is that Fonterra's internal governance resolutions are considered to be matters that do not require the NZXR to approve a notice of meeting under FSM Rule 5.1.1.

Fonterra was issued with a waiver of Listing Rule 5.2.3 on 5 November 2018 by NZXR for a period of six months from 15 November 2018. This was in respect of fixed rate bonds (FCG050s) quoted on the NZX Debt Market and was to the extent that this Listing Rule would otherwise require the FCG050s to be held by at least 100 Members of the Public holding at least 25 per cent of the FCG050s on issue.

NZX TRADING HALTS

On 9 August 2018 NZX Regulation (NZXR), at the request of Fonterra Co-operative Group Limited (Fonterra) and Fonterra Shareholders' Fund (FSF), placed a trading halt on Fonterra and its debt securities (FCG030, FCG040, & FCGHA), and FSF. Fonterra was preparing its annual financial statements for the financial year ended 31 July 2018 and as a result there was potential for a variation from the earnings guidance previously given by Fonterra to the market. The trading halt had been requested to allow Fonterra to determine this and to make any required announcement to the market. On 10 August 2018 Fonterra shared a revision to its forecast 2017/18 Farmgate Milk Price and updated its normalised earnings per share and dividend guidance. The trading halt was lifted on 10 August 2018 following this announcement.

Non-GAAP Measures

Fonterra uses several non-GAAP measures when discussing financial performance. For further details and definitions of non-GAAP measures used by Fonterra, refer to the glossary on page 115. These are non-GAAP measures and are not prepared in accordance with NZ IFRS.

Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They may be used internally to evaluate the underlying performance of business units and to analyse trends. These measures are not uniformly defined or utilised by all companies. Accordingly, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS.

Reconciliations for the NZ IFRS measures to certain non-GAAP measures referred to by Fonterra are detailed below.

Reconciliation from the NZ IFRS measure of profit for the period to Fonterra's normalised EBITDA

	GROUP $ MILLION	
	31 JULY 2019	31 JULY 2018
Loss for the period	**(605)**	(196)
Add: Depreciation	**458**	446
Add: Amortisation	**103**	98
Add: Net finance costs	**418**	416
Add: Taxation expense	**177**	42
Total EBITDA	**551**	806
Add: New Zealand consumer and foodservice business	**204**	–
Add: Disposal of Tip Top	**40**	–
Add: China Farms impairment	**203**	–
Add: Brazil consumer and foodservice business impairments	**149**	–
Add: Disposal of Venezuelan operations	**134**	–
Add: Australia strategic reset	**68**	–
Add: Other strategic reset costs	**19**	–
Add: Beingmate	**12**	–
Add: Time value of options	**–**	5
Add: Reduction in the carrying value of investment in Beingmate	**–**	439
Add: WPC80 recall costs	**–**	196
Total normalisation adjustments	**829**	640
Normalised EBITDA	**1,380**	1,446

Reconciliation from the NZ IFRS measure of profit for the period to Fonterra's normalised EBIT

	GROUP $ MILLION	
	31 JULY 2019	31 JULY 2018
Loss for the period	**(605)**	(196)
Add: Net finance costs	**418**	416
Add: Taxation expense	**177**	42
Total EBIT	**(10)**	262
Add: Normalisation adjustments (as detailed above)	**829**	640
Total normalised EBIT	**819**	902

Non-GAAP Measures CONTINUED

Reconciliation from the NZ IFRS measure of profit for the period to Fonterra's normalised earnings per share

	GROUP $ MILLION	
	31 JULY 2019	31 JULY 2018
Loss for the period	**(605)**	(196)
Add: Normalisation adjustments (as detailed above)	**829**	640
Add: Normalisation adjustment to net finance costs	**–**	26
Add/(Less): Tax on normalisation adjustments	**56**	(63)
Total normalised earnings	**280**	407
Add/(Less): Share attributable to non-controlling interests	**48**	(25)
Less: Normalisation adjustments to non-controlling interests	**(59)**	–
Net normalised earnings attributable to equity holders of the Parent	**269**	382
Weighted average number of shares (thousands of shares)	**1,611,980**	1,610,005
Normalised earnings per share ($)	**0.17**	0.24

Glossary

NON-GAAP MEASURES

Fonterra refers to non-GAAP financial measures throughout the Annual Review, and these measures are not prepared in accordance with NZ IFRS. The definitions below explain how Fonterra calculates the non-GAAP measures referred to throughout the Annual Review.

EBIT	means earnings before interest and tax and is calculated as profit for the period before net finance costs and tax.
EBITDA	means earnings before interest, tax, depreciation and amortisation and is calculated as profit for the period before net finance costs, tax, depreciation and amortisation.
Economic net interest bearing debt	means net interest bearing debt including the effect of debt hedging.
Farmgate Milk Price	means the base price that Fonterra pays for milk supplied to it in New Zealand for a season. The season refers to the 12-month milk season of 1 June to 31 May.
Gearing ratio	is calculated as economic net interest bearing debt divided by total capital. Total capital is equity excluding the hedge reserves, plus economic net interest bearing debt.
Grade free	Farmers who consistently exceed our highest milk quality standards.
Normalisation adjustments	means transactions that are unusual by nature and size. Excluding these transactions can assist users with forming a view of the underlying performance of the business. Unusual transactions by nature are the result of specific events or circumstances that are outside the control of the business, or relate to major acquisitions, disposals or divestments, or are not expected to occur frequently. It also includes fair value movements if they are non-cash and have no impact on profit over time. Unusual transactions by size are those that are unusually large in a particular accounting period.
Normalised EBIT	means profit for the period before net finance costs and tax, and after normalisation adjustments.
Normalised earnings per share (EPS)	means normalised profit after tax attributable to equity holders divided by the weighted average number of shares for the period.
Normalised profit after tax	means net profit after tax after normalisation adjustments, and the interest and tax impacts of those normalisation adjustments.
Normalised segment earnings	means segmental profit for the period before net finance costs and tax, and after normalisation adjustments.
Pay-out	means the total cash payment to farmer shareholders. It is the sum of the Farmgate Milk Price per kgMS and the dividend per share. Both of these components have established policies and procedures in place on how they are determined.
Retentions	means net profit after tax attributable to farmer shareholders divided by the number of shares at 31 May, less dividend per share.
Return on capital	is calculated as normalised EBIT less equity accounted investees' earnings divided by capital employed. Capital employed is calculated as the average for the period of: net assets excluding net interest-bearing debt, deferred tax balances and brands, goodwill and equity accounted investments.
Segment earnings	means segmental profit for the period before net finance costs and tax.
Working capital	is calculated as current trade receivables plus inventories, less current trade payables and accruals. It excludes amounts owing to suppliers and employee entitlements.
Working capital days	is calculated as average period to date working capital divided by external revenue, multiplied by the number of days in the period.

Directory

FONTERRA BOARD OF DIRECTORS

John Monaghan
Clinton Dines
Brent Goldsack
Leonie Guiney
Bruce Hassall
Simon Israel
Andrew Macfarlane
Peter McBride
John Nicholls
Donna Smit
Scott St John

FONTERRA MANAGEMENT TEAM

Miles Hurrell
Marc Rivers
Robert Spurway
Judith Swales
Kelvin Wickham
Mike Cronin
Deborah Capill

REGISTERED OFFICE

Fonterra Co-operative Group Limited
Private Bag 92032
Auckland 1142
New Zealand
109 Fanshawe Street
Auckland Central 1010
New Zealand
Phone +64 9 374 9000
Fax +64 9 374 9001

AUDITORS

PricewaterhouseCoopers
Level 22, PwC Tower
188 Quay Street
Auckland 1010
New Zealand

FARMER SHAREHOLDER AND SUPPLIER SERVICES

Freephone 0800 65 65 68

FONTERRA SHARES AND FSF UNITS REGISTRY

Computershare Investor Services Limited
Private Bag 92119
Auckland 1142 New Zealand
Level 2, 159 Hurstmere Road
Takapuna
Auckland 0622
New Zealand

CAPITAL NOTES REGISTRY

Link Market Services Limited
PO Box 91976
Auckland 1142
New Zealand
Level 11, Deloitte Centre
80 Queen Street
Auckland Central 1010
New Zealand

INVESTOR RELATIONS ENQUIRIES

Phone +64 9 374 9000
investor.relations@fonterra.com
www.fonterra.com

Dairy for life

This document is printed using inks derived from vegetable oils and fatty acid alkyl-esters (modified vegetable oils) from renewable sources.

It is printed on environmentally responsible paper stocks, produced using elemental chlorine free (ECF), FSC® certified mixed source pulp manufactured under strict ISO14001