

Annual Financial Results

FOR THE YEAR ENDED 31 JULY 2019

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Directors' Statement

FOR THE YEAR ENDED 31 JULY 2019

The Directors of Fonterra Co-operative Group Limited (Fonterra) present to Shareholders the Annual Report¹ and financial statements for Fonterra and its subsidiaries (together the Group) and the Group's interest in its equity accounted investments for the year ended 31 July 2019.

The Directors present financial statements for each financial year which fairly present the financial position of the Group and its financial performance and cash flows for that period.

The Directors consider the financial statements of the Group have been prepared using accounting policies which have been consistently applied and supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

The Directors consider that they have taken adequate steps to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities.

The Directors hereby approve and authorise for issue the Annual Report for the year ended 31 July 2019.

For and on behalf of the Board:


John Monaghan
Chairman
25 September 2019


Bruce Hassall
Director
25 September 2019

¹ This document, in conjunction with the Fonterra Annual Review 2019, constitutes the 2019 Annual Report to Shareholders of Fonterra Co-operative Group Limited.

Income Statement

FOR THE YEAR ENDED 31 JULY 2019

		GROUP \$ MILLION	
	NOTES	31 JULY 2019	31 JULY 2018
Revenue from sale of goods	3	20,114	20,438
Cost of goods sold	4	(17,099)	(17,279)
<i>Impact of strategy review:</i>			
– China Farms impairment	2	(203)	–
– Australian strategic reset	2	(23)	–
– New Zealand consumer and foodservice business	2	(7)	–
– Other strategic reset costs	2	(2)	–
Gross profit		2,780	3,159
Other operating income		91	192
Selling and marketing expenses		(590)	(651)
Distribution expenses		(561)	(572)
Administrative expenses		(773)	(873)
Other operating expenses		(387)	(400)
Net foreign exchange losses		(1)	(12)
Share of profit of equity accounted investees	18	25	20
WPC80 recall costs		–	(196)
Impairment of Beingmate	18	–	(405)
<i>Impact of strategy review:</i>			
– New Zealand consumer and foodservice business and Tip Top disposal	2	(237)	–
– Brazil consumer and foodservice business impairments	2	(149)	–
– Disposal of Venezuelan operations	2	(134)	–
– Australian strategic reset	2	(45)	–
– Other strategic reset costs	2	(17)	–
– Beingmate	2	(12)	–
(Loss)/profit before net finance costs and tax	6	(10)	262
Finance income	10	16	23
Finance costs	10	(434)	(439)
Net finance costs		(418)	(416)
Loss before tax		(428)	(154)
Tax expense	20	(177)	(42)
Loss after tax		(605)	(196)
Loss after tax is attributable to:			
(Loss)/profit attributable to non-controlling interests		(48)	25
Loss attributable to equity holders of the Co-operative		(557)	(221)
Loss after tax		(605)	(196)

		GROUP \$	
		31 JULY 2019	31 JULY 2018
Earnings per share:			
Basic and diluted earnings per share	5	(0.35)	(0.14)

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 JULY 2019

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

Statement of Financial Position

AS AT 31 JULY 2019

		GROUP \$ MILLION	
	NOTES	31 JULY 2019	31 JULY 2018
ASSETS			
Current assets			
Cash and cash equivalents		550	446
Trade and other receivables	11	1,900	2,355
Inventories	12	2,944	2,917
Tax receivable		45	47
Derivative financial instruments		48	59
Assets held for sale	2	229	–
Other current assets		116	141
Total current assets		5,832	5,965
Non-current assets			
Property, plant and equipment	15	6,512	6,810
Equity accounted investments	18	202	615
Livestock	16	295	288
Intangible assets	17	2,597	3,227
Deferred tax assets	20	592	667
Derivative financial instruments		440	204
Other non-current assets		604	323
Total non-current assets		11,242	12,134
Total assets		17,074	18,099
LIABILITIES			
Current liabilities			
Bank overdraft		34	161
Borrowings	9	1,175	831
Trade and other payables	13	1,869	2,116
Owing to suppliers	14	1,534	1,579
Tax payable		37	35
Derivative financial instruments		215	296
Provisions	21	63	14
Other current liabilities		71	101
Total current liabilities		4,998	5,133
Non-current liabilities			
Borrowings	9	5,361	5,907
Derivative financial instruments		537	480
Provisions	21	141	130
Deferred tax liabilities	20	99	89
Other non-current liabilities		57	11
Total non-current liabilities		6,195	6,617
Total liabilities		11,193	11,750
Net assets		5,881	6,349
EQUITY			
Subscribed equity		5,887	5,887
Retained earnings		360	934
Foreign currency translation reserve	19	(183)	(364)
Hedge reserves	19	(268)	(267)
Other reserves		8	29
Total equity attributable to equity holders of the Co-operative		5,804	6,219
Non-controlling interests		77	130
Total equity		5,881	6,349

Statement of Changes in Equity

FOR THE YEAR ENDED 31 JULY 2019

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

Cash Flow Statement

FOR THE YEAR ENDED 31 JULY 2019

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

Basis of Preparation

FOR THE YEAR ENDED 31 JULY 2019

A) GENERAL INFORMATION

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

These financial statements comprise Fonterra and its subsidiaries (together referred to as the Group) and the Group's interest in its equity accounted investees after adjustments to align to the accounting policies of the Group.

The Group operates predominantly in the international dairy industry. The Group is primarily involved in the collection, manufacture and sale of milk and milk-derived products and in fast-moving consumer goods and foodservice businesses.

B) BASIS OF PREPARATION

These financial statements comply with International Financial Reporting Standards (IFRS). These financial statements also comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and have been prepared in accordance with NZ Generally Accepted Accounting Practice applicable to for-profit entities.

These financial statements are prepared on a historical cost basis, except for derivative financial instruments, livestock and the hedged risks on certain debt instruments, which are recognised at their fair values.

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

Significant accounting policies which are relevant to an understanding of the financial statements and summarise the measurement basis used are provided throughout the notes in green shading.

In the process of applying the Group's accounting policies, Fonterra make a number of judgements, estimates of future events, and assumptions. These are all believed to be reasonable based on the most current set of circumstances available to the Group. Judgements and estimates that have the most significant effect on the amounts recognised in the financial statements are described below and in the following notes:

China Farms assets (Notes 2 and 15)

The recoverable amount of the assets held by the China Farms operating segment is assessed at least annually, if indicators of impairment are identified. Performing this assessment requires Fonterra to estimate the future cash flows that will be earned by China Farms, an asset specific pre-tax discount rate and the terminal growth rate.

Investment in Beingmate Baby & Child Co Ltd. (Beingmate) (Note 2)

At 31 July 2019 Fonterra's investment in Beingmate is recorded at fair value. During the year ended 31 July 2019, Fonterra ceased equity accounting for its investment in Beingmate because Fonterra has assessed that it no longer had significant influence in Beingmate. Fonterra's judgement in determining the nature of Fonterra's ownership interest is explained in Note 2.

Recoverable amount assessments (Notes 2, 15 and 17)

The recoverability of the carrying value of goodwill and indefinite life brands is assessed at least annually to ensure they are not impaired. Performing this assessment requires Fonterra to estimate future cash flows, pre-tax discount rates and terminal growth rates. For other assets Fonterra assesses whether indicators of impairment are present, and if they are present, performs an impairment test.

If an impairment test indicates that an asset (or group of assets) may be impaired, Fonterra is also required to estimate the fair value less costs of disposal of the asset. This is because the recoverable amount of an asset is the higher of its value in use and its fair value less costs of disposal.

Provisions and contingent liabilities (Note 21)

Legal counsel or other experts are consulted on matters that may give rise to a provision or a contingent liability. Estimates and assumptions are made in determining the likelihood, amount and timing of cash outflows when the outcome is uncertain.

Deferred tax (Note 20)

Deferred tax assets relating to tax losses carried forward can only be recognised if it is probable that they can be used. In assessing the amount of tax losses that can be recognised Fonterra has estimated the forecast future taxable profits against which the tax losses carried forward can be utilised.

Deferred tax liabilities related to investments in subsidiaries are not recognised when the Group can control the timing of reversal of the temporary difference and it is probable the temporary difference will not reverse in the foreseeable future. In determining the probability of reversal, consideration is taken of whether the related assets are held for sale, future expectations of exiting, and, if applicable, the impact any exit would have on the crystallisation of the deferred tax.

C) BASIS OF CONSOLIDATION

In preparing these financial statements, subsidiaries are consolidated from the date the Group gains control until the date on which control ceases. The Group's share of results of equity accounted investments is included in the consolidated financial statements from the date that significant influence or joint control commences, until the date that significant influence or joint control ceases. All intercompany transactions are eliminated.

Translation of the financial statements into NZD

The assets and liabilities of Group companies whose functional currency is not NZD are translated into NZD at the year-end exchange rate. The revenue and expenses of these companies are translated into NZD at rates approximating those at the dates of the transactions. Exchange differences arising on this translation are recognised in the foreign currency translation reserve. On disposal or partial disposal of an entity, the related exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale. The financial statements of a subsidiary in a hyperinflationary economy are translated into NZD at the year-end exchange rate. For consolidation, Fonterra translates its operations in Venezuela using the year end exchange rate that is most representative of the entity's economic circumstances.

Basis of Preparation CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

D) NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Impact of adopting NZ IFRS 15 Revenue from Contracts with Customers
Fonterra adopted NZ IFRS 15 from 1 August 2018.

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

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

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

The Group's revenue accounting policy is disclosed in Note 3.

ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

NZ IFRS 16 Leases

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

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

Management has assessed the effect of applying NZ IFRS 16 through a project that included collecting and validating Fonterra's portfolio of leases, assessing the lease term and discount rate assumptions, implementing an IT system solution for lease accounting under NZ IFRS 16, and implementing changes to internal processes and controls. Management is in the final stages of completing the validation of the portfolio of leases through a review of historic supply arrangements. In addition, the long-term supply arrangement with A-Ware disclosed in Note 21 is currently being assessed to determine if it meets the definition of a lease under NZ IFRS16. Any lease accounting implications would be recognised during FY20 when the A-Ware plant supporting the agreement is commissioned.

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

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

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

Fonterra's operating lease commitments at 31 July 2019 are disclosed in Note 21.

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2019

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Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

PERFORMANCE

This section focuses on Fonterra's financial performance and the returns provided to equity holders.

This section includes the following Notes:

- Note 1: Segment reporting
- Note 2: Strategy review
- Note 3: Revenue from sale of goods
- Note 4: Cost of goods sold
- Note 5: Earnings per share
- Note 6: Loss before net finance costs and tax

1 SEGMENT REPORTING

a) Operating segments

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

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

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

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

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) Operating segments CONTINUED

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

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

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

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

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

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

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

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

a) Operating segments CONTINUED

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

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

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

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

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

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

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

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

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

b) Geographical revenue

	GROUP \$ MILLION								
	CHINA	REST OF ASIA	AUSTRALIA	NEW ZEALAND	UNITED STATES	EUROPE	LATIN AMERICA	REST OF WORLD	TOTAL
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 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
New Zealand consumer and foodservice business	a)	(189)	(7)	(196)	(8)		(204)
Disposal of Tip Top	a)					(40)	(40)
Sub-total Fonterra New Zealand		(189)	(7)	(196)	(8)	(40)	(244)
China Farms impairment	b)		(203)	(203)			(203)
Brazil consumer and foodservice business impairments	c)	(133)		(133)	(16)		(149)
Disposal of Venezuelan operations	d)					(134)	(134)
Australia strategic reset	e)	(9)	(23)	(32)	(36)		(68)
Other strategic reset costs	f)				(19) ¹		(19)
Beingmate	g)				(12)		(12)
Total net loss before tax impact		(331)	(233) ²	(564)	(91)	(174)	(829)

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

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

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

2 STRATEGY REVIEW CONTINUED

Impairments

An impairment test is completed when there are indicators of impairment for an asset or a cash-generating unit (CGU). An impairment test is also completed on an annual basis when a CGU has goodwill or indefinite-life intangibles allocated to it. To determine if an asset or CGU is impaired, the carrying amount of the asset or CGU is compared to its recoverable amount, being the higher of its value in use and fair value less costs to dispose. If the carrying amount is higher than recoverable amount the CGU is impaired to its recoverable amount.

Value in use is determined as the present value of the future cash flows expected to be derived from the CGU. Fair value less costs to dispose reflects the price that would be received to sell the CGU in an orderly transaction between market participants at the measurement date less the costs of disposal.

Disposals

On disposal of an investment or a CGU (or portion of a CGU) the related assets are derecognised. A gain or loss is recognised as the difference between the carrying value of the assets at the date of disposal and the net disposal proceeds. Any related exchange differences recorded in equity are recognised in the income statement as part of the gain or loss on sale.

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

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

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

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

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

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

Consumer and Foodservice New Zealand goodwill and brand impairment

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

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

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

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

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

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

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

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

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

Assumptions used in the impairment assessment

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

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

Sale of Tip Top

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

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

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

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

The net assets allocated to the sale transaction were:

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

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

PP&E impairment and other costs

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

b) China Farms impairment

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

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

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

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

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

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

Assumptions used in the impairment assessment

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

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

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

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

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

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

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

c) Brazil consumer and foodservice business impairments

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

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

Consumer and foodservice Brazil goodwill impairment

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

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

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

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

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

The reduction in the recoverable amount results from a downward reassessment of forecast earnings. The change in the forecast earnings outlook also impacts the forecast future taxable profits which are used to support the carrying amount of the deferred tax asset in Brazil. The reduction in forecast future taxable profits means that the deferred tax asset in Brazil is now not expected to be utilised in the foreseeable future. The deferred tax asset of \$110 million has been derecognised through tax expense (refer Note 20). Fonterra's 51 per cent share is \$55 million.

Assumptions used in the impairment assessment

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

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

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

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

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

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

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

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

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

c) Brazil consumer and foodservice business impairments CONTINUED

Provision for utilisation of indirect taxes

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

Future divestment considerations

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

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

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

d) Disposal of Venezuelan operations

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

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

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

Venezuelan consumer business

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

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

The loss on disposal is shown below.

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

The net assets disposed of were:

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

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

Venezuelan ingredients business

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

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

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

e) Australian strategic reset

The Australian ingredients business is reported within the Ingredients segment.

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

Impairment assessment

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

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

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

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

Assumptions used in the impairment assessment

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

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

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

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

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

Strategic Review implications

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

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

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

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

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

f) Other strategic reset costs

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

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

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

Acquisition of Darnum manufacturing plant

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

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

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

Classification of the investment in Beingmate

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

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

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

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

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

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

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

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

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

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

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

Intention to reduce the shareholding in Beingmate

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

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

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

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

h) Assets held for sale

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

Goodminton AG (Goodminton)

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

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

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

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

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

DFE Pharma Post Balance Sheet Event

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

i) Foreign Currency Translation Reserve

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

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

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

3 REVENUE FROM SALE OF GOODS

The Group recognises revenue from the sale of goods when control of the goods transfers to the customer, which typically occurs at the following times:

- Ingredients businesses (export sales) – once the products are loaded onto the ship.
- Ingredients businesses (domestic sales), and consumer and foodservice businesses – on delivery of the products to the customer's designated location.
- China Farms – on dispatch of raw milk from the farm.

Revenue is measured as the sales price specified in the contract adjusted for trade spend and rebates. Trade spend and rebates are recognised as a deduction from revenue at the time that the related sale is recognised. The estimated amount of the deduction from revenue is based on historical experience and the specific terms of the contracts with customers.

The Group offers credit terms which are typically short-term in nature. In addition, as part of its normal trade terms, the Group receives payments in advance from certain customers. Contracts with customers do not contain significant financing components.

a) Ingredients revenue

Revenue from the Ingredients business is disaggregated in the table below:

	INGREDIENTS \$ MILLION	
	31 JULY 2019	31 JULY 2018
Reference products ¹	8,833	8,703
Non-reference products ²	4,202	3,495
Other ³	2,358	2,366
Global Ingredients and Operations	15,393	14,564
Fonterra Ingredients Australia	1,760	1,877
Other Ingredients revenue	755	848
Intra-segment eliminations	(873)	(983)
Total Ingredients revenue ⁴	17,035	16,306
Less: inter-segment revenue	(3,707)	(2,821)
Total Ingredients external revenue	13,328	13,485

- ¹ Revenue from all sales of the five ingredient products that inform the Farmgate Milk Price, and that are manufactured using New Zealand sourced milk. Currently these five products are whole milk powder, skim milk powder, butter milk powder, butter and anhydrous milk fat (otherwise known as 'reference products').
- ² Revenue from the sale of all ingredient products, except reference products, that are manufactured using New Zealand sourced milk.
- ³ Primarily consists of Global Sourcing revenue, which is revenue from the sale of ingredient products manufactured using non-New Zealand sourced milk.
- ⁴ Includes inter-segment sales.

b) Consumer and Foodservice revenue

Revenue earned by the consumer and foodservice businesses is disaggregated in the table below.

	CONSUMER AND FOODSERVICE \$ MILLION	
	31 JULY 2019	31 JULY 2018
Oceania	2,159	2,159
Asia	1,862	1,865
Greater China	1,483	1,564
Latin America	1,507	1,534
Total Consumer and Foodservice revenue ¹	7,011	7,122
Less: inter-segment revenue	(225)	(176)
Total Consumer and Foodservice external revenue	6,786	6,946

- ¹ Includes inter-segment sales.

c) China Farms revenue

Revenue from China Farms, a reportable segment, arises from the sale of raw milk to the Ingredients business. As China Farms has only one internal customer and one product, disaggregation of the revenue of \$249 million (31 July 2018: \$262 million) is not applicable. No external revenue is earned by China Farms.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

4 COST OF GOODS SOLD

Cost of goods sold is primarily made up of New Zealand sourced cost of milk.

New Zealand sourced cost of milk includes the cost of milk supplied by farmer shareholders, supplier premiums paid, and the cost of milk purchased from contract milk suppliers during the financial year.

New Zealand sourced cost of milk supplied by farmer shareholders comprises the volume of milk solids supplied at the Farmgate Milk Price as determined by the Board for the relevant season. In making that determination the Board takes into account the Farmgate Milk Price calculated in accordance with the Farmgate Milk Price Manual, which is independently audited. The Fonterra Farmgate Milk Price Statement sets out information about the Farmgate Milk Price, and how it is calculated by Fonterra. It can be found in the 'Investors/Farmgate Milk Prices' section of the Fonterra website.

Other costs include those costs directly incurred to bring the inventory to its final point of sale location, and additional ancillary costs invoiced to the customer.

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

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

5 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Co-operative by the weighted average number of Co-operative shares outstanding during the period.

Diluted earnings per share is determined by adjusting the profit or loss attributable to equity holders of the Co-operative and the weighted average number of Co-operative shares outstanding for the effects of all Co-operative shares with dilutive potential. There were no Co-operative shares with dilutive potential for either of the years presented.

	GROUP	
	31 JULY 2019	31 JULY 2018
Basic and diluted earnings per share attributable to equity holders of the Co-operative (\$)	(0.35)	(0.14)
Earnings attributable to equity holders of the Co-operative (\$ million)	(557)	(221)
Weighted average number of shares (thousands of shares)	1,611,980	1,610,005

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

6 LOSS BEFORE NET FINANCE COSTS AND TAX

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
The following items have been included in profit before net finance costs and tax:		
Auditors' remuneration:		
– Fees paid for the audit and review of the financial statements and milk price ¹	9.3	6.6
– Fees paid for other services ²	1.1	0.7
Operating lease expense	107	98
Research and development costs	98	95
Research and development grants received from government	–	(5)
Total employee benefits expense	2,050	2,116
Contributions to defined contribution plans included in employee benefits expense	81	76

1 The fee paid to PricewaterhouseCoopers for the audit and review of the Group's financial statements, and milk price, is split across the jurisdictions where there are subsidiary entities that require an audit or are a significant component of the Group. \$7.3 million (31 July 2018: \$4.9 million) relates to PricewaterhouseCoopers New Zealand, and \$2.0 million (31 July 2018: \$1.7 million) to PricewaterhouseCoopers network firms in other jurisdictions, being China (\$0.45 million), Brazil (\$0.36 million), Chile (\$0.27 million), Japan (\$0.11 million), Singapore (\$0.11 million), Australia, Bahrain, Barbados, Dubai, Egypt, France, Hong Kong, India, Indonesia, Malaysia, Mexico, Nigeria, Philippines, Saudi Arabia, Sri Lanka, Taiwan, Thailand, United Kingdom, United States and Vietnam.

2 The Group uses the services of PricewaterhouseCoopers on assignments additional to their statutory audit and review duties where their expertise and experience with the Group are important and auditor independence is not impaired. Other services provided during the year include assistance with collation of information for a vendor due diligence process and advice on a sale and purchase agreement of \$629,000 (31 July 2018: nil); facilitation and administration support for the Fonterra Strategic review including board strategy workshops of \$210,000 (31 July 2018: nil); Fonterra's Strategy programme management support of \$150,000 (31 July 2018: nil); corporate tax advice to an equity accounted investee - Fonterra Europe (India) of \$39,000 (31 July 2018: nil); access to generic training and technical accounting websites of \$2,000 (31 July 2018: \$1,000); other assurance and attestation services provided in their capacity as auditors of the Group of \$70,000 (31 July 2019: \$237,000). Other advisory services were nil in the current year (31 July 2018: \$450,000). The Board has overseen the compliance of PricewaterhouseCoopers with Fonterra's Group Audit Independence Policy.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

DEBT AND EQUITY

This section outlines Fonterra’s capital structure and the related financing costs. It also provides details on how the funds that finance current and future activities are raised and on how the Group manages liquidity risk and interest rate risk.

This section includes the following Notes:

Note 7: Subscribed equity instruments

Note 8: Dividends

Note 9: Borrowings

Note 10: Net finance costs

7 SUBSCRIBED EQUITY INSTRUMENTS

Subscribed equity instruments comprise Co-operative shares and units in the Fonterra Shareholders’ Fund (the Fund). Incremental costs directly attributable to equity transactions are recognised as a deduction from subscribed equity.

Co-operative shares, including shares held within the Group

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

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

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

2 Total value of \$29 million.

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

Units in the Fonterra Shareholders’ Fund

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

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

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

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

7 SUBSCRIBED EQUITY INSTRUMENTS CONTINUED

Capital management and structure

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

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

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

Post balance date equity instrument prices

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

8 DIVIDENDS

All Co-operative shares, including those held by the Custodian on trust for the benefit of the Fund, are eligible to receive dividends if declared by the Board. Dividends paid to the Custodian are passed on to unit holders by the FSF Management Company Limited (the Manager). Dividends are recognised as a liability in the Group’s financial statements in the period in which they are declared by the Board.

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

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

	\$ 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.

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

9 BORROWINGS

The Group borrows in the form of bonds, bank facilities and other financial instruments. The interest expense incurred on Fonterra's borrowings is shown in Note 10.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method, with the hedged risks on certain debt instruments measured at fair value. Details of the Group's hedge accounting policies are included in Note 19 Financial risk management.

Economic net interest-bearing debt

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

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

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

Total borrowings in the table above are represented by:

	GROUP \$ MILLION						
	BALANCE AS AT 1 AUGUST 2018	PROCEEDS	REPAYMENTS	FOREIGN EXCHANGE MOVEMENT	CHANGES IN FAIR VALUES	OTHER	BALANCE AS AT 31 JULY 2019
Commercial paper	304	1,219	(1,271)	–	–	7	259
Bank loans	1,128	2,034	(2,547)	4	–	–	619
Finance leases ¹	131	–	(60)	–	–	–	71
Capital notes ²	35	–	–	–	–	–	35
NZX-listed bonds	500	100	–	–	–	–	600
Medium-term notes	4,640	393	(271)	(27)	214	3	4,952
Total borrowings³	6,738	3,746	(4,149)	(23)	214	10	6,536

	GROUP \$ MILLION						
	BALANCE AS AT 1 AUGUST 2017	PROCEEDS	REPAYMENTS	FOREIGN EXCHANGE MOVEMENT	CHANGES IN FAIR VALUES	OTHER	BALANCE AS AT 31 JULY 2018
Commercial paper	164	1,054	(919)	–	–	5	304
Bank loans	854	2,849	(2,551)	(24)	–	–	1,128
Finance leases ¹	137	–	(7)	1	–	–	131
Capital notes ²	35	–	–	–	–	–	35
NZX-listed bonds	500	–	–	–	–	–	500
Medium-term notes	4,573	431	(600)	293	(61)	4	4,640
Total borrowings³	6,263	4,334	(4,077)	270	(61)	9	6,738

1 Finance leases are secured over the related item of property, plant and equipment (Note 15).

2 Capital notes are unsecured subordinated borrowings.

3 All other borrowings are unsecured and unsubordinated.

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

9 BORROWINGS CONTINUED

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Included within the statement of financial position as follows:		
Total current borrowings	1,175	831
Total non-current borrowings	5,361	5,907
Total borrowings	6,536	6,738

Leverage ratios

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

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

The Group is not subject to externally imposed capital requirements.

Fonterra's has determined its target gearing ratio is 40-45 per cent. Fonterra's plans to comply with this target range include a combination of financial discipline and asset divestments.

Finance leases included in total borrowings are represented by:

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Finance leases – minimum lease payments		
Not later than one year	69	16
Later than one year and not later than five years	6	131
Later than five years	3	4
	78	151
Future finance charges on finance leases	(7)	(20)
Present value of finance leases	71	131
The present value of finance leases is as follows:		
Not later than one year	64	7
Later than one year and not later than five years	5	121
Later than five years	2	3
Total present value of finance leases	71	131

Liquidity risk

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

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

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

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

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

9 BORROWINGS CONTINUED

Exposure to liquidity risk

The following tables show the timing of the gross contractual cash flows of the Group's financial instruments.

	GROUP \$ MILLION					
	AS AT 31 JULY 2019					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	3 MONTHS OR LESS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS
Non-derivative financial liabilities						
Borrowings						
– Commercial paper	(259)	(260)	(260)	–	–	–
– Bank loans	(619)	(649)	(92)	(321)	(236)	–
– Finance leases	(71)	(78)	(2)	(67)	(6)	(3)
– Capital notes	(35)	(41)	–	(1)	(5)	(35)
– NZX-listed bonds	(600)	(691)	(11)	(15)	(559)	(106)
– Medium-term notes	(4,952)	(7,984)	(51)	(710)	(2,652)	(4,571)
Bank overdraft	(34)	(34)	(34)	–	–	–
Owing to suppliers	(1,534)	(1,534)	(1,534)	–	–	–
Trade and other payables (excluding employee entitlements)	(1,676)	(1,676)	(1,676)	–	–	–
Other financial liabilities	(81)	(82)	(10)	(15)	(57)	–
Financial guarantees issued ¹	–	(1)	(1)	–	–	–
Total non-derivative financial liabilities	(9,861)	(13,030)	(3,671)	(1,129)	(3,515)	(4,715)
Derivative financial instruments						
Gross settled derivatives						
– Inflow		16,585	6,182	6,322	2,085	1,996
– Outflow		(16,807)	(6,244)	(6,468)	(2,379)	(1,716)
Total gross settled derivative financial instruments	(139)	(222)	(62)	(146)	(294)	280
Net settled derivatives	(125)	(87)	(35)	(11)	(61)	20
Total financial instruments	(10,125)	(13,339)	(3,768)	(1,286)	(3,870)	(4,415)

	GROUP \$ MILLION					
	AS AT 31 JULY 2018					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	3 MONTHS OR LESS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS
Non-derivative financial liabilities						
Borrowings						
– Commercial paper	(304)	(305)	(305)	–	–	–
– Bank loans	(1,128)	(1,698)	(147)	(314)	(1,237)	–
– Finance leases	(131)	(151)	(4)	(12)	(131)	(4)
– Capital notes	(35)	(42)	–	(1)	(6)	(35)
– NZX-listed bonds	(500)	(586)	(11)	(11)	(564)	–
– Medium-term notes	(4,640)	(5,949)	(31)	(435)	(2,107)	(3,376)
Bank overdraft	(161)	(161)	(161)	–	–	–
Owing to suppliers	(1,579)	(1,579)	(1,579)	–	–	–
Trade and other payables (excluding employee entitlements)	(1,840)	(1,840)	(1,840)	–	–	–
Other financial liabilities	(21)	(21)	(10)	–	(11)	–
Financial guarantees issued ¹	–	(1)	(1)	–	–	–
Total non-derivative financial liabilities	(10,339)	(12,333)	(4,089)	(773)	(4,056)	(3,415)
Derivative financial instruments						
Gross settled derivatives						
– Inflow		20,637	10,568	6,644	1,331	2,094
– Outflow		(21,083)	(10,642)	(6,856)	(1,493)	(2,092)
Total gross settled derivative financial instruments	(397)	(446)	(74)	(212)	(162)	2
Net settled derivatives	(116)	(107)	(21)	(6)	(103)	23
Total financial instruments	(10,852)	(12,886)	(4,184)	(991)	(4,321)	(3,390)

1 Maximum cash flows under guarantees provided by the Group.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

10 NET FINANCE COSTS

Interest income and expense is recognised on an accrual basis in profit or loss, using the effective interest method.

Finance costs also include the changes in fair value relating to derivatives used to manage interest rate risk, and the associated changes in fair value of the borrowings designated in a hedge relationship attributable to the hedged risk. Details of the Group's hedge accounting policies are included in Note 19 Financial risk management.

Fonterra Co-operative Support Loans

The Fonterra Co-operative Support Loans were fully repaid in October 2018. These loans were initially recorded at fair value. As the loans had interest rates that were below market rates, there was a difference between the cash advanced and the loans' fair value. This difference was recorded within finance costs at the date Fonterra was contractually committed to advance the funds. Finance income was recognised using the notional interest rate implicit in the loans, over the periods until the loans were repaid.

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
Finance income¹	16	23
Total interest expense at amortised cost²	(415)	(462)
Changes in fair value relating to:		
– Borrowings designated in a hedge relationship	(201)	61
– Derivatives designated in a hedge relationship	194	(42)
– Derivatives where hedge accounting has not been applied	(12)	4
Total interest (expense)/income from fair value movements	(19)	23
Finance costs	(434)	(439)
Net finance costs	(418)	(416)

1 Finance income includes \$1 million (31 July 2018: \$9 million) relating to the Fonterra Co-operative Support Loans.

2 Includes interest expense of \$9 million (31 July 2018: \$23 million) relating to derivatives where hedge accounting has not been applied and cash flow hedge effectiveness reclassified to profit or loss.

Interest rate risk

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

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

WORKING CAPITAL

This section provides information about the primary elements of Fonterra's working capital. Working capital represents the short-term operating assets and liabilities generated by Fonterra. Movements in these items have a direct impact on the net cash flows generated from operating activities.

This section includes the following Notes:

- Note 11: Trade and other receivables
- Note 12: Inventories
- Note 13: Trade and other payables
- Note 14: Owing to suppliers

11 TRADE AND OTHER RECEIVABLES

Trade receivables are amounts due from customers for goods sold. Trade receivables are recognised initially at their fair value, which is represented by their face value, and subsequently measured at the amount expected to be collected.

Estimates are used in determining the level of receivables that may not be collected. The Group has applied the simplified approach to calculating expected credit losses on trade receivables and recognises a loss allowance based on the lifetime expected credit loss at each reporting date.

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Trade receivables ¹	1,759	1,987
Less: provision for impairment of trade receivables	(24)	(22)
Trade receivables net of provision for impairment	1,735	1,965
Receivables from related parties ²	25	52
Other receivables	93	216
Total receivables	1,853	2,233
Prepayments	47	122
Total trade and other receivables	1,900	2,355

1 Amounts received in advance from customers of \$28 million (31 July 2018: \$39 million) have been recognised in trade and other payables.

2 There were no provisions for impairment of receivables from related parties.

Credit risk

Details of how the Group manages credit risk are included in Note 19 Financial risk management.

The ageing profile of the Group's trade and other receivables (excluding prepayments) is as follows:

GROUP \$ MILLION	CURRENT	LESS THAN 1 MONTH PAST DUE	MORE THAN 1 MONTH BUT LESS THAN 3 MONTHS PAST DUE	MORE THAN 3 MONTHS PAST DUE	TOTAL
As at 31 July 2019	1,582	145	85	41	1,853
As at 31 July 2018	1,946	147	67	73	2,233

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

12 INVENTORIES

Inventories are stated at the lower of cost or net realisable value on a first-in-first-out basis.

In the case of manufactured inventories, cost includes all direct costs plus the portion of fixed and variable production overheads incurred in bringing inventories to their present location and condition.

Net realisable value is the estimated selling price, less the costs of completion and selling expenses.

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Raw materials	678	711
Finished goods	2,301	2,239
Impairment of finished goods	(35)	(33)
Total inventories	2,944	2,917

13 TRADE AND OTHER PAYABLES

Trade and other payables, excluding amounts owing to farmer shareholders and New Zealand contract milk suppliers, are recognised at the amount invoiced by the supplier. Due to their short-term nature, they are not discounted.

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Trade payables	1,515	1,677
Amounts due to related parties	31	32
Other payables	130	131
Total trade and other payables (excluding employee entitlements)	1,676	1,840
Employee entitlements	193	276
Total trade and other payables	1,869	2,116

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

14 OWING TO SUPPLIERS

Amounts owing to suppliers are amounts Fonterra owes to farmer shareholders and New Zealand contract milk suppliers for the collection of milk, which includes end of season adjustments, offset by amounts owing from farmer shareholders for goods and services provided to them by Fonterra.

These amounts are recognised at the amount due to the supplier for the milk provided. Due to their short-term nature, they are not discounted.

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

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

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

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

LONG-TERM ASSETS

This section provides information about the investments Fonterra has made in long-term assets to operate the business and generate returns to equity holders. These assets include physical assets such as land and buildings and livestock, and non-physical assets such as brands and goodwill. This section also explains the estimates and judgements applied in the measurement of these assets.

This section includes the following Notes:

Note 15: Property, plant and equipment

Note 16: Livestock

Note 17: Intangible assets

15 PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the purchase consideration and those costs directly attributable to bringing the asset to the location and condition necessary for its intended use. It also includes financing costs directly attributable to the acquisition, production or construction of the asset. Subsequent costs are capitalised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed and adjusted, where required, each financial year.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount, and are recognised in the income statement.

Depreciation

Depreciation is calculated on a straight-line basis to allocate the cost of the asset, less any residual value, over its estimated useful life. The range of estimated useful lives for each class of property, plant and equipment is as follows:

– Land	Indefinite
– Buildings and leasehold improvements	15–60 years
– Plant, vehicles and equipment	3–55 years

	GROUP \$ MILLION				
	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

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

15 PROPERTY, PLANT AND EQUIPMENT CONTINUED

	GROUP \$ MILLION					
	NOTES	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	PLANT, VEHICLES AND EQUIPMENT	CAPITAL WORK IN PROGRESS	TOTAL
<i>Net book value</i>						
As at 1 August 2018		354	1,745	3,990	721	6,810
Additions ¹		5	20	75	483	583
Transfer from capital work in progress		30	236	603	(869)	–
Depreciation charge		–	(97)	(361)	–	(458)
Impairment	2	–	(99)	(134)	–	(233)
Disposals		(31)	(27)	(59)	(29)	(146)
Foreign currency translation		(4)	(13)	(16)	(11)	(44)
As at 31 July 2019		354	1,765	4,098	295	6,512
<i>Net book value</i>						
As at 1 August 2017		348	1,691	3,817	535	6,391
Additions ¹		–	5	20	756	781
Transfer from capital work in progress		12	103	467	(582)	–
Hyperinflationary movements		8	15	6	7	36
Depreciation charge		–	(93)	(351)	–	(444)
Impairment reversal		–	4	1	–	5
Disposals		(14)	(9)	(9)	–	(32)
Foreign currency translation		–	29	39	5	73
As at 31 July 2018		354	1,745	3,990	721	6,810

1 Additions include borrowing costs of \$6 million (2018: \$8 million) capitalised using a weighted average interest rate of 5.21 per cent (2018: 5.52 per cent).

New Zealand Ingredients manufacturing assets

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

Leased assets

Leases of property, plant and equipment where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

Assets under finance leases are recognised as property, plant and equipment in the statement of financial position. They are recognised initially at their fair value or, if lower, at the present value of the minimum lease payments. A corresponding liability is established and each lease payment allocated between the liability and interest expense using the effective interest method. The assets recognised are depreciated on the same basis as equivalent property, plant and equipment.

Leases that are not finance leases are classified as operating leases and the leased assets are not recognised on the Group's statement of financial position. Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

The net book value of property, plant and equipment subject to finance leases is as follows:

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Land	5	5
Building and leasehold improvements	40	89
Plant and equipment	10	20
Net book value of property, plant and equipment subject to finance leases	55	114

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

16 LIVESTOCK

The Group's livestock balance primarily comprises dairy cows.

Livestock is measured at fair value less costs to sell, with any change in fair value recognised in the income statement. The Group's dairy cow herd comprises both young and mature livestock. The change in fair value relating to the ageing of mature livestock is recognised within cost of goods sold. All other changes in fair value are recognised within other operating income.

Young livestock comprises dairy cows that are intended to be reared to maturity. These cows are held to produce milk or offspring, but have not yet produced their first calf and begun milk production. Costs incurred in rearing young livestock are capitalised to the statement of financial position. The fair value of young livestock is determined using a market approach, adjusted to reflect the age of the herd.

Mature livestock includes dairy cows that have produced their first calf and begun milk production. Costs incurred in relation to mature livestock are recognised in the income statement. The fair value of mature dairy cows is determined using a discounted cash flow methodology.

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

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

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

The value of livestock at 31 July is as follows:

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

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

16 LIVESTOCK CONTINUED

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

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

Valuation techniques and significant unobservable inputs

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

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

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

17 INTANGIBLE ASSETS

The significant intangible assets recognised by the Group are goodwill, brands and software assets.

Goodwill

Goodwill represents the premium paid by the Group over the fair value of the Group's share of the net identifiable assets of an acquired subsidiary at the date of acquisition. It is initially recognised at cost and subsequently measured at cost less accumulated impairment losses.

Goodwill is not amortised. It is tested for impairment annually, or more frequently if there is an indicator of impairment.

Brands and other identifiable intangible assets

Brands that are purchased by the Group are initially recognised at cost, or at their fair value if acquired as part of a business combination. They are subsequently measured at cost less amortisation, if they are finite life brands, and accumulated impairment losses.

Indefinite life brands are not amortised. They are tested for impairment annually, or more frequently if there is an indicator of impairment. A brand is determined to have an indefinite life where there is an intention to maintain and support the brand for an indefinite period.

Indefinite life brands that have been impaired are reviewed for possible reversal of impairment annually. A reversal of an impairment loss shall not exceed the carrying amount that would have been recognised had no impairment loss occurred in prior years.

Software assets

Software assets, both purchased and internally developed, are capitalised provided there is an identifiable asset that will generate future economic benefits through cost savings or supporting revenue generation. Subsequent costs are capitalised if they extend the useful life or enhance the functionality of the asset.

Software assets amortised on a straight-line basis over their estimated useful lives, being three to 14 years. They are tested for impairment when an indicator of impairment exists.

	GROUP \$ MILLION					
	GOODWILL	BRANDS	SOFTWARE	SOFTWARE WIP	OTHER	TOTAL INTANGIBLES
As at 31 July 2019						
Cost	892	1,641	1,492	36	70	4,131
Accumulated amortisation and impairment	(331)	(97)	(1,090)	–	(16)	(1,534)
Net book value at 31 July 2019	561	1,544	402	36	54	2,597
As at 31 July 2018						
Cost	1,084	1,733	1,403	96	75	4,391
Accumulated amortisation and impairment	(3)	(95)	(1,007)	–	(59)	(1,164)
Net book value at 31 July 2018	1,081	1,638	396	96	16	3,227

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

17 INTANGIBLE ASSETS CONTINUED

		GROUP \$ MILLION					
	NOTES	GOODWILL	BRANDS	SOFTWARE	SOFTWARE WIP	OTHER	TOTAL INTANGIBLES
<i>Net book value</i>							
As at 1 August 2018		1,081	1,638	396	96	16	3,227
Additions		–	–	2	78	40	120
Transfer from work in progress		–	–	138	(138)	–	–
Amortisation		–	–	(101)	–	(2)	(103)
Goodwill and brand impairment	2	(327)	(4)	–	–	–	(331)
Software impairment		–	–	(29)	–	–	(29)
Disposals		(176)	(107)	(2)	–	–	(285)
Foreign currency translation		(17)	17	(2)	–	–	(2)
As at 31 July 2019		561	1,544	402	36	54	2,597
<i>Net book value</i>							
As at 1 August 2017		1,073	1,576	313	134	19	3,115
Additions		1	2	7	130	3	143
Transfer from work in progress		–	–	167	(167)	–	–
Amortisation		–	(2)	(92)	–	(1)	(95)
Impairment		–	–	–	–	(5)	(5)
Impairment reversal		–	22	–	–	–	22
Disposals		–	–	(2)	(1)	–	(3)
Foreign currency translation		7	40	3	–	–	50
As at 31 July 2018		1,081	1,638	396	96	16	3,227

Impairments for the year ended 31 July 2019 include the following:

- \$189 million comprising goodwill (\$185 million) and brand (\$4 million) impairment in the New Zealand consumer and foodservice business.
- \$133 million of goodwill impairment in the Brazil consumer and foodservice business.

Refer to Note 2 for further details.

Amortisation is recognised in other operating expenses in the income statement.

Impairment reversals are recognised in other operating income in the income statement.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

17 INTANGIBLE ASSETS CONTINUED

Impairment testing of goodwill and indefinite life brands

The following table shows the allocation of goodwill and brands across the Group's cash generating units (CGUs).

	GROUP \$ MILLION					
	AS AT 31 JULY 2019			AS AT 31 JULY 2018		
	GOODWILL	BRANDS ¹	TOTAL	GOODWILL	BRANDS ¹	TOTAL
Ingredients CGUs	67	120	187	78	120	198
Consumer and Foodservice CGUs						
– Australia	128	148	276	138	148	286
– New Zealand	250	283	533	611	393	1,004
– Asia	5	718	723	4	703	707
– Brazil	–	250	250	132	246	378
– Chile	111	25	136	118	27	145
– Other CGUs	–	–	–	–	1	1
Total	561	1,544	2,105	1,081	1,638	2,719

1 Of the total brands held, 100 per cent of the value of brands have indefinite useful lives (31 July 2018: 98 per cent).

Impairment testing is performed annually at the same time each year.

Where appropriate, based on the market dynamics and go to market strategies, impairment testing is performed at a CGU level for both goodwill and indefinite life brands attributed to the CGU.

The long term growth rate is based on the long term inflation rate of the jurisdictions where the sales are generated. Other key assumptions are based on external data where possible.

Consumer and Foodservice Asia

For brands held in the Consumer and Foodservice business in Asia the recoverable amount is in excess of the carrying amount and reasonably possible changes in assumptions would not result in erosion of the headroom. The average long-term growth rate applied to the future cash flows is 2.8 per cent (31 July 2018: 2.9 per cent) and the average discount rate applied is 9.4 per cent (31 July 2018: 9.2 per cent).

INVESTMENTS

This section provides information about Fonterra's interest in equity accounted investments.

This section includes the following Note:

Note 18: Equity accounted investments

18 EQUITY ACCOUNTED INVESTMENTS

Associates and joint ventures

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Joint ventures are those arrangements in which the Group has contractually agreed to share control and where the Group has rights to the net assets rather than rights to the assets and obligations for the liabilities.

For joint ventures and associates the Group applies the equity method of accounting. Under the equity method, the Group recognises its initial investment at cost (including any goodwill identified on acquisition) and subsequently adjusts this for its share of the entities' profits or losses. The Group's share of profits and losses are recognised in the income statement and its share of movements in other comprehensive income is recognised in other comprehensive income. Dividends received from equity accounted investees reduce the carrying amount of the investment.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and no further losses are recognised except to the extent the Group has an obligation or has made payments on behalf of the investee.

The Group determines at each reporting date whether there is any objective evidence that its investments in equity accounted investees are impaired. If this is the case, the Group recognises any impairment in the income statement.

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

Equity accounted investees with different balance dates from that of the Group are due to legislative requirements in the country the entities are domiciled or are aligned with their other investors' balance dates or to align with the milk season.

EQUITY ACCOUNTED INVESTEE NAME	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	OWNERSHIP INTERESTS (%)	
		AS AT 31 JULY 2019	AS AT 31 JULY 2018
DMV Fonterra Excipients GmbH & Co. KG ¹	Germany	–	50
Beingmate Baby & Child Food Co., Ltd ²	China	–	18.8
Falcon Dairy Holdings Limited	Hong Kong	51	51

All investees have balance dates of 31 December.

¹ Fonterra's investment in DMV Fonterra Excipients GmbH & Co. KG has been reclassified from an equity accounted investee to a held for sale asset (refer to Note 2 for details).

² During the year Fonterra's significant influence in Beingmate ceased, and Fonterra subsequently accounts for its investment in Beingmate shares at their fair value, with movements recorded in the income statement (Note 2 explains this). Consequently, Beingmate also ceased being a related party of Fonterra.

Carrying amounts

The Group holds investments in a number of joint ventures and associates. The aggregate amount of the Group's share of these equity accounted investments is included in the table below:

	GROUP \$ MILLION					
	ASSOCIATES		JOINT VENTURES		TOTAL	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018	AS AT 31 JULY 2019	AS AT 31 JULY 2018	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Carrying amount of investment	1	241	201	374	202	615
Profit/(loss) from continuing operations	(4)	(35)	29	55	25	20
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income	(4)	(35)	29	55	25	20

18 EQUITY ACCOUNTED INVESTMENTS CONTINUED

Carrying value of Beingmate at 31 July 2018

At 31 July 2018, Beingmate was an equity accounted investee. During the year ended 31 July 2019, the nature of Fonterra's interest in Beingmate changed. Note 2 explains these changes, and Fonterra's accounting treatment for its investment in Beingmate at 31 July 2019.

At 31 July 2018, Fonterra's carrying value of its investment in Beingmate was \$204 million. This reflected \$405 million of cumulative impairment losses. The carrying value was supported by the investment's recoverable amount, calculated using a fair value less costs to sell methodology.

The valuation methodology required judgement, and was Level 3 in the fair value hierarchy because it was not based on market observable inputs. The underlying assumptions were:

- Weighted average base share price for the 30 trading days before year end: RMB 4.91 per share
- Net premium (including costs to sell): RMB 0.48 per share. This was determined by considering recent transaction data and the characteristics of the investment, to estimate a premium that would be paid for a long-term strategic investment of a similar size.

Using these assumptions, the implied value per share as at 31 July 2018 was RMB 5.39.

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

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

FINANCIAL RISK MANAGEMENT

This section outlines the key risk management activities undertaken to manage the Group's exposure to financial risk.

This section includes the following Note:

Note 19: Financial risk management

19 FINANCIAL RISK MANAGEMENT

Financial risks faced by the Group

The Group's overall financial risk management programme focuses primarily on maintaining a prudent financial risk profile that provides flexibility to implement the Group's strategies, while ensuring optimisation of the return on assets. Financial risk management is centralised, which supports compliance with the financial risk management policies and procedures set by the Board.

A summary of the financial risks that impact the Group, how these risks are managed, and other disclosures included in the financial risk management note is presented below.

FINANCIAL RISK/DISCLOSURE ITEM	DESCRIPTION	MANAGEMENT OF RISK
Market risks		
Foreign exchange risk (Section a)	Impact from changes in foreign exchange rates	<i>Foreign currency transactions</i> For foreign currency transactions, the Group uses foreign currency forward contracts and foreign currency options to manage foreign exchange risk. <i>Foreign operations</i> For investments in foreign operations, the Group uses foreign currency denominated borrowings and foreign currency swaps to manage foreign exchange risk. <i>Foreign currency denominated borrowings</i> For foreign currency denominated borrowings, the Group uses cross-currency interest rate swaps to manage foreign exchange and interest rate risk combined.
Interest rate risk (Section b)	Impact from changes in interest rates	The Group uses interest rate swaps to achieve a target ratio of fixed and floating rate exposure on its borrowings.
Commodity price risk (Section c)	Impact from changes in commodity prices	The Group uses commodity derivatives to manage its exposure to commodity price risk. The Group also uses its product mix and sales contract terms to manage the impact of changes in dairy commodity prices on its earnings.
Impact to reserves in equity (Section d)	Movements in the Group's hedge reserves and foreign currency translation reserve	
Other risks		
Credit risk (Section e)	Risk of loss to the Group due to customer or counterparty default	The Group sets minimum credit quality requirements, credit limits and uses other credit mitigation tools to manage its credit risk.
Liquidity risk (Note 9)	Risk that the Group will be unable to meet its financial obligations as they fall due	The Group actively manages its minimum on-hand cash facilities, access to committed funds and lines of credit and the maturity profile of its financial obligations.
Capital management and structure (Note 7)	The Group's capital structure	The Group actively manages its capital structure through leverage and coverage ratios. The Fonterra Shareholders' Fund removes the redemption risk associated with Co-operative shares.

19 FINANCIAL RISK MANAGEMENT CONTINUED

Derivative financial instruments and hedge accounting

Derivatives are measured at fair value. Refer to Note 24 for details on how fair value is determined.

The resulting gain or loss on re-measurement is recognised in the income statement immediately, unless the derivative is designated into an effective hedge relationship as a hedging instrument, in which case the timing of recognition in the income statement depends on the nature of the designated hedge relationship.

The Group may designate derivatives as:

- Fair value hedges (where the derivative is used to manage the variability in the fair value of recognised assets and liabilities);
- Cash flow hedges (where the derivative is used to manage the variability in cash flows relating to recognised liabilities or forecast transactions); or
- Net investment hedges (where borrowings or derivatives are used to manage the risk of fluctuation in the translated value of its foreign operations).

Hedge accounting is discontinued when the hedging instrument expires, is terminated, is exercised, or no longer qualifies for hedge accounting.

Fair value hedges

For fair value hedges the following are recognised in the income statement:

- the change in fair value of the hedging instruments; and
- the change in the fair value of the underlying hedged item attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued. The fair value adjustment to the carrying amount of the hedged item upon discontinuance is amortised and recognised in the income statement over the remaining term of the original hedge. If the hedged item is sold or extinguished any unamortised fair value adjustment is immediately recognised in the income statement.

Cash flow hedges

The effective portion of changes in the fair value of the hedging instruments are recognised in other comprehensive income and accumulated in a separate reserve in equity. Subsequently the cumulative amount is transferred to the income statement when the underlying transactions are recognised in the income statement.

The ineffective portion of changes in the fair value of the hedging instruments are recognised immediately in the income statement.

If the hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued. The cumulative gain or loss previously recognised in other comprehensive income remains there until the forecast transaction occurs, or is immediately recognised in the income statement if the transaction is no longer expected to occur.

Net investment hedges

The effective portion of changes in the fair value of the hedging instruments are recognised in other comprehensive income and transferred to the income statement when the foreign operation is disposed of or sold.

The ineffective portion of changes in the fair value of the hedging instruments are recognised immediately in the income statement.

Costs of hedging

The change in fair value of a hedging instrument relating to the time-value of foreign currency options, and the foreign currency basis component of cross-currency interest rate swaps are recognised in other comprehensive income and accumulated in a separate reserve in equity. Subsequently, the cumulative amount is transferred to the income statement at the same time as the hedged item impacts the income statement.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) Foreign exchange risk

Nature and exposure of foreign exchange risk

Net foreign exchange gains or losses

Foreign currency transactions are translated using the exchange rate at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate at balance date.

Any resulting foreign exchange gains and losses are recognised in the income statement, except when they relate to hedged items or hedging instruments designated in a cash flow hedge or net investment hedge relationship.

The Group is exposed to foreign exchange risk through transactions denominated in foreign currencies and the translation of foreign currency denominated balances. The amounts shown below represent the Group's exposure to foreign currency before applying the risk management strategies:

- The Group's foreign currency transactions are predominantly denominated in United States Dollars.
- The Group has net investments in foreign operations of \$5,011 million (31 July 2018: \$5,679 million). This amount is before considering borrowings held by the Group in the same currency as the investment.
- The Group has borrowings denominated in foreign currency of \$4,925 million (31 July 2018: \$4,682 million).

How foreign exchange risk is managed

Forecast foreign currency transactions

The Group enters into foreign currency forward contracts and foreign currency options for the following items:

- forecast cash receipts from sales for a period of up to 18 months within limits approved by the Board; and
- up to 100 per cent of other forecast foreign currency transactions.

The Group applies cash flow hedge accounting where derivatives are used to manage foreign exchange risk on forecast foreign currency transactions. The amount and maturity of the derivative and the forecast transaction is aligned to ensure that the hedge relationship remains effective, with any undesignated costs of hedging accounted for separately.

The effect of the Group's application of hedge accounting in managing foreign exchange risk related to forecast foreign currency transactions is presented in the table below.

HEDGING INSTRUMENT USED	GROUP \$ MILLION						
	AS AT 31 JULY 2019¹					YEAR ENDED 31 JULY 2019²	
	CARRYING AMOUNT				CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	HEDGE EFFECTIVENESS IN RESERVES	
	NOMINAL AMOUNT³	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	ACCUMULATED COST OF HEDGING		RECOGNISED IN OTHER COMPREHENSIVE INCOME	RECLASSIFIED TO THE INCOME STATEMENT⁴
Cash flow hedging							
Foreign currency forwards and options							
Maturity: 0-18 months							
Weighted average NZD:USD rate: 0.6852	9,267	37	(182)	(14)	(144)	(238)	309
Maturity: 0-11 months							
Weighted average USD:RMB rate: 6.9117	491	4	(1)	(1)	2	(2)	(7)
Maturity: 2-11 months							
Weighted average NZD:EUR rate: 0.5890	97	–	–	–	–	–	–
Total	9,855	41	(183)	(15)	(142)	(240)	302

1 Life-to-date amounts as at balance date.

2 Year-to-date amounts recognised during the year.

3 Nominal amount represents forecast foreign currency transactions in cash flow hedge relationships, translated into New Zealand Dollars using the exchange rate at balance date.

4 Recognised in revenue.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) Foreign exchange risk CONTINUED

HEDGING INSTRUMENT USED	GROUP \$ MILLION						
	AS AT 31 JULY 2018¹					YEAR ENDED 31 JULY 2018²	
	CARRYING AMOUNT					HEDGE EFFECTIVENESS IN RESERVES	
	NOMINAL AMOUNT³	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	ACCUMULATED COST OF HEDGING	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	RECLASSIFIED TO THE INCOME STATEMENT⁴
Cash flow hedging							
Foreign currency forwards and options							
Maturity: 0-18 months							
Weighted average NZD:USD rate: 0.7119	9,381	10	(224)	(17)	(215)	(615)	11
Maturity: 0-11 months							
Weighted average USD:RMB rate: 6.6460	404	12	–	(1)	13	(8)	20
Total	9,785	22	(224)	(18)	(202)	(623)	31

1 Life-to-date amounts as at balance date.

2 Year-to-date amounts recognised during the year.

3 Nominal amount represents forecast foreign currency transactions in cash flow hedge relationships, translated into New Zealand Dollars using the exchange rate at balance date.

4 Recognised in revenue.

Net investments in foreign operations

The Group's net investments are designated in hedge relationships to the extent of:

- borrowings denominated in the same foreign currency; and
- foreign currency swaps directly attributed to the net investment.

Hedge ineffectiveness arises if the carrying amount of the net investment falls below the amount of the designated hedging instruments.

The effect of the Group's hedge accounting policy in managing foreign exchange risk related to the Group's net investments in foreign operations is presented in the table below:

HEDGED NET INVESTMENTS AND HEDGING INSTRUMENTS USED	GROUP \$ MILLION				
	AS AT 31 JULY 2019			YEAR ENDED 31 JULY 2019	
	CARRYING AMOUNT		NOMINAL AMOUNT¹	HEDGE EFFECTIVENESS	
	AMOUNT OF NET INVESTMENT HEDGED¹	FOREIGN CURRENCY BORROWINGS	FOREIGN CURRENCY SWAPS²	NET INVESTMENT GAIN/ (LOSS) RECOGNISED IN OTHER COMPREHENSIVE INCOME	BORROWING/SWAPS GAIN/ (LOSS) RECOGNISED IN OTHER COMPREHENSIVE INCOME
Net investment hedging					
United States Dollar-denominated					
Maturity of borrowings: 10-23 months	140	(140)	–	3	(3)
Australian Dollar-denominated					
Maturity of borrowings: 23-100 months	499	(499)	–	(22)	22
Euro-denominated					
Maturity of borrowings: 64 months	163	(163)	–	(3)	3
Chinese Renminbi-denominated					
Maturity of borrowings: 8-72 months					
Maturity of swaps: 4-5 months	588	(527)	(61)	14	(14)
Total	1,390	(1,329)	(61)	(8)	8

1 The carrying amount of the net investment designated into a net investment hedge relationship.

2 The carrying amount of foreign currency swaps at balance date is \$1 million, and is presented within derivative assets.

3 Nominal amount is the face value, converted into New Zealand Dollars using the exchange rate at balance date, of foreign currency swaps designated in net investment hedge relationships.

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

a) Foreign exchange risk CONTINUED

HEDGED NET INVESTMENTS AND HEDGING INSTRUMENTS USED	GROUP \$ MILLION				
	AS AT 31 JULY 2018		YEAR ENDED 31 JULY 2018		
	CARRYING AMOUNT		NOMINAL AMOUNT ³	HEDGE EFFECTIVENESS	
	AMOUNT OF NET INVESTMENT HEDGED ¹	FOREIGN CURRENCY BORROWINGS	FOREIGN CURRENCY SWAPS ²	NET INVESTMENT GAIN/ (LOSS) RECOGNISED IN OTHER COMPREHENSIVE INCOME	BORROWING/SWAPS GAIN/ (LOSS) RECOGNISED IN OTHER COMPREHENSIVE INCOME
Net investment hedging					
United States Dollar-denominated Maturity of borrowings: 22-35 months	136	(136)	–	12	(12)
Australian Dollar-denominated Maturity of borrowings: 35-112 months	521	(521)	–	7	(7)
Euro-denominated Maturity of borrowings: 76 months	166	(166)	–	14	(14)
Chinese Renminbi-denominated Maturity of borrowings: 6-84 months Maturity of swaps: 0-2 months	758	(656)	(102)	13	(13)
Total	1,581	(1,479)	(102)	46	(46)

1 The carrying amount of the net investment designated into a net investment hedge relationship.

2 The carrying amount of foreign currency swaps at balance date is \$1 million, and is presented within derivative assets.

3 Nominal amount is the face value, converted into New Zealand Dollars using the exchange rate at balance date, of foreign currency swaps designated in net investment hedge relationships.

Borrowings denominated in foreign currency

The Group's policy is to maintain its net exposure to a foreign currency within predefined limits.

To the extent the Group has monetary assets in the same foreign currency as the borrowing, the Group has a reduced exposure to foreign exchange risk. The foreign currency gains and losses relating to these balances is off-set in net foreign exchange losses in the income statement.

To manage the net exposure to foreign currency borrowings, the Group enters into cross currency interest rate swaps (CCIRS). CCIRS are used to manage the combined foreign exchange risk and interest rate risk as they swap fixed rate foreign currency borrowings and interest payments into equivalent New Zealand Dollar-denominated amounts of principal with floating interest rates.

The Group applies hedge accounting to foreign currency denominated borrowings that are managed by CCIRS. The hedge relationship may be designated into separate cash flow hedges and fair value hedges to manage the different components of foreign currency and interest rate risk:

- fair value hedge relationship where CCIRS are used to manage the interest rate and foreign currency risk in relation to foreign currency denominated borrowings with fixed interest rates.
- cash flow hedge relationship where CCIRS are used to manage the variability in cash flows arising from interest rate movements on floating interest rate payments and foreign exchange movements on payments of principal and interest.

Hedge ineffectiveness arises predominantly from changes in counterparty credit risk and cross currency basis spreads.

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

a) Foreign exchange risk CONTINUED

The effect of the Group's hedge accounting policies in managing both its foreign exchange risk and interest rate risk related to borrowings denominated in foreign currency is presented in the table below.

HEDGING INSTRUMENTS USED	GROUP \$ MILLION								
	AS AT 31 JULY 2019 ¹					YEAR ENDED 31 JULY 2019 ²			
	CARRYING AMOUNT					HEDGE EFFECTIVENESS IN RESERVES	HEDGE EFFECTIVENESS	HEDGE INEFFECTIVENESS	
						CASH FLOW HEDGE RECLASSIFIED TO INCOME STATEMENT ⁴	FAIR VALUE HEDGE (INCOME STATEMENT) GAIN/(LOSS) ⁴	RECOGNISED IN INCOME STATEMENT GAIN/(LOSS) ⁴	
	NOMINAL AMOUNT ³	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	ACCUMULATED COST OF HEDGING	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	CASH FLOW HEDGE (OCI)			
Cash flow hedging and fair value hedging									
Cross-currency interest rate swaps									
USD	1,184	252	–	(2)	263	3	6	150	(2)
Maturity: 86-133 months Weighted average interest rate: floating Weighted average NZD:USD rate: 0.7604									
GBP	623	63	(278)	–	(225)	(13)	16	(15)	(4)
Maturity: 53 months Weighted average interest rate: floating Weighted average NZD:GBP rate: 0.3610									
EUR	386	39	–	(7)	50	(15)	18	19	–
Maturity: 64 months Weighted average interest rate: floating Weighted average NZD:EUR rate: 0.6560									
Fair value hedging	31	8	–	–	8	NA	NA	2	–
Maturity: 23 months Weighted average interest rate: floating Weighted average NZD:USD rate: 0.8160									
Total		362	(278)	(9)	96	(25)	40	156	(6)

1 Life-to-date amounts as at balance date.

2 Year-to-date amounts recognised during the year.

3 Nominal amount is the face value, converted using the weighted average foreign exchange rate, of foreign denominated borrowings in hedge relationships. For those borrowings in fair value hedges, the carrying amount includes the life-to-date fair value hedge adjustment which increases borrowings by \$160 million.

4 Recognised in net finance costs and net foreign exchange losses.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) Foreign exchange risk CONTINUED

HEDGING INSTRUMENTS USED	GROUP \$ MILLION									
	AS AT 31 JULY 2018 ¹					YEAR ENDED 31 JULY 2018 ²				
	CARRYING AMOUNT			ACCUMULATED COST OF HEDGING	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	HEDGE EFFECTIVENESS IN RESERVES	CASH FLOW HEDGE RECLASSIFIED TO INCOME STATEMENT ⁴	HEDGE EFFECTIVENESS	HEDGE INEFFECTIVENESS	
	NOMINAL AMOUNT ³	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES							
						CASH FLOW HEDGE (OCI)		FAIR VALUE HEDGE (INCOME STATEMENT) GAIN/(LOSS) ⁴		RECOGNISED IN INCOME STATEMENT GAIN/(LOSS) ⁴
Cash flow hedging and fair value hedging										
<i>Cross-currency interest rate swaps</i>										
USD	893	105	(7)	–	76	(4)	3	27		9
Maturity: 98-145 months Weighted average interest rate: floating Weighted average NZD:USD rate: 0.7841										
GBP	623	64	(261)	–	(213)	20	–	27		(4)
Maturity: 65 months Weighted average interest rate: floating Weighted average NZD:GBP rate: 0.3610										
EUR	386	25	–	(7)	31	36	(38)	3		–
Maturity: 76 months Weighted average interest rate: floating Weighted average NZD:EUR rate: 0.6560										
Fair value hedging	31	6	–	–	6	NA	NA	2		20
Maturity: 35 months Weighted average interest rate: floating Weighted average NZD:USD rate: 0.8160										
Total		200	(268)	(7)	(100)	52	(35)	59		25

1 Life-to-date amounts as at balance date.

2 Year-to-date amounts recognised during the year.

3 Nominal amount is the face value, converted using the weighted average foreign exchange rate, of foreign denominated borrowings in hedge relationships. For those borrowings in fair value hedges, the carrying amount includes the life-to-date fair value hedge adjustment which increases borrowings by \$18 million.

4 Recognised in net finance costs and net foreign exchange losses.

Receivables and payables denominated in foreign currency

The Group enters into foreign currency forward contracts and foreign currency options for 100 per cent of the net foreign currency receivables and payables.

Derivatives used to hedge the changes in the value of foreign currency receivables and payables are not hedge accounted. Changes in the fair value of these derivatives provide an off-set to the changes in the value of foreign currency receivables and payables recognised in the income statement. These are recognised within net foreign exchange gains and losses in the income statement.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) Foreign exchange risk CONTINUED

Net foreign exchange gains and losses in the income statement

The table below provides a breakdown of the net foreign exchange gains and losses recognised in the income statement.

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
<i>Relationships where hedge accounting has been applied</i>		
Net foreign exchange (losses)/gains attributable to:		
– Foreign currency-denominated borrowings	(17)	(200)
– Derivatives	18	203
<i>Relationships where hedge accounting has not been applied</i>		
Net foreign exchange (losses)/gains attributable to:		
– Foreign currency denominated receivables	119	423
– Foreign currency denominated payables and borrowings	(81)	(302)
– Derivatives	(40)	(135)
– Other net foreign exchange losses	–	(1)
Net foreign exchange losses	(1)	(12)

Sensitivity analysis of changes in foreign currency rates

The table below presents the effect on profit or loss for the year and equity at reporting date if foreign currency rates had been higher, or lower, with all other variables held constant.

	GROUP \$ MILLION			
	31 JULY 2019		31 JULY 2018	
	EQUITY	PROFIT	EQUITY	PROFIT
10% strengthening of the NZD	194	–	140	(8)
10% weakening of the NZD	(225)	4	(153)	2

b) Interest rate risk

Nature and exposure of interest rate risk to the Group

The Group is exposed to interest rate risk on its interest-bearing borrowings, included within economic net interest-bearing debt (refer Note 9).

Changes in market interest rates expose the Group to:

- changes in the fair value of borrowings subject to fixed interest rates (fair value risk); and
- changes in future interest payments on borrowings subject to floating interest rates (cash flow risk).

How the Group manages its exposure to interest rate risk

The Group's policy is to maintain a target ratio of fixed and floating interest rate exposure. To achieve this the Group considers its forecast debt over a specified time horizon and manages the interest rate exposure by:

- issuing fixed rate debt; and
- entering into interest rate swaps (IRS).

The Group applies hedge accounting to the borrowings and the associated IRS, for movements in benchmark market interest rates (i.e. excluding any margin component).

Hedge ineffectiveness arises in relation to IRS that have been designated to hedge relationships after their initial recognition. The ineffectiveness of these hedges will continue until maturity.

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

b) Interest rate risk CONTINUED

In specific situations, where changes in the fair value of fixed-to-floating IRS provide an off-set to the changes in the fair value of other associated floating-to-fixed IRS, hedge accounting is not applied. The changes in fair values of these IRS off-set each other and are recognised within net finance costs in the income statement.

The effect of the Group's hedge accounting policies in managing interest rate risk is presented in the table below.

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

	GROUP \$ MILLION							
	AS AT 31 JULY 2018 ¹				YEAR ENDED 31 JULY 2018 ²			
	CARRYING AMOUNT			CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	HEDGE EFFECTIVENESS IN RESERVES	HEDGE EFFECTIVENESS	HEDGE INEFFECTIVENESS	RECOGNISED IN THE INCOME STATEMENT GAIN/(LOSS) ⁴
HEDGING INSTRUMENTS USED	NOMINAL AMOUNT ³	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES		CASH FLOW HEDGE (OCI)	CASH FLOW HEDGE RECLASSIFIED TO THE INCOME STATEMENT ⁴	FAIR VALUE HEDGE (INCOME STATEMENT) GAIN/(LOSS) ⁴	
Cash flow hedging								
<i>Interest rate swaps</i>								
Maturity: 1-74 months								
Weighted average interest rate: 4.22%	3,491	–	(173)	23	(32)	–	NA	17
Fair value hedging								
<i>Interest rate swaps on NZD borrowings</i>								
Maturity: 22-56 months								
Weighted average interest rate: floating	225	4	–	(6)	NA	NA	3	–
<i>Interest rate swaps on AUD borrowings</i>								
Maturity: 95-112 months								
Weighted average interest rate: floating	521	–	(15)	(12)	NA	NA	–	–
Total		4	(188)	5	(32)	–	3	17

1 Life-to-date amounts as at balance date.

2 Year-to-date amounts recognised during the year.

3 The nominal amount represents the principal amount of outstanding or forecast borrowings designated in hedge relationships. For those borrowings in fair value hedges, the carrying amount includes the life-to-date fair value hedge adjustment which increases borrowings by \$61 million (2018: reduces borrowings by \$13 million).

4 Recognised in net finance costs.

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

b) Interest rate risk CONTINUED

Sensitivity analysis of changes in interest rates

The table below presents the effect on profit or loss for the year and equity at reporting date if interest rates had been higher, or lower, with all other variables held constant.

	GROUP \$ MILLION			
	31 JULY 2019		31 JULY 2018	
	EQUITY	PROFIT	EQUITY	PROFIT
100 basis point increase	54	22	64	5
100 basis point decrease	(54)	(19)	(59)	(18)

A change in interest rates would also impact floating rate interest payments and receipts on the Group's borrowing and derivatives held at balance date. The impact of a change in interest rates on one-year contracted cash flows is shown below:

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
100 basis point increase in interest rates	(7)	(6)
100 basis point decrease in interest rates	7	6

c) Commodity price risk

Nature and exposure of commodity price risk to the Group

The Group is exposed to dairy commodity price risk through changes in selling prices and the cost of milk purchased from dairy farmers. In addition, the Group is a large purchaser of electricity, diesel and sugar and is exposed to changes in the cost of these commodities.

How the Group manages its exposure to commodity price risk

Dairy commodity price risk

The Group manages its exposure to dairy commodity price risk by:

- determining the most appropriate mix of products to manufacture based on the supply curve and global demand for dairy products;
- governing the length and terms of sales contracts so that sales revenue is reflective of current market prices and is, where possible, linked to Global Dairy Trade (GDT) prices; and
- using dairy commodity derivative contracts to obtain an optimal price for future sales, or the cost of milk, to manage margin risk. The markets for dairy commodity derivatives are relatively limited, which reduces the ability to manage earnings volatility. As markets for these derivatives grow, the use of dairy commodity derivatives to manage dairy commodity price risk may increase.

Other commodity price risk

The Group manages its exposure to other commodity price risk through the use of derivative contracts, which are transacted at Board-approved levels, to hedge the cost of electricity, diesel and sugar.

Changes in the fair value of commodity derivative contracts are recognised within other operating income/(expenses) in the income statement.

Sensitivity analysis of changes in commodity prices

The table below presents the effect on profit or loss for the year and equity at reporting date if commodity prices had been higher, or lower, with all other variables held constant. Commodity price sensitivity arises from the revaluation of derivative assets and liabilities in the statement of financial position at reporting date.

	GROUP \$ MILLION			
	31 JULY 2019		31 JULY 2018	
	EQUITY	PROFIT	EQUITY	PROFIT
10% increase in commodity prices	4	30	–	28
10% decrease in commodity prices	(4)	(30)	–	(28)

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

d) Impact to reserves in equity

The impact of the Group's hedge accounting policies on the reserves in equity is presented in the tables below:

Hedge reserves

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Opening balance	(267)	192
<i>Movements attributable to cash flow hedges</i>		
Change in value of effective derivative hedging instruments	(365)	(603)
Reclassifications to the income statement:		
– As hedged transactions occurred	362	(4)
Net change in the cost of hedging reserve	1	(31)
Tax expense	1	179
Total movement	(1)	(459)
Closing balance¹	(268)	(267)

1 Included in the closing balance of the hedge reserves is \$21 million (31 July 2018: \$30 million) relating to hedge relationships for which hedge accounting is no longer applied.

Foreign currency translation reserve

	NOTES	GROUP \$ MILLION	
		AS AT 31 JULY 2019	AS AT 31 JULY 2018
Opening balance		(364)	(552)
<i>Movements attributable to net investments in foreign operations and net investment hedges</i>			
Net translation gain/(loss) on:			
– Borrowings and derivative hedging instruments		8	(46)
– Net investments in foreign operations		(25)	227
Reclassifications to the income statement:			
– Upon disposal of the Venezuelan operations	2	146	–
– Upon the reclassification of the investment in Beingmate	2	30	–
– Other disposals of foreign operations		17	2
Tax expense		5	5
Total movement		181	188
Closing balance¹		(183)	(364)

1 Included in the closing balance of the foreign currency translation reserve is \$4 million (31 July 2018: \$35 million) relating to hedge relationships for which hedge accounting is no longer applied.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

e) Credit risk

Nature and exposure of credit risk to the Group

Credit risk is the risk of loss to the Group due to customer or counterparty default on the Group's receivable balances. The Group's maximum exposure to credit risk is represented by the carrying amounts of cash and cash equivalents, trade and other receivables, derivative assets, and other investments and receivables.

The Group has no undue concentrations of credit risk.

How the Group manages its exposure to credit risk

The Group's policy is to actively manage its exposure to credit risk through the following actions:

Derivative contracts, cash and cash equivalents and other balances

- Use of financial counterparties that have a credit rating of at least 'A-' from Standard & Poor's (or equivalent).
- Use of commodity counterparties that have a credit rating of at least 'BBB-' from Standard & Poor's (or equivalent) for commodity derivative contracts.

Trade and other receivables

- Application of credit limits, and credit mitigation tools, such as letters of credit.

Trade and other receivable balances are included in Note 11 Trade and other receivables.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

OTHER

This section contains additional notes and disclosures that aid in understanding Fonterra's position and performance but do not form part of the primary sections.

This section includes the following Notes:

- Note 20: Taxation
- Note 21: Contingent liabilities, provisions and commitments
- Note 22: Related party transactions
- Note 23: Subsidiaries
- Note 24: Fair value measurement
- Note 25: Offsetting of financial assets and liabilities
- Note 26: Net tangible assets per security

20 TAXATION

Tax expense comprises current and deferred tax. Tax expense, including the tax consequences of distributions to farmer shareholders, is recognised in the income statement. The tax consequences of distributions to farmer shareholders are recognised in the year to which the distribution relates. Other than distributions to farmer shareholders, tax consequences of items recognised directly in equity are also recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance date, and any adjustment to tax payable or receivable in respect of previous years.

Deferred tax arises due to certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those for taxation purposes. Deferred tax is measured at the tax rate that is expected to apply to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the balance date.

Deferred tax is not recognised on the following temporary differences:

- the initial recognition of goodwill;
- the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and
- differences relating to investments in subsidiaries and equity accounted investees to the extent that the timing of the reversal is controlled by the Group and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the temporary differences can be utilised.

a) Taxation – income statement

The total taxation expense in the income statement is summarised as follows:

	NOTES	GROUP \$ MILLION	
		31 JULY 2019	31 JULY 2018
Current tax expense		83	81
Prior period adjustments to current tax		4	(5)
Deferred tax movements:			
– Origination and reversal of temporary differences		(20)	(34)
– Derecognition of DPA Brazil's deferred tax asset	2	110	–
Tax expense		177	42

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

a) Taxation – income statement CONTINUED

The taxation charge that would arise at the standard rate of corporation tax in New Zealand is reconciled to the tax expense as follows:

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
Loss before tax	(428)	(154)
Prima facie tax expense at 28%	(120)	(43)
Add/(deduct) tax effect of:		
– Effect of tax rates in foreign jurisdictions	(6)	(27)
– Non-deductible expenses/additional assessable income	249	168
– Non-assessable income/additional deductible expenses	(18)	(24)
– Prior year under provision	4	(5)
Tax expense before distributions and deferred tax	109	69
Effective tax rate before distributions and deferred tax¹	NA	NA
Tax effect of distributions to farmer shareholders	–	(27)
Tax expense before deferred tax	109	42
Effective tax rate before deferred tax¹	NA	NA
Add/(deduct) tax effect of:		
– Origination and reversal of other temporary differences	(20)	(2)
– Losses of overseas Group entities not recognised	88	2
Tax expense	177	42
Effective tax rate¹	NA	NA
Imputation credits		
Imputation credits available for use in subsequent reporting periods	20	20
Tax losses		
Gross tax losses available for which no deferred tax asset has been recognised	356	54

¹ The effective tax rate is the tax charge on the face of the income statement expressed as a percentage of the profit before tax. The Group recorded a net loss before tax, so the calculation of an effective tax rate is not applicable.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

b) Taxation – statement of financial position

The table below outlines the deferred tax assets and liabilities that are recognised in the statement of financial position, together with movements in the year:

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Deferred tax		
Property, plant and equipment	(63)	(37)
Intangible assets	(498)	(540)
Derivative financial instruments	111	97
Employee entitlements	54	75
Inventories	36	30
Receivables, payables and provisions	55	56
New Zealand tax losses	522	554
Offshore tax losses	236	311
Other	40	32
Total deferred tax	493	578
Movements for the year		
Opening balance	578	354
Recognised in the income statement	(90)	34
Recognised directly in other comprehensive income	6	181
Foreign currency translation	(1)	9
Closing balance	493	578
Included within the statement of financial position as follows:		
Deferred tax assets	592	667
Deferred tax liabilities	(99)	(89)
Total deferred tax¹	493	578

1 As at 31 July 2018 \$80 million of deferred tax liabilities relating to DPA Brazil have been reclassified from deferred tax asset to deferred tax liability. The deferred tax liability relates to the intangible brand assets in Brazil and had previously been netted against the deferred tax assets in DPA Brazil.

New Zealand tax losses

The New Zealand tax consolidated group generated a taxable income in the current year. The deferred tax asset relating to New Zealand tax losses of \$522 million (31 July 2018: \$554 million) has been recognised on the basis that taxable income will be generated in the future against which the tax losses can be utilised.

The key assumptions in the assessment of future taxable income are New Zealand earnings, and the tax-deductible dividend. The estimate of New Zealand earnings is based on performance of the New Zealand tax consolidated group relative to the overall Group. This ratio has been applied to the profit before tax forecast in the Group's three-year business plan. The tax-deductible dividend assumption is based on the Group's dividend policy and is set at the midpoint of the current policy which is 65 per cent to 75 per cent of normalised net profit after tax. Fonterra determines its dividend policy and therefore has the ability to influence utilisation of the losses.

Changes in the key assumptions used could impact the expected time horizon for utilisation of the tax losses, for example higher dividends could extend the utilisation horizon but would not impact the carrying amount of deferred tax assets available to be utilised against future taxable profits. Any future reduction in offshore income resulting from the strategic review could reduce the timing of utilisation of the tax losses, however, again this will not impact the carrying amount of the deferred tax asset available to be utilised. Therefore, a reasonably possible change in the key assumptions does not change the carrying value of the deferred tax asset recognised.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

b) Taxation – statement of financial position CONTINUED

Offshore tax losses

Deferred tax assets relating to tax losses carried forward of \$131 million (31 July 2018: \$253 million) are recognised by offshore entities in the current year. DPA Brazil's deferred tax asset which included tax losses has been derecognised in the current year, see Note 2c) for further details.

\$114 million of offshore tax losses recognised relate to tax losses in Australia and are recognised on the basis of utilisation through future expected taxable income.

Gross tax losses of \$356 million reflecting a deferred tax asset of \$118 million (31 July 2018: \$54 million gross, deferred tax asset of \$17 million) relating to offshore entities have not been recognised as they may not be utilised.

Deferred tax liabilities

Fonterra has made a key judgement to not recognise deferred tax liabilities in respect of unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries. As at 31 July 2019, these earnings amount to \$1,085 million (31 July 2018: \$1,089 million). These could be subject to withholding and other taxes on remittance. Any offshore divestments made because of the strategic review do not change this judgement on the basis there are a number of exit structures available that do not result in a payment of a dividend.

Fonterra's intention regarding any future possible exit strategies is a key assumption. A reasonably possible change in this assumption is not expected to change the conclusion that a deferred tax liability should not be recognised. This is because Fonterra management has control of the subsidiaries, there are no plans to pay a dividend in the foreseeable future.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

21 CONTINGENT LIABILITIES, PROVISIONS AND COMMITMENTS

Contingent liabilities

In the normal course of business, Fonterra, its subsidiaries and equity accounted investees, are exposed to claims and legal proceedings that may in some cases result in costs to the Group.

In January 2014, Danone initiated legal proceedings against Fonterra in the High Court of New Zealand and separate Singapore arbitration proceedings against Fonterra in relation to Fonterra's Whey Protein Concentrate 80 (WPC80) precautionary recall in August 2013. The New Zealand High Court proceedings have been stayed pending completion of the Singapore arbitration.

The Singapore arbitration panel issued its award (judgement), finding in favour of Danone and ordered Fonterra to pay to Danone €105 million (\$183 million) in recall costs. In addition, Fonterra also paid Danone €29 million (\$49 million) representing interest on the award amount and Danone's costs in connection with the arbitration proceedings. Fonterra paid these amounts during the financial year ended 31 July 2018.

It is unclear whether Danone will continue to pursue the New Zealand High Court proceedings that were stayed pending the decision in the Singapore arbitration. Due to the uncertainty regarding whether Danone will seek to re-initiate these proceedings, and the nature and scope of these potential proceedings in light of the arbitration findings and award, no amount has been recognised in relation to these proceedings.

There are no additional claims or legal proceedings in respect of this matter that require provision or disclosure in these financial statements.

The Group has no other contingent liabilities as at 31 July 2019 (31 July 2018: nil).

Provisions

Provisions are recognised in the statement of financial position only where the Group has a present legal or constructive obligation as a result of a past event, when it is probable, being more likely than not, that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

	GROUP \$ MILLION				
	EMPLOYEE RELATED PROVISIONS	LEGAL CLAIMS PROVISIONS	RESTRUCTURING PROVISIONS	OTHER PROVISIONS	TOTAL PROVISIONS
As at 1 August 2018	77	53	1	13	144
Additional provisions	16	10	47	30	103
Unused amounts reversed	(1)	(1)	(1)	(8)	(11)
Charged to income statement	15	9	46	22	92
Charged to equity	(1)	–	–	–	(1)
Utilised during the year	(11)	(4)	(4)	(11)	(30)
Foreign currency translation	–	–	(1)	–	(1)
As at 31 July 2019	80	58	42	24	204
Included within the statement of financial position as follows:					
Current liabilities					63
Non-current liabilities					141
Total provisions					204

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

21 CONTINGENT LIABILITIES, PROVISIONS AND COMMITMENTS CONTINUED

	GROUP \$ MILLION				
	EMPLOYEE RELATED PROVISIONS	LEGAL CLAIMS PROVISIONS	RESTRUCTURING PROVISIONS	OTHER PROVISIONS	TOTAL PROVISIONS
As at 1 August 2017	84	72	2	30	188
Additional provisions	16	231	–	13	260
Unused amounts reversed	(9)	(16)	(1)	(11)	(37)
Charged to income statement	7	215	(1)	2	223
Charged to equity	(2)	–	–	–	(2)
Utilised during the year	(14)	(242)	–	(7)	(263)
Transfer to other class of provision	1	11	–	(12)	–
Foreign currency translation	1	(3)	–	–	(2)
As at 31 July 2018	77	53	1	13	144
Included within the statement of financial position as follows:					
Current liabilities					14
Non-current liabilities					130
Total provisions					144

The nature of the provisions is shown below:

- Employee related provisions include defined benefit scheme obligations, other obligations that fall due on termination of employment, and long-term employee benefits. The timing and amount of settlement is uncertain as it primarily depends on decisions relating to the employment of relevant employees.
- Legal claims provisions include obligations relating to tax, customs and duties and legal matters arising in the normal course of business. The timing and amount of settlement is uncertain as it depends on the outcome of a number of judicial proceedings.
- Restructuring provisions relate to the implementation of initiatives identified through the asset portfolio review and strategy review that have been announced or committed to as at reporting date. The timing and amount of settlement is uncertain; however, the provision is expected to be utilised within 12 months.
- Other provisions relate to product quality claims and other claims arising in the normal course of business. The timing and amount of settlement is uncertain as it depends on the outcome of the commercial negotiations relating to each individual claim.

Commitments

a) Capital commitments

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

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Buildings	5	17
Plant, vehicles and equipment	43	132
Software	1	6
Total commitments	49	155

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

21 CONTINGENT LIABILITIES, PROVISIONS AND COMMITMENTS CONTINUED

b) Operating lease commitments

The Group leases premises, plant and equipment. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Less than one year	124	116
One to five years	268	237
Greater than five years	121	140
Total operating lease commitments	513	493

c) Long-term supply agreement with A-Ware

Fonterra has entered into a long-term supply agreement with A-Ware, a Netherlands-based company. The agreement is for A-Ware to supply, and Fonterra to purchase, mozzarella and UHT cream over a 15-year period with two five-year rights of renewal at Fonterra's election. The A-Ware plant supporting this agreement is due for completion during FY20, at which point the product supply and purchase obligations commence. Key features of the agreement are:

- A-Ware must supply 100 per cent of its plant's mozzarella and UHT cream subject also to minimum volumes (being 45,000 MT of mozzarella, and 22,500 MT of UHT cream), and 100 per cent of the whey produced from the mozzarella production. This is subject to initial ramp-up volumes, and various options held by both parties to vary volumes, along with associated option costs.
- Fonterra has extended a €15 million interest-bearing loan to A-Ware to support A-Ware's initial capital expenditure requirements. This is recognised in other non-current assets in the Group's statement of financial position.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

22 RELATED PARTY TRANSACTIONS

Equity accounted investees and key management personnel are related parties of the Group. Key management personnel comprises the Board and the Fonterra Management Team.

The transactions with related parties that were entered into during the year, and the year end balances that arose from those transactions are shown below:

Key management personnel remuneration

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
Short-term employee benefits	13	12
Long-term employee benefits	3	7
Termination benefits	2	–
Directors' remuneration	2	3
Total key management personnel remuneration	20	22

Transactions with related parties during the year

Transactions with related parties are under normal trade terms.

	GROUP \$ MILLION	
	31 JULY 2019	31 JULY 2018
Equity accounted investees¹		
Revenue from the sale of goods ²	120	116
Sale of services ³	9	7
Royalty and other income	2	10
Dividends received	6	56
Interest income from financing arrangements	2	2
Purchases of goods ⁴	(56)	(37)
Purchases of services ⁵	(169)	(143)
Key management personnel		
Purchases of goods ⁶	(118)	(119)
Co-operative support loans	–	4
Dividends paid	–	(6)

1 Beingmate was considered a related party until Fonterra lost significant influence (refer to Note 2).

2 Goods sold are primarily commodity products.

3 Services provided include management fees.

4 Goods purchased are primarily commodity products.

5 Services provided are primarily freight services.

6 Purchases from key management personnel primarily relate to milk supplied by farmer shareholder Directors.

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

22 RELATED PARTY TRANSACTIONS CONTINUED

Outstanding balances with related parties

	GROUP \$ MILLION	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Equity accounted investees		
Total receivables arising from the sale or purchase of goods or services ¹	25	52
Total receivables arising from financing arrangements ²	65	86
Total payables arising from the sale or purchase of goods or services	(31)	(32)
Total payables arising from financing arrangements	(2)	(1)
Key management personnel		
Total payables arising from the sale or purchase of goods or services ³	(18)	(21)
Total receivables arising from Co-operative support loans	–	2

1 There were no material provisions for impairment on the receivables from related parties.

2 Loans to related parties other than equity accounted investees are unsecured and repayable in cash on demand. Loans to equity accounted investees are unsecured and repayable over varying terms of between four years and eight years.

3 Payables to key management personnel relate to amounts owing for milk supplied by farmer shareholder Directors.

Financial guarantees

The Group provides financial guarantees for equity accounted investees. The aggregate drawn down amount of equity accounted investees' liabilities for which the Group is jointly and severally liable is \$1 million (31 July 2018: nil).

Transactions with related entities

As part of the administration of Trading Among Farmers, Fonterra entered into an Authorised Fund Contract to provide administrative services in relation to the Fund and meet the operating expenses of the Fund. In addition, Fonterra has agreed to provide corporate facilities, support functions and other services at no cost to the Fund.

Commitments

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

- prospective commitments with related parties including contracts with equity accounted investees for the supply of dairy products and energy, and the provision of various management services.
- contractual commitments to provide funding to joint ventures of up to US\$40 million (31 July 2018: US\$40 million).

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

23 SUBSIDIARIES

Subsidiaries are entities controlled by the Group. Subsidiaries are consolidated from the date the Group gains control until the date on which control ceases.

Non-controlling interests are allocated their share of profit after tax in the income statement and are presented within equity in the statement of financial position separately from equity attributable to equity holders. The effect of all transactions with non-controlling interests that change the Group's ownership interest but do not result in a change in control are recorded in equity. Where control is lost, the remaining interest in the investment is remeasured to fair value and any surplus or deficit arising from that remeasurement is recognised in the income statement.

The Group's subsidiaries are involved in the marketing, distribution, processing, technology or financing of dairy products. All Group subsidiaries have a balance date of 31 July unless otherwise indicated. Subsidiaries with different balance dates from that of the Group are due to legislative requirements in the country the entities are domiciled.

The Group holds investments in certain countries that have some limited restrictions on the repatriation of funds back to New Zealand. This does not result in any significant restriction on the flow of funds for the Group.

The significant subsidiaries of the Group are listed below:

SUBSIDIARY NAME	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	OWNERSHIP INTERESTS (%)	
		AS AT 31 JULY 2019	AS AT 31 JULY 2018
Fonterra Australia Pty Limited	Australia	100	100
Fonterra Brands (Australia) Pty Limited	Australia	100	100
Dairy Partners Americas Brasil Limitada ¹	Brazil	51	51
Comercial Santa Elena S.A. ¹	Chile	99.9	99.9
Soprole S.A. ¹	Chile	99.9	99.9
Prolesur S.A. ¹	Chile	86.26	86.26
Fonterra Commercial Trading (Shanghai) Company Limited ¹	China	100	100
Fonterra (Yutian) Dairy Farm Co. Limited ¹	China	100	100
Fonterra (Ying) Dairy Company Limited ¹	China	100	100
Fonterra Brands (Hong Kong) Limited	Hong Kong	100	100
Fonterra Brands Indonesia, PT	Indonesia	100	100
Fonterra Brands (Malaysia) Sdn Bhd	Malaysia	100	100
Fonterra (Europe) Coöperatie U.A.	Netherlands	100	100
Fonterra Europe Manufacturing B.V.	Netherlands	100	100
Fonterra (New Zealand) Limited	New Zealand	100	100
Fonterra Brands (New Zealand) Limited	New Zealand	100	100
Fonterra Brands (Tip Top) Limited	New Zealand	–	100
Fonterra Dairy Solutions Limited	New Zealand	100	100
Fonterra Ingredients Limited	New Zealand	100	100
Fonterra Limited	New Zealand	100	100
RD1 Limited	New Zealand	100	100
Kotahi Logistics LP	New Zealand	91	91
Fonterra Brands (Singapore) Pte Limited	Singapore	100	100
Fonterra Brands Lanka (Private) Limited	Sri Lanka	100	100
Fonterra Middle East FZE	UAE	100	100
Fonterra (USA) Inc.	United States	100	100
Corporación Inlaca CA	Venezuela	–	60

1 Balance date 31 December.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

23 SUBSIDIARIES CONTINUED

The Group's ownership interest of the following entities is 50 per cent or less. However, they have been consolidated on the basis that the Group controls them through its exposure or rights to variable returns and the power to affect those returns.

OVERSEAS SUBSIDIARIES 50% OR LESS OWNERSHIP	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	OWNERSHIP INTERESTS (%)	
		AS AT 31 JULY 2019	AS AT 31 JULY 2018
Fonterra (Japan) Limited	Japan	50	50
Fonterra Brands (Middle East) L.L.C.	UAE	49	49

In addition to the entities above, Fonterra controls the Fonterra Shareholders' Fund and Fonterra Farmer Custodian Limited and consolidates these two entities. The trustees of the Fonterra Farmer Custodian Trust own the legal title to all of the shares of the Custodian. The Fund is a managed investment scheme with an independent trustee. In concluding that the Group controls the Fund and the Custodian, the Directors took into consideration that they form an integral part of the structure and operation of Trading Among Farmers.

24 FAIR VALUE MEASUREMENT

Valuation techniques for determining fair values

The fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

The fair values of financial assets and liabilities are calculated by reference to quoted market prices where that is possible. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If quoted market prices are not available, the methodology used to calculate the fair values of financial assets and liabilities is to identify the expected cash flows under the terms of each specific contract and then discount these values back to the present value. These models use as their basis independently sourced market data where it is available and rely as little as possible on entity-specific estimates.

The calculation of the fair value of financial instruments reflects the impact of credit risk where applicable.

Specific valuation techniques used to value financial instruments include:

- the fair value of foreign exchange contracts is determined using observable currency exchange rates, option volatilities and interest rate yield curves;
- the fair value of interest rate contracts is calculated as the present value of the estimated future cash flows based on observable interest rate yield curves;
- the fair value of commodity contracts that are not exchange traded is determined by calculating the present value of estimated future cash flows based on observable quoted prices for similar instruments; and
- the fair value on the hedged risks of borrowings and long-term advances that are not exchange traded is calculated as the present value of the estimated future cash flows based on observable currency exchange rates and interest rate yield curves.

Fair value hierarchy

The fair value hierarchy described below is used to provide an indication of the level of estimation or judgement required in determining fair value:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

24 FAIR VALUE MEASUREMENT CONTINUED

The following table shows the fair value hierarchy for assets and liabilities measured at fair value on the statement of financial position:

	GROUP \$ MILLION					
	LEVEL 1		LEVEL 2		LEVEL 3	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018	AS AT 31 JULY 2019	AS AT 31 JULY 2018	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Derivative assets						
– Commodity derivatives	14	15	1	3	–	–
– Foreign exchange derivatives	–	–	40	45	–	–
– Interest rate derivatives ¹	–	–	433	200	–	–
Derivative liabilities						
– Commodity derivatives	(9)	(12)	(4)	(2)	–	–
– Foreign exchange derivatives	–	–	(200)	(308)	–	–
– Interest rate derivatives ¹	–	–	(539)	(454)	–	–
Investment in Beingmate	234	–	–	–	–	–
Investments in shares	8	13	15	16	16	6
Livestock	–	–	–	–	295	288
Fair value	247	16	(254)	(500)	311	294

¹ Includes cross-currency interest rate swaps.

The following table shows the fair value hierarchy for each class of financial asset and liability where the carrying value in the statement of financial position differs from the fair value:

	GROUP \$ MILLION					
	CARRYING VALUE		FAIR VALUE			
			LEVEL 1		LEVEL 2	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018	AS AT 31 JULY 2019	AS AT 31 JULY 2018	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Financial assets						
Long-term advances	142	154	–	–	150	148
Financial liabilities						
Borrowings						
– NZX-listed bonds	(600)	(500)	(627)	(513)	–	–
– Capital notes	(35)	(35)	(35)	(34)	–	–
– Bank loans	(619)	(1,128)	–	–	(620)	(1,128)
– Medium-term notes	(4,952)	(4,640)	–	–	(5,208)	(4,883)
– Finance leases	(71)	(131)	–	–	(75)	(143)

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

25 OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where there currently is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

The Group enters into various master netting arrangements or similar agreements that do not meet the criteria for offsetting in the statement of financial position but still allow for the related amounts to be offset in certain circumstances. These principally relate to derivative transactions under ISDA (International Swap and Derivative Association) agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

The table below sets out the financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and other agreements.

	GROUP \$ MILLION				
	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION			AMOUNTS NOT OFFSET	NET
	GROSS FINANCIAL ASSETS/ (LIABILITIES)	GROSS FINANCIAL ASSETS/ (LIABILITIES) SET OFF	NET FINANCIAL ASSETS/ (LIABILITIES) PRESENTED		
Cash and cash equivalents	550	–	550	(8)	542
Derivative financial assets	526	(38)	488	(283)	205
Trade and other receivables (excluding prepayments)	1,943	(90)	1,853	–	1,853
	3,019	(128)	2,891	(291)	2,600
Derivative financial liabilities	(790)	38	(752)	291	(461)
Trade and other payables (excluding employee entitlements)	(1,676)	–	(1,676)	–	(1,676)
Owing to suppliers	(1,624)	90	(1,534)	–	(1,534)
Borrowings	(6,536)	–	(6,536)	–	(6,536)
	(10,626)	128	(10,498)	291	(10,207)
31 July 2019	(7,607)	–	(7,607)	–	(7,607)
Derivative financial assets	395	(132)	263	(207)	56
Trade and other receivables (excluding prepayments)	2,327	(94)	2,233	–	2,233
	2,722	(226)	2,496	(207)	2,289
Derivative financial liabilities	(908)	132	(776)	207	(569)
Trade and other payables (excluding employee entitlements)	(1,840)	–	(1,840)	–	(1,840)
Owing to suppliers	(1,673)	94	(1,579)	–	(1,579)
Borrowings	(6,738)	–	(6,738)	–	(6,738)
	(11,159)	226	(10,933)	207	(10,726)
31 July 2018	(8,437)	–	(8,437)	–	(8,437)

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

26 NET TANGIBLE ASSETS PER SECURITY

	GROUP	
	AS AT 31 JULY 2019	AS AT 31 JULY 2018
Net tangible assets per security¹		
\$ per listed debt security on issue	4.67	5.18
\$ per equity instrument on issue	2.04	1.94
Listed debt securities on issue (million)	703	603
Equity instruments on issue (million)	1,612	1,612

1 Net tangible assets represents total assets less total liabilities less intangible assets.

Independent Auditor's Report



TO THE SHAREHOLDERS OF FONTERRA CO-OPERATIVE GROUP LIMITED

We have audited the financial statements which comprise:

- the statement of financial position as at 31 July 2019;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

OUR OPINION

In our opinion, the accompanying financial statements of Fonterra Co-operative Group Limited (the Company), including its controlled entities (the Group), present fairly, in all material respects, the financial position of the Group as at 31 July 2019, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

AUDITOR INDEPENDENCE

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Bruce Hassall was appointed as an Independent Director and Chair of the Audit and Finance Committee (AFC) of the Company on 2 November 2017. Bruce Hassall was Chief Executive Officer of PricewaterhouseCoopers to 30 September 2016 when he retired from the firm. At the time of his appointment, the Board of the Company (the Board) made the decision that Bruce Hassall would not be involved in the appointment of the Group's auditor or the setting of audit fees for three years from the date of his appointment. Scott St John, Independent Director and member of the AFC, has continued to act as Chair of the AFC in relation to these matters and the Chair of the Board has joined the AFC for deliberation. In addition, the engagement partner on the audit has direct access to the Chair of the Board, John Monaghan, to address any actual or perceived auditor independence threats.

Brent Goldsack was appointed as a Farmer-elected Director of the Company on 2 November 2017. Brent Goldsack retired as a partner of PricewaterhouseCoopers on 22 September 2017. Brent Goldsack was not involved in the provision of any audit services to the Group during his time as a partner of PricewaterhouseCoopers.

Bruce Hassall and Brent Goldsack had no financial relationship with PricewaterhouseCoopers upon their appointment to the Board.

During the year, our firm provided services to the Group as described in note 6 to the financial statements, including: assistance with collation of information for a vendor due diligence process; advice on a sale and purchase agreement; facilitation and administration support for the Fonterra Strategic review including board strategy workshops and programme management support; corporate tax advice to an equity accounted investee; access to generic training and technical accounting websites; as well as other assurance and attestation services provided in our capacity as auditors. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group.

These matters have not impaired our independence as auditor of the Group.

Independent Auditor's Report CONTINUED

OUR AUDIT APPROACH



Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality: \$27.8 million, which represents 5% of three-year average normalised (adjusted for items described in note 1 of the financial statements as normalisation adjustments) net profit before tax.

The Group's net profit before tax is subject to volatility due to fluctuations in the Farmgate Milk Price, commodity prices and foreign exchange rates. Using a three-year average normalised net profit before tax provides a stable basis for establishing our materiality. We used this benchmark because, in our view, it is the benchmark against which the performance of the Group is measured by users.

We determined that there are four key audit matters:

- Impairment of the carrying value of indefinite life intangible assets for the New Zealand and Brazil consumer and foodservice businesses
- Impairment assessment of the Australia ingredients business
- Accounting treatment for investment in Beingmate Baby & Child Co., Ltd.
- Impairment of the carrying value of China Farms' property, plant and equipment.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatements in the financial statements and our application of materiality. In particular, we focused on areas where significant judgements, estimates and assumptions have been made by the Directors surrounding future events which are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry and strategic markets in which the Group operates. The Group has six reportable segments that reflect the Group's management and reporting structure as viewed by Fonterra's Management Team. The financial statements are a consolidation of 145 subsidiaries and 15 equity accounted investees (two of which are classified as held for sale at year end), comprising the Group's collection, processing and distribution of the ingredients business in New Zealand, global sales and marketing of New Zealand and non-New Zealand ingredients products, Fonterra Farm Source™ stores, fast-moving consumer goods, Australian and South American ingredients businesses, and foodservice businesses, and farming operations in China.

Of the Group's 145 subsidiaries and 15 equity accounted investees, we identified 12 subsidiaries that, due to their financially significant contribution as well as strategic importance to the Group's overall results, required a full-scope audit. In addition, we also performed specific audit procedures on certain balances and transactions of other subsidiaries. Audits of each subsidiary are performed at a materiality level calculated with reference to a proportion of Group materiality relative to the financial scale of the business concerned.

In establishing the overall approach to the Group audit, we determined the type of work to be performed at the subsidiary level by us, as the Group audit engagement team, or by component auditors from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work performed over those subsidiaries in order to conclude whether sufficient appropriate audit evidence had been obtained to provide a basis for our opinion on the Group financial statements as a whole. This, together with additional procedures performed at the Group level, provided us with the audit evidence we needed for our opinion on the financial statements as a whole.

New Zealand sourced milk supplied by farmer shareholders comprises the volume of milk solids supplied at the Farmgate Milk Price as determined by the Board of Directors for the relevant season. In making that determination, the Board takes into account the Farmgate Milk Price calculated in accordance with the Farmgate Milk Price Manual. The Farmgate Milk Price is independently audited. The Fonterra Farmgate Milk Price Statement sets out information about the Farmgate Milk Price, and how it is calculated by Fonterra. It can be found in the 'Investors/Farmgate Milk Prices' section of the Company's website.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment of the carrying value of indefinite life intangible assets for the New Zealand (FBNZ) and Brazil (DPA Brazil) Consumer and Foodservice businesses	
Impairments recognised in relation to FBNZ and DPA Brazil, as at 31 July 2019, are disclosed within note 2a) and 2c) to the financial statements. Indefinite life intangible assets (goodwill and brands) are disclosed within note 17 of the financial statements.	We performed the following audit procedures in relation to FBNZ and DPA Brazil's recoverable amounts determined by management using value in use: <ul style="list-style-type: none">– held discussions with management and understood the processes undertaken and basis for determining the key assumptions in preparing the forecast cash flows; and– evaluated the assumptions and methodologies applied in the forecasts.
As disclosed in the basis of preparation of the financial statements, management assesses the recoverability of these assets on an annual basis by performing an impairment assessment using a discounted cash flow model based on forecast future performance. Performing this assessment requires management to exercise significant judgement when estimating future cash flows.	In relation to forecast cash flows, we performed the following audit procedures: <ul style="list-style-type: none">– compared these forecast cash flows to Board approved forecast cash flows and obtained explanations for any differences;– assessed the reliability of management's budgeting process in previous years and considered the impact on our assessment of forecast earnings and understood the differences between the historical and budgeted performance;– considered the impact of key strategic and operational initiatives in FBNZ and DPA Brazil by performing the following, as relevant<ul style="list-style-type: none">– considered budget to actual achievement;– considered cost incurred to date against expectations to assess delivery risk; and– where appropriate, analysis of initiatives against other external market measures– confirmed that key estimates and judgements determined by management in calculating the recoverable amounts were approved by the Board.
FBNZ The FBNZ recoverable amount determined by management resulted in an impairment of \$185 million to goodwill, as set out in note 2 to the financial statements, leaving a total value of indefinite lived intangible assets of \$533 million.	We engaged our auditor valuation experts in New Zealand and Brazil to assess the appropriateness of the terminal growth and discount rates.
Key assumptions included in the FBNZ forecasts prepared by management relate to annual trade spend management savings (by year five), annual productivity savings (manufacturing and supply chain efficiencies) (by year five) and annual operating expense savings (by year five) as well as terminal growth rate and discount rate (post-tax).	We also considered the appropriateness of disclosures in the financial statements.

KEY AUDIT MATTERS CONTINUED

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of the Australian ingredients business	
The impairment assessment in relation to the Australian ingredients business is disclosed within note 2e) to the financial statements.	We engaged our auditor valuation experts and with the assistance of these experts, we performed the following audit procedures:
The recoverable amount of the Australian ingredients business was determined by management using a fair value less costs of disposal (FVLCD).	<ul style="list-style-type: none">– assessed whether the methodology applied was appropriate;– evaluated whether the key assumptions adopted by management were relevant to the business operations;– evaluated the relevance of comparable transactions and the associated multiples; and– confirmed that key estimates and judgements determined by management in calculating the recoverable amounts were approved by the Board.
The FVLCD was determined using recent observable transactions which provided evidence of multiples which management applied in performing their assessment.	We also considered the appropriateness of disclosures in the financial statements.
This was an area of audit focus as there is significant judgement in determining the FVLCD, particularly in establishing key assumptions and relevant multiples.	
Management determined the recoverable amount of the Australian ingredients business was higher than the carrying value of \$942 million.	
Key audit matter	How our audit addressed the key audit matter
Accounting treatment for investment in Beingmate Baby & Child Co. Ltd. (Beingmate)	
As disclosed in the basis of preparation and within note 2g) of the financial statements, the Group holds an 18.8% share in Beingmate, an entity listed on the Shenzhen Stock Exchange.	We performed the following audit procedures:
As a result of the facts and circumstances presented in note 2g), management concluded there is no longer sufficient evidence to clearly demonstrate that Fonterra has significant influence on the Board of Beingmate and the investee ceased to be an equity accounted investment.	<ul style="list-style-type: none">– assessed the judgements made by Fonterra management in determining whether significant influence had ceased;– evaluated the technical accounting applied by management and completed a formal consultation with our technical accounting experts to confirm that it was appropriate to account for the investment as held for trading at fair value through profit or loss; and– confirmed that key estimates and judgements (as disclosed in note 2g of the financial statements) made by management were approved by the Board.
Subsequent to the change in classification, the investment is measured at fair value, based on the quoted market price. Changes in fair value are recognised in profit or loss.	We also audited the impact from the change in classification by reperforming the calculations and agreed the fair value of the shares at balance date to the quoted price on the Shenzhen Stock Exchange.
The carrying value of Beingmate based on the closing quoted market price as at 31 July 2019 is \$234 million.	We also considered the appropriateness of disclosures in the financial statements.

KEY AUDIT MATTERS CONTINUED

Key audit matter	How our audit addressed the key audit matter
<i>Impairment of the carrying value of China Farms' property, plant and equipment</i>	
As disclosed in note 2b) of the financial statements an impairment charge of \$203 million was recognised in relation to China Farms. Management applied significant judgement in preparing forecast cash flows that support the recoverable amount and impairment recognised. Key assumptions included in the China Farms forecasts prepared by management relate to future milk price (year five), milk production for sale (year five), feed costs per kg of milk sold (year five), effluent costs per kg of milk sold (year five), terminal growth rate and discount rate (post-tax). Management determined the recoverable amount of the China Farms assets were \$546 million	We performed the following audit procedures in relation to the recoverable amount of China Farms: <ul style="list-style-type: none">– held discussions with management and understood the processes undertaken and basis for determining the key assumptions in preparing the forecast cash flows; and– evaluated the assumptions and methodologies applied. In relation to forecast cash flows prepared by management, we performed the following audit procedures: <ul style="list-style-type: none">– compared these forecast cash flows to Board approved forecast cash flows and obtained explanations for any differences;– understood the differences between the historical and budgeted performance to assess the reliability of management’s budgeting process in previous years and considered the impact on our assessment of forecast earnings;– considered the impact of operational initiatives, given that the impairment assessments were most sensitive to cash flows from these initiatives; and– confirmed that key estimates and judgements determined by management in calculating the recoverable amounts were approved by the Board. We engaged our auditor valuation experts to assess the appropriateness of the terminal growth and discount rates. We also considered the appropriateness of disclosures in the financial statements.

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT

The Directors are responsible for the Annual Report. Our opinion on the financial statements does not cover the other information included in the Annual Report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information in the Annual Report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at: <https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/>

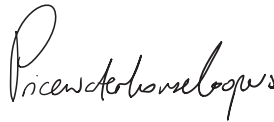
This description forms part of our auditor's report.

WHO WE REPORT TO

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Jonathan Skilton.

For and on behalf of:



Chartered Accountants
Auckland
25 September 2019

Statutory Information
FOR THE YEAR ENDED 31 JULY 2019

EQUITY SECURITIES HELD AT BALANCE DATE

In accordance with Rules of the Fonterra Shareholders' Market (FSM) Rule 9.4.4(c), the following table identifies the Equity Securities in which each Director has a Relevant Interest as at 31 July 2019.

	UNITS ISSUED BY THE FONTERRA SHAREHOLDERS' FUND¹	CO-OPERATIVE SHARES
Brent Goldsack	–	147,434
Leonie Guiney	–	878,824
Andrew Macfarlane	132,150	813,301
Peter McBride	–	5,504,288
John Monaghan	–	140,179
John Nicholls	–	2,148,864
Donna Smit	12,380	1,187,862

1 Units issued by the Fonterra Shareholders' Fund may be converted to Co-operative shares.

A 'Relevant Interest' in Fonterra securities which is required to be disclosed is explicitly defined in the Financial Markets Conduct Act 2013. To qualify as a Farmer Elected Director under the Fonterra Constitution a person must be a shareholder, a shareholder of a company that is a shareholder, a member of a partnership that is a shareholder, or have a legal or beneficial interest in, or a right or entitlement to participate directly in the distributions of, a body corporate that is a shareholder of Fonterra. Given the variety of ways that farmer shareholders can organise their interests, it is possible for Fonterra Elected Directors to have an interest in Fonterra shares without this being a 'Relevant Interest' as defined in the Financial Markets Conduct Act 2013. All current Elected Directors have relevant interests in Fonterra shares, some also have interests in Fonterra shares which are not within the definition of 'Relevant Interest' in the Financial Markets Conduct Act 2013 and those interests are not disclosed above.

CO-OPERATIVE STATUS

In accordance with section 10 of the Co-operative Companies Act 1996, the Directors of Fonterra unanimously resolved on 23 August 2019 that the Company was, for the year ended 31 July 2019 a co-operative company. The opinion was based upon the fact that:

- Throughout that period the principal activities of the Company have been the activities stated in clause 1.3 of the Company's constitution:
 - the manufacture and sale of butter, cheese, dried milk, casein, or any other product derived from milk or milk solids supplied to the Company by its shareholders;
 - the sale to any person of milk or milk solids supplied to the Company by its shareholders;
 - the collection, treatment, and distribution for human consumption of milk or cream supplied to the Company by its shareholders.
- Each of the Company's principal activities are co-operative activities (as defined in section 3 of the Co-operative Companies Act 1996).
- Throughout that period not less than 60 per cent of the voting rights attaching to shares in the Company have been held by transacting shareholders (as defined in section 4 of the Co-operative Companies Act 1996).

Statutory Information CONTINUED
FOR THE YEAR ENDED 31 JULY 2019

REMUNERATION OF DIRECTORS

The total remuneration and value of other benefits received by each Director in the 12-month period from 1 August 2018 to 31 July 2019 are scheduled below:

	BOARD FEES	COMMITTEE CHAIR FEES	TRAVEL ALLOWANCE	DISCRETIONARY POOL	TOTAL REMUNERATION (\$)
Clinton Dines	175,000				175,000
Brent Goldsack (Chair of the Co-operative Relations Committee¹)	175,000	23,064			198,064
Leonie Guiney (Chair of the Safety and Risk Committee¹)	127,897	22,680			150,577
Bruce Hassall (Chair of the Audit and Finance Committee)	175,000	35,000		25,000²	235,000
Simon Israel	175,000		60,000³		235,000
Andrew Macfarlane	175,000				175,000
Peter McBride¹	127,897				127,897
John Monaghan (Chairman of the Board of Directors)	430,000				430,000
John Nicholls¹	107,468				107,468
Nicola Shadbolt¹	72,917				72,917
Donna Smit	175,000				175,000
Scott St John (Chair of the Milk Price Panel)	175,000	35,000			210,000
Ashley Waugh (previous Chair of the Safety and Risk Committee¹)	43,750	13,596			57,346
John Wilson¹	87,500				87,500

1 Indicates a part year.
2 The Appointments and Remuneration Committee and the Chairman of the Board of Directors has approved a payment of \$25,000 to Mr Hassall from the discretionary pool for additional work undertaken in FY19.
3 The Board has approved the payment to Mr Israel of a travel allowance of \$10,000 per meeting to travel to and from New Zealand to attend Board meetings.

SUBSIDIARY COMPANY DIRECTORS

The following companies were subsidiaries of Fonterra as at 31 July 2019. Directors as at that date are listed; those who resigned during the year are denoted with an R. Alternate Directors are denoted with an A.

Canpac International Limited: G A Duncan, P D Wynen	Fonterra Dairy Solutions Limited: G A Duncan, R McNickle	GlobalDairyTrade Holdings Limited: G A Duncan, L J Paravicini (R), C E Rowe
Dairy Industry Superannuation Scheme Trustee Limited: M A Apiata-Wade, B J Kerr, T P McGuinness, D W C Scott, A K Williams, P D Wynen, A J Lawton (R), M F van Zon	Fonterra Equities Limited: G A Duncan, S D T Till	Kotahi GP Limited: R J Spurway, D G Boulton, J C M Fair (R), R G Carlyle, B Mealings
Fonterra (Delegated Compliance Trading Services) Limited: G A Duncan, S D T Till	Fonterra Farming Ventures Limited: G A Duncan, M W Hurrell (R), C E Rowe	Lactanol Limited: C E Rowe, G A Duncan
Fonterra (International) Limited: G A Duncan, C E Rowe	Fonterra Finance Corporation Limited: G A Duncan, S D T Till	MIH Limited: G A Duncan, M W Hurrell (R), R J Allen
Fonterra (Kotahi) Limited: R J Spurway, R G Carlyle	Fonterra Holdings (Americas) Limited: G A Duncan, B Mealings	Milktest GP Limited: P G Brown, M E Leslie (R), R G Townshend, T A Winter, P D S Grave, R A McPhillips (R), R J van Boheemen, G McCullough
Fonterra (Middle East) Limited: G A Duncan, P D Washer	Fonterra Holdings (Brazil) Limited: G A Duncan, B Mealings	MyMilk Limited: M W Hurrell (R), B Mealings (R), M J Bolger (R), K F Shaw, C W Fergusson
Fonterra (New Zealand) Limited: G A Duncan, C E Rowe	Fonterra Holdings (Venezuela) Limited: G A Duncan, B Mealings	New Zealand Dairy Board: G A Duncan, C E Rowe
Fonterra (North Asia) Limited: G A Duncan, S D T Till	Fonterra Ingredients Limited: G A Duncan, L J Paravicini (R), B M Ryan	New Zealand Milk (International) Limited: G A Duncan, L J Paravicini (R), R M Kennerley
Fonterra Brands (New Zealand) Limited: M R Cronin, J C M Fair (R), L J Paravicini (R), B Henshaw	Fonterra Limited: K A Wickham, R J Spurway	New Zealand Milk Brands Limited: G A Duncan, S D T Till
Fonterra Commodities Limited: G A Duncan, B M Turner	Fonterra PGGRC Limited: G A Duncan, M Piper	NZAgbiz Limited: G A Duncan, M W Hurrell (R), R J Allen
	Fonterra TM Limited: G A Duncan, S D T Till	
	Glencol Energy Limited: G A Duncan, P D Wynen	

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

RD1 Limited:
K M Turner (R), R Allen, G A Duncan

SAITL Limited:
M E Leslie (R), T A Winter, G McCullough

Tangshan Dairy Farm (NZ) Limited:
G A Duncan, M R Cronin

Whareroa Co-Generation Limited:
G A Duncan, P D Wynen

Anchor Insurance Pte. Limited [Singapore]:
S S Herbert, B Mealings, G A Duncan, H N Toh (A)

Annum (Malaysia) Sdn. Bhd. [Malaysia]:
F Spinelli (R), V Sivaraja, J Oh, R M Kennerley

Auckland Limited [Barbados]:
M F Maldonado (R), A Turnbull, L Hartmann (R), F Spinelli (R), L J Paravicini (R), G A Duncan

Australasian Food Holdings Pty Limited [Australia]:
G A Duncan, A Maharaj (R), R Dedoncker

Bonland Cheese Trading Pty Ltd [Australia]:
G A Duncan, A Maharaj (R), R Dedoncker

Comercial Dos Alamos S.A. [Chile]:
J C Petersen (R), E Becker, R Waldspurger, M Kunstmann

Comercial Santa Elena S.A. [Chile]:
J Barria, E Aldunate, W E Flen Silva

Dairy Enterprises (Chile) Limitada [Chile]:
R Sepúlveda Seminario, J P Egaña Bertoglia (A), F Spinelli, G A Duncan, R Lavados (A), P L Linhares (A)

Dairy Partners Americas Brasil Limitada [Brazil]:
M J L Barros (R), L P L Rivero (R), F Goncalves, R Gurrero Leal, M Favoretto (R), F Silveira (R), F Spinelli, M G Guerreiro, R de Oliveira Carrelas

Dairy Partners Americas Nordeste-Productos Alimenticios Ltda [Brazil]:
M J L Barros (R), L P L Rivero (R), F Goncalves, D R Gurrero Leal, M Favoretto (R), F Silveira (R), F Spinelli, M G Guerreiro, R de Oliveira Carrelas

Dairymas (Malaysia) Sdn Bhd [Malaysia]:
F Spinelli (R), V Sivaraja, J Oh, R M Kennerley

Darnum Park Pty Ltd [Australia]:
G A Duncan, R Dedoncker, A Maharaj (R)

Falcon Dairy Holdings Limited [Hong Kong]:
J F Ginascol, R O Frey, M P Campbell, M W Hurrell (R), G A Duncan

Fazenda MIH Ltda [Brazil]:
M P Bueno (R), G Nascimento (R), A R V Januaria Oliveira, E B da Costa Junior

Fonterra (Brasil) Ltda [Brazil]:
M P Bueno (R), G Nascimento (R), M J L Barros (R), A R V Januario Oliveira, P C C Freitas Guedes

Fonterra (Canada), Inc. [Canada]:
G A Duncan, B Kipping, B M Ryan, J P Coote

Fonterra (China) Limited [Hong Kong]:
G A Duncan, C Zhu, M Namboodiri (R)

Fonterra (CIS) Limited Liability Company [Russian Federation]:
M Bates (R), E Grishina

Fonterra (Europe) Coöperatie U.A. [Netherlands]:
G A Duncan, H Huistra, M Erol (R)

Fonterra (Europe) GmbH [Germany]:
A Wright (R), G R Sharma

Fonterra (France) SAS [France]:
H Huistra

Fonterra (Ing.) Limited [Mauritius]:
G Lee, B M Ryan

Fonterra (Japan) Limited [Japan]:
K Kumagai, H Ono, Y Saito, B M Ryan, K A Wickham, A Okuyama

Fonterra (Korea) Limited [Korea]:
G A Duncan, Y Saito, J Murney

Fonterra (Logistics) Ltd [United Kingdom]:
G R Sharma, M Erol (R), G A Duncan, H Huistra

Fonterra (Mexico) S.A. de C.V. [Mexico]:
G A Duncan, L Barona Mariscal (A), F R Camacho (A), J P Coote, J A Del Rio, E P G R Gil (A)

Fonterra (SEA) Pte. Ltd. [Singapore]:
H Gowans, A Aggarwal

Fonterra (Thailand) Limited [Thailand]:
K Vunthanadit, A Aggarwal

Fonterra (USA) Inc. [United States]:
G A Duncan, B M Ryan, J P Coote, N R Christiansen

Fonterra (Ying) Dairy Farm Company Limited [China]:
R M Kennerley (R), G A Duncan, H Berghorst, S I Ahmed

Fonterra (Yutian) Dairy Farm Company Limited [China]:
R M Kennerley (R), G A Duncan, H Berghorst, S I Ahmed

Fonterra Australia Pty Ltd [Australia]:
G A Duncan, R Dedoncker, A Maharaj (R)

Fonterra Beijing Farm Management Consulting Company Limited [China]:
R M Kennerley (R), A van der Nagel (R), L O'Neil (R), S I Ahmed, H Berghorst, X Xu

Fonterra Brands (Asia Holdings) Pte. Ltd [Singapore]:
M R Cronin, S I Ahmed, A Dasgupta (R)

Fonterra Brands (Australia) Pty Ltd [Australia]:
G A Duncan, R Dedoncker, A Maharaj (R)

Fonterra Brands (Far East) Limited [Hong Kong]:
G A Duncan, P D Washer

Fonterra Brands (Guangzhou) Ltd [China] (in liquidation):
K A Wickham, T T Lye, P A Turner

Fonterra Brands (Hong Kong) Limited [Hong Kong]:
G A Duncan, P D Washer, J Ho

Fonterra Brands (Malaysia) Sdn Bhd [Malaysia]:
F Spinelli (R), V Sivaraja, J Oh, R M Kennerley

Fonterra Brands (New Young) Pte. Ltd. [Singapore]:
Y Lin, C Lin, J Ling, Y Li, A Dasgupta (R), P D Washer, S I Ahmed

Fonterra Brands (Singapore) Pte. Ltd [Singapore]:
M R Cronin, A Dasgupta (R), S I Ahmed

Fonterra Brands (Thailand) Ltd [Thailand]:
P A Richards, F Spinelli, S Totana, S Pronanut

Fonterra Brands (Viet Nam) Company Limited [Vietnam]:
F Spinelli (R), P Richards, R M Kennerley

Fonterra Brands Indonesia, PT [Indonesia]:
M Namjoshi (R), S S Rapaka, D M Infani, J Chow (R), F Spinelli (R), L J Paravicini (R), J Swales, R M Kennerley, C A Salinas Robeson, G Thiagarajan

Fonterra Brands Lanka (Private) Limited [Sri Lanka]:
J H P Gallage, S Sethi, F Spinelli (R), R M Kennerley

Fonterra Brands Manufacturing Indonesia, PT [Indonesia]:
M A Nasution, T A Siswanto, M Namjoshi (R), S S Rapaka, J Chow (R), F Spinelli (R), L J Paravicini (R), J Swales, R M Kennerley, C A Salinas Robeson

Fonterra Brands Myanmar Co Ltd [Myanmar]:
G A Duncan, P Richards

Fonterra Brands Phils. Inc. [Philippines]:
L T Barin (R), R A Mendoza, M T Boness, F Spinelli (R), L De Velez, R Cook, C Ferrer

Fonterra Chile SpA:
R Sepúlveda Seminario, F Spinelli (R), A Cordner, G A Duncan, J P Egaña Bertoglia (A), R Lavados (A), P L Linhares (A)

Fonterra Commercial Trading (Shanghai) Company Limited [China]:
G A Duncan, R J Allen, J Ruan, C Zhu, P D Washer

Fonterra Egypt Limited [Egypt]:
G A Duncan, A Anwar

Fonterra Europe Manufacturing B.V. [Netherlands]:
C E Rowe (R), D Krabbe, B Mealings

Fonterra Europe Manufacturing Holding B.V. [Netherlands]:
G A Duncan, H Huistra

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

Fonterra Foodservices (USA), Inc. [United States]:
G A Duncan, J P Coote, N R Christiansen

Fonterra Global Business Services Asia Sdn Bhd [Malaysia]:
V Sivaraja, J Oh

Fonterra India Private Limited [India]:
K M Turner, H D Gowans, S G Matthews, A Aggarwal

Fonterra Ingredients Australia Pty Ltd [Australia]:
G A Duncan, A Maharaj (R), R Dedoncker

Fonterra Investments Netherlands Coöperatie U.A. [Netherlands]:
H Huistra, G A Duncan

Fonterra Middle East FZE [United Arab Emirates]:
G A Duncan, A M Fitzsimmons (R), S Penfold

Fonterra MIH Holdings Brasil Ltda [Brazil]:
M P Bueno (R), G Nascimento (R), A R V Januario Oliveira, P C C Frieta Guedes

Fonterra Milk Australia Pty Ltd [Australia]:
G A Duncan, A Maharaj (R), R Dedoncker

Fonterra Tangshan Dairy Farm (HK) Limited [Hong Kong]:
H Berghorst, M W Hurrell (R), G A Duncan

Fonterra Venezuela, S.A. [Venezuela]:
F C Ortega Becea, G A Duncan, M M Perez (R)

Inversiones Dairy Enterprises S.A. [Chile]:
J P Egaña Bertoglia (A), R Sepúlveda Seminario, F Spinelli (R), R Lavados (A), P L Linhares (A), G A Duncan, A Cordner

Key Ingredients, Inc. [United States]:
G A Duncan, B M Ryan, J P Coote, N R Christiansen

Lactaid Holdings Ltd [Barbados]:
M F Maldonado (R), A D Turnbull, L Hartmann (R), F Spinelli, L J Paravicini (R)

REMUNERATION FRAMEWORK

A well-designed remuneration framework helps the Co-operative attract and retain talent, and both motivates and recognises the role our people play in the success of the Co-operative.

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

The amounts we pay to our employees are benchmarked against comparable companies in relevant markets, using information obtained from independent remuneration consultants. Adjustments to packages may occur on a cyclical basis, such as an annual salary review, or on an as-needed basis to recognise additional responsibilities.

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

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

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

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

Further detail on Fonterra's remuneration framework can be found in the Corporate Governance section of the Annual Review.

Lacven Corp [Barbados]:
M F Maldonado (R), A Turnbull, L Hartmann (R), L J Paravicini (R), F Spinelli

Milk Products Holdings (Middle East) EC [Bahrain]:
G A Duncan, F Spinelli, G Amade

Milk Products Holdings (North America) Inc. [United States]:
B M Ryan, J P Coote, N R Christiansen

New Tai Milk Products Co Ltd [Taiwan]:
C Lee (R), G Lee (R), M Lee (R), K Lee, Y Lee, G Lee, B M Ryan, K A Wickham, T Chow

New Zealand Milk (Australasia) Pty Ltd [Australia]:
G A Duncan, A Maharaj (R), R Dedoncker

New Zealand Milk (Barbados) Ltd [Barbados]:
G A Duncan, F Spinelli

New Zealand Milk (LATAM) Ltd [Bermuda]:
G A Duncan, F Spinelli

New Zealand Milk Products (Ethiopia) SC [Ethiopia]:
M Woodward, A B Abubeker, M B Abubeker, F Spinelli, G Amade

Newdale Dairies (Private) Limited [Sri Lanka]:
J H P Gallage, S Sethi, F Spinelli (R), R M Kennerley

NZMP (AEM) Ltd [United Kingdom]:
G R Sharma, M Erol (R), H Huistra, G A Duncan

NZMP Fonterra Nigeria Limited [Nigeria]:
G A Duncan, H Huistra

Pure Source Dairy Farm Company Limited [Hong Kong]:
J F Ginascol, H Berghorst, M W Hurrell (R), D LiYan, G A Duncan

Sociedad Agrícola y Lechera Praderas Australes S.A. ("Pradesur") [Chile]:
J C Petersen (R), E Becker, R Waldspurger, M Kunstmann

Sociedad Procesadora de Leche Del Sur S.A. [Chile]:
E Alcalde Undurraga (A)(R), J Milic Barros, J M Alcalde Undurraga (A)(R), S Oddo Gómez (A), C Perez-Cotapos Subercaseaux (A), T Walker Prieto, R Lavados McKenzie (A), M W Hurrell (R), A Tagle (R), S Diez Arriagada, J C M Fair (R), G Grez Jordan (A), A Montaner (A), C Herrera Barriga (A)(R), R J Spurway, C Alcade U, L M Patron Costas, M P Campbell, G Varela, J Barria Pina

Soprole Inversiones SA [Chile]:
R Sepúlveda Seminario (A), L J Paravicini (R), F Spinelli, P L Linhares (A), R Carneiro (R), H Covarrubias Lalanne, J P Egaña Bertoglia, J P Matus Pickering (A), J C Sanchez (A), J A Parodi (A), J Swales, A D Turnbull

Soprole S.A. [Chile]:
R Sepúlveda Seminario (A), L J Paravicini (R), F Spinelli, P L Linhares (A), R Carneiro (R), H Covarrubias Lalanne, J P Egaña Bertoglia (A), J P Matus Pickering, J C Sanchez (A), J A Parodi (A), J Swales, A D Turnbull

Tangshan Fonterra Dairy Farm Ltd [China]:
G A Duncan, H Berghorst, Q Jiang, M W Hurrell (R), S I Ahmed

Unifood Holding B.V. [The Netherlands]:
H Huistra, M Bates (R), M P Campbell, M Ivanov, A Sirotinin

Unifood LLC [Russian Federation]:
H Huistra, M Bates (R), M P Campbell, M Ivanov, A Sirotinin

United Milk Tasmania Pty Limited [Australia]:
G A Duncan, A Maharaj (R), R Dedoncker

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

EMPLOYEE REMUNERATION

The Group operates in a number of countries where remuneration market levels differ widely. During the year ended 31 July 2019, the number of employees, not being Directors of Fonterra, who received remuneration, incentives, and other benefits (including superannuation and allowances etc) exceeding \$100,000 was as follows:

REMUNERATION RANGE (\$)		NEW ZEALAND HEAD OFFICE ¹		REGIONAL NEW ZEALAND ¹		OFFSHORE ²		CESSATIONS ³		TOTAL
		WAGED	SALARIED	WAGED	SALARIED	WAGED	SALARIED	WAGED	SALARIED	
100,000	110,000	–	70	634	286	50	161	32	41	1,274
110,001	120,000	–	60	302	369	161	134	20	26	1,072
120,001	130,000	–	60	282	405	150	112	5	33	1,047
130,001	140,000	–	46	70	189	82	109	8	28	532
140,001	150,000	–	45	46	110	37	116	8	28	390
150,001	160,000	–	41	26	114	25	73	–	24	303
160,001	170,000	–	42	12	81	15	67	1	20	238
170,001	180,000	–	30	6	58	6	59	–	16	175
180,001	190,000	–	43	5	47	7	49	–	7	158
190,001	200,000	–	32	1	39	4	43	–	11	130
200,001	210,000	–	12	2	33	2	35	1	10	95
210,001	220,000	–	26	–	22	1	40	–	14	103
220,001	230,000	–	26	1	12	–	26	1	9	75
230,001	240,000	–	25	–	13	1	24	–	5	68
240,001	250,000	–	13	–	14	–	21	–	6	54
250,001	260,000	–	17	–	6	–	26	–	11	60
260,001	270,000	–	10	–	7	–	17	1	5	40
270,001	280,000	–	8	–	7	–	14	–	7	36
280,001	290,000	–	15	–	9	–	20	–	4	48
290,001	300,000	–	12	–	8	–	13	1	7	41
300,001	310,000	–	7	–	7	–	13	–	1	28
310,001	320,000	–	11	–	3	–	17	–	2	33
320,001	330,000	–	8	–	4	–	7	–	4	23
330,001	340,000	–	9	–	5	–	15	–	2	31
340,001	350,000	–	2	–	–	–	5	–	2	9
350,001	360,000	–	7	–	2	–	5	–	2	16
360,001	370,000	–	4	–	2	–	8	–	3	17
370,001	380,000	–	3	–	2	–	2	–	2	9
380,001	390,000	–	5	–	–	–	6	–	3	14
390,001	400,000	–	3	–	–	–	9	–	2	14
400,001	410,000	–	4	–	2	–	4	–	1	11
410,001	420,000	–	–	–	1	–	3	–	2	6
420,001	430,000	–	1	–	3	–	4	–	1	9
430,001	440,000	–	2	–	1	–	6	–	2	11
440,001	450,000	–	2	–	1	–	1	–	–	4
450,001	460,000	–	1	–	2	–	6	–	1	10
460,001	470,000	–	1	–	–	–	8	–	1	10
470,001	480,000	–	2	–	–	–	4	–	1	7
480,001	490,000	–	–	–	–	–	2	–	2	4
490,001	500,000	–	3	–	–	–	1	–	2	6
500,001	510,000	–	–	–	2	–	6	–	–	8
510,001	520,000	–	–	–	–	–	6	–	2	8
520,001	530,000	–	–	–	1	–	1	–	4	6
530,001	540,000	–	1	–	3	–	3	–	–	7
540,001	550,000	–	3	–	–	–	3	–	–	6
550,001	560,000	–	–	–	–	–	1	–	–	1
560,001	570,000	–	1	–	–	–	3	–	–	4
570,001	580,000	–	1	–	–	–	1	–	–	2

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

REMUNERATION RANGE (\$)		NEW ZEALAND HEAD OFFICE ¹		REGIONAL NEW ZEALAND ¹		OFFSHORE ²		CESSATIONS ³		TOTAL
		WAGED	SALARIED	WAGED	SALARIED	WAGED	SALARIED	WAGED	SALARIED	
580,001	590,000	–	1	–	–	–	–	–	1	2
590,001	600,000	–	–	–	–	–	3	–	1	4
600,001	610,000	–	–	–	–	–	1	–	1	2
610,001	620,000	–	1	–	–	–	1	–	1	3
620,001	630,000	–	–	–	–	–	4	–	–	4
630,001	640,000	–	–	–	–	–	3	–	–	3
640,001	650,000	–	1	–	–	–	–	–	1	2
660,001	670,000	–	–	–	–	–	1	–	–	1
680,001	690,000	–	–	–	–	–	1	–	–	1
690,001	700,000	–	–	–	–	–	1	–	–	1
710,001	720,000	–	–	–	–	–	1	–	–	1
720,001	730,000	–	1	–	–	–	–	–	1	2
730,001	740,000	–	–	–	–	–	1	–	–	1
740,001	750,000	–	–	–	–	–	2	–	–	2
750,001	760,000	–	1	–	–	–	–	–	–	1
770,001	780,000	–	1	–	–	–	1	–	2	4
780,001	790,000	–	1	–	–	–	2	–	–	3
790,001	800,000	–	–	–	–	–	2	–	–	2
800,001	810,000	–	1	–	–	–	1	–	1	3
810,001	820,000	–	–	–	1	–	1	–	–	2
830,001	840,000	–	1	–	–	–	–	–	–	1
850,001	860,000	–	–	–	–	–	1	–	–	1
880,001	890,000	–	1	–	–	–	–	–	1	2
890,001	900,000	–	–	–	–	–	1	–	–	1
910,001	920,000	–	–	–	–	–	1	–	–	1
940,001	950,000	–	–	–	–	–	1	–	1	2
950,001	960,000	–	–	–	–	–	–	–	1	1
1,050,001	1,060,000	–	–	–	–	–	2	–	–	2
1,110,001	1,120,000	–	1	–	–	–	–	–	–	1
1,160,001	1,170,000	–	1	–	–	–	–	–	–	1
1,180,001	1,190,000	–	–	–	–	–	1	–	–	1
1,320,001	1,330,000	–	–	–	–	–	1	–	–	1
1,370,001	1,380,000	–	–	–	–	–	1	–	–	1
1,420,001	1,430,000	–	–	–	1	–	1	–	–	2
1,470,001	1,480,000	–	–	–	–	–	1	–	–	1
1,770,001	1,780,000	–	1	–	–	–	–	–	–	1
1,890,001	1,900,000	–	1	–	–	–	–	–	–	1
1,950,001	1,960,000	–	–	–	–	–	1	–	–	1
2,260,001	2,270,000	–	1	–	–	–	–	–	–	1
2,880,001	2,890,000	–	–	–	–	–	–	–	1	1
4,670,001	4,680,000	–	–	–	–	–	–	–	1	1
Totals		–	729	1,387	1,872	541	1,347	78	368	6,322

1 Includes employees employed in New Zealand during the reporting period.

2 Includes employees employed in an offshore operation during the reporting period. Amounts paid in foreign currency have been converted at the average conversion rate for the period. As Fonterra has a significant offshore population, the number of offshore employees exceeding the fixed figure of \$100,000 increases if the New Zealand dollar currency weakens significantly. Should the New Zealand dollar strengthen against those markets' currencies, these same individuals may not be reported in future lists.

3 Cessations include employees that have been terminated or retired during the period. The amounts paid to former employees include salary and bonuses for the current period, prior period bonuses that have been paid in the current period (which were accrued at 31 July 2018) and termination entitlements including those arising from employment arrangements entered into by legacy companies prior to the formation of Fonterra.

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

Within New Zealand, employees, who received remuneration, incentives, and other benefits (including superannuation and allowances etc) exceeding \$100,000 were based throughout the country as follows:

	TOTAL
Auckland	1,039
Bay of Plenty	120
Canterbury	409
Manawatu – Wanganui	262
Northland	138
Southland	181
Taranaki	435
Waikato	1,337
Rest of New Zealand	67
New Zealand total	3,988

In addition to being a significant employer in New Zealand, we also have employees in markets around the world. Those who received remuneration, incentives, and other benefits (including superannuation and allowances etc) exceeding \$100,000 were based in markets around the world as follows:

	TOTAL
Australia	1,010
China	220
Europe	106
Latin America	127
New Zealand	3,988
Rest of Asia	269
Rest of World	79
United States	77
Cessations	446
Global total	6,322

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

CURRENT CREDIT RATING STATUS

Standard & Poor’s long-term rating for Fonterra is A- with a rating outlook of stable. Fitch’s long- and short-term default rating is A with a rating outlook of negative. Retail Bonds have been rated the same as the Company’s long-term rating by both Standard & Poor’s and Fitch. Capital Notes which are subordinate to other Fonterra debt issued are rated BBB+ by Standard & Poor’s and A- by Fitch.

EXCHANGE RULINGS AND WAIVERS

NZX Limited (NZX) has ruled that Capital Notes do not constitute ‘equity securities’ under the NZX Main Board/Debt Market Listing Rules (Listing Rules). This means that where Capital Notes are quoted on NZX’s Debt Market, Fonterra Co-operative Group Limited (Fonterra) is not required to comply with certain Listing Rules which apply to an issuer of quoted equity securities.

Fonterra was issued with a ruling in respect of Rule 1.7.1(d) of the Fonterra Shareholders’ Market Rules (FSM Rules) on 27 June 2017 by NZX Regulation (NZXR). The effect of this ruling was to not preclude the appointment of Mr Bruce Hassall to the position of an independent director of Fonterra by virtue of a child of Mr Hassall being employed in a non-decision making and non-senior role at Fonterra.

Fonterra was issued with a ruling in respect of FSM Rule 5.1.2(c) on 22 November 2016 by NZXR. The effect of this ruling is that Fonterra’s internal governance resolutions are considered to be matters that do not require the NZXR to approve a notice of meeting under FSM Rule 5.1.1.

Fonterra was issued with a waiver of Listing Rule 5.2.3 on 5 November 2018 by NZXR for a period of six months from 15 November 2018. This was in respect of fixed rate bonds (FCG050s) quoted on the NZX Debt Market and was to the extent that this Listing Rule would otherwise require the FCG050s to be held by at least 100 Members of the Public holding at least 25 per cent of the FCG050s on issue.

NZX TRADING HALTS

On 9 August 2018 NZX Regulation (NZXR), at the request of Fonterra Co-operative Group Limited (Fonterra) and Fonterra Shareholders’ Fund (FSF), placed a trading halt on Fonterra and its debt securities (FCG030, FCG040, & FCGHA), and FSF. Fonterra was preparing its annual financial statements for the financial year ended 31 July 2018 and as a result there was potential for a variation from the earnings guidance previously given by Fonterra to the market. The trading halt had been requested to allow Fonterra to determine this and to make any required announcement to the market. On 10 August 2018 Fonterra shared a revision to its forecast 2017/18 Farmgate Milk Price and updated its normalised earnings per share and dividend guidance. The trading halt was lifted on 10 August 2018 following this announcement.

STOCK EXCHANGE LISTINGS

Fonterra’s Co-operative shares are listed and quoted on the Fonterra Shareholders’ Market (operated by NZX Limited for Fonterra) under the code ‘FCG’. Fonterra has three issues of retail bonds listed and quoted on the NZDX under the codes ‘FCG030’, ‘FCG040’, and ‘FCG050’. Fonterra also has an issue of capital notes listed and quoted on NZDX under the code ‘FCGHA’ and a Euro Medium Term Note Programme listed on the Singapore Stock Exchange.

As at 31 July 2019 there were 1,611,991,722 Fonterra Co-operative shares on issue.

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

ANALYSIS OF SHAREHOLDING

Analysis of Fonterra's shareholding as at 31 July 2019:
FCG Largest Recorded Share Holdings¹

NAME	NUMBER OF SHARES	% OF SHARES
Fonterra Farmer Custodian Limited	102,934,582	6.38
Waitonui Mill Trust Agri Holdings Farm Management Limited	1,169,620	0.07
Singletree Dairies 2013 Limited	1,042,776	0.06
Theland Tahi Farm Group Limited – Pineview	1,039,603	0.06
Ellis-Lea Farms (2000) Limited	1,000,194	0.06
Silverdale Farm Limited	973,679	0.06
Stewart Partnership Limited	922,500	0.05
Arlanda Limited	891,413	0.05
Coringa Park Dairies Limited	890,722	0.05
Theland Tahi Farm Group Limited – Pureora North	878,786	0.05
Moffitt Dairy Limited	873,433	0.05
McBain Farms Limited	867,790	0.05
Poplar Partnership Limited	864,982	0.05
R.E.M Farming Limited	863,797	0.05
Southern Pastures (Manako Farm) Limited Partnership	840,055	0.05
Cookstin Dairies Limited	839,600	0.05
Waitonui Milltrust AG Holdings Farm Management LP	832,795	0.05
Van'T Klooster Farms Limited – Waihao Valley Farm	817,500	0.05
Auchenbrae Farm Limited	802,888	0.04
Cashmore Investments Limited	794,315	0.04

¹ The FSM Rules, which reflect the rules of the NZX Main Board, require that Fonterra's annual report contain the names and holdings of persons having the 20 largest holdings of Fonterra shares on the register of Fonterra as at a date not earlier than two months before the date of the publication of the annual report. The list above complies with the FSM Rules and sets out the list of the 20 largest shareholders on the register as at the appropriate date. There is a separate requirement in the FSM Rules to disclose in the annual report those persons who have a 'Relevant Interest' (as defined in the Financial Markets Conduct Act 2013) in Fonterra shares in excess of five per cent, where this information has been provided to Fonterra. Accordingly, the list of the 20 largest holdings of Fonterra shares is not required to show, and does not purport to show, the top 20 holdings of 'Relevant Interests' in Fonterra shares which may be owned or controlled by a person or entity and their associated entities. Other people or entities may have 'Relevant Interests' in a greater number of Fonterra shares than those listed above. However, it is not possible for Fonterra to accurately determine those interests, nor is it a requirement of the FSM Rules for those interests to be reported in the annual report, except where Fonterra has been advised that a person has a 'Relevant Interest' in excess of the five per cent threshold.

Substantial Product Holders

According to notices given to the Company under the Financial Markets Conduct Act 2013, as at 31 July 2019, the substantial product holders in the Company and their relevant interests are noted below. The total number of Co-operative shares on issue as at 31 July 2019 was 1,611,991,722.

SUBSTANTIAL PRODUCT HOLDERS	NUMBER OF VOTING SECURITIES	DATE OF MOST RECENT NOTICE
Fonterra Farmer Custodian Limited	111,816,183	30 July 2018
FSF Management Company Limited	111,735,183	30 July 2018

More than one 'Relevant Interest' can exist in the same voting financial products. Fonterra Farmer Custodian Limited holds Fonterra shares for the Fonterra Shareholders' Fund, of which FSF Management Company Limited is the manager. These two notices therefore refer to substantially the same Fonterra shares. The Custodian also holds some Fonterra shares for the Registered Volume Provider in respect of the Fonterra Shareholders' Fund.

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

FCG Fonterra Co-operative Shares

Analysis of Fonterra Co-operative Shares as at 31 July 2019:

FROM – TO	HOLDER COUNT	%	HOLDING QUANTITY	%
1–50,000	1,175	12.14	33,397,036	2.07
50,001–100,000	2,573	26.59	197,147,527	12.23
100,001–200,000	3,425	35.40	483,339,445	29.98
200,001–400,000	2,031	20.99	551,667,067	34.23
400,001 and over	472	4.88	346,440,647	21.49

ANALYSIS OF CAPITAL NOTE AND RETAIL BOND HOLDING

Analysis of Fonterra's Capital Note Holding as at 6 August 2019:

FCGHA Capital Notes

FROM – TO	HOLDER COUNT	%	HOLDING QUANTITY	%
1–1,000	9	1.32	3,974	0.00
1,001–5,000	25	3.67	66,584	0.07
5,001–10,000	231	33.87	1,645,920	1.61
10,001–100,000	386	56.59	11,148,144	10.87
100,001 and over	31	4.55	89,654,632	87.45

100,001 and over includes Fonterra Co-operative Group Limited's holding of 67,435,575.

Analysis of Fonterra's Retail Bond Holding as at 6 August 2019:

FCG030 \$350 million Retail Bond issue

FROM – TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000–9,999	36	6.23	217,000	0.06
10,000–49,999	267	46.19	5,959,000	1.70
50,000–99,999	69	11.94	4,241,000	1.21
100,000–999,999	167	28.89	56,089,000	16.03
1,000,000 and over	39	6.75	283,494,000	81.00

FCG040 \$150 million Retail Bond issue

FROM – TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000–9,999	60	9.84	347,000	0.23
10,000–49,999	377	61.79	7,907,000	5.27
50,000–99,999	76	12.46	4,610,000	3.07
100,000–999,999	75	12.30	15,525,000	10.35
1,000,000 and over	22	3.61	121,611,000	81.08

FCG050 \$100 million Retail Bond issue

FROM – TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000–9,999	7	4.49	48,000	0.05
10,000–49,999	95	60.89	2,282,000	2.28
50,000–99,999	19	12.18	1,149,000	1.15
100,000–999,999	20	12.82	5,826,000	5.83
1,000,000 and over	15	9.62	90,695,000	90.69

Statutory Information CONTINUED
FOR THE YEAR ENDED 31 JULY 2019

ENTRIES IN THE INTERESTS REGISTER

Directors' interests in transactions

General disclosures of interest

The following general disclosures of interest were made in the period from 1 August 2018 to 31 July 2019:

Clinton Dines	Chairman of Sky Renewables Pty Limited. Ceased to be a non-executive Director of North Queensland Airports.
Brent Goldsack	Chair of Waitomo Petroleum Limited and associated companies. Ceased to be a Director of New Zealand Fieldays Society. Ceased to be a shareholder of Longfields Investments Limited and Goldcar Dairy Holdings Limited. Ceased to be General Manager of Kiwitahi Pastoral Limited and One Bird Partnership.
Leonie Guiney	Director and Shareholder of Shamrock Fern Dairies Limited, Hillcrest Dairy Limited, Wimborne Dairy Farm Limited, Greenburn Dairy Farm Limited and Bobby Square Limited. Shareholder of Foxburn Limited.
Bruce Hassall	Chair of Fletcher Building Limited and Fletcher Building Industries Limited. Ceased to be a member of the Auckland Business School Advisory Board.
Andrew Macfarlane	Ceased to be a Director of Macfarlane Rural Business Limited and Ngai Tahu Farming Limited.
Peter McBride	Director and Shareholder of Crocodile Farms Limited. Managing Director of South East Hort Limited and subsidiaries and Ellett Beach Farms Joint Venture. Chief Executive Officer of Trinity Lands Limited. Ceased to be Chairman of Zespri Group Limited. Ceased to be a Director of Zespri International Limited and subsidiaries, Zespri Innovation Co Limited and The New Zealand International Business Forum. Ceased to be a member of the Executive Board of the New Zealand China Council.
John Monaghan	Director of Waitonui Milltrust Agricultural Holdings General Partner Limited, WMAH Farm Management General Partner Limited and Waitohi General Partner Limited. Member of the Executive Board of the New Zealand China Counsel.
John Nicholls	Chair of MHV Water Limited and Quigley Contracting (Advisory Board). Director and Shareholder of Rylib Group Limited. Director of Fairmont Farm Limited, Delarbe Farm Limited, Ma Taua Dairies Limited, Kairoa Dairies Limited, Mahanga Dairies Limited, Akitu Dairies Limited, MC Waters Limited and FEP Dashboard Limited. Trustee and Beneficiary of Rylib Trust and Jeeves Trust. Trustee on G&K Duckett Trust. Shareholder of D & D Dairies Limited (as a Trustee of G&K Duckett Trust).
Donna Smit	Director and Shareholder of Fonterra Farmer Custodian Limited. Director of FSF Management Company Limited and East Pack Limited. Ceased to be a Director of Balance Agri-Nutrients Limited.
Scott St John	Ceased to be a Director of FSF Management Company Limited and First NZ Capital Limited.

During the financial year there were no notices from Directors requesting to disclose or use information received in their capacity as Directors which would not otherwise have been available to them.

Statutory Information CONTINUED
FOR THE YEAR ENDED 31 JULY 2019

Securities dealings of Directors

The following entries were made in the Interests Register during the year.

New disclosures

Directors disclosed the following holdings of Co-operative shares during the year:

	RELEVANT INTERESTS IN CO-OPERATIVE SHARES
Leonie Guiney (on appointment 8 November 2018)	878,824
Peter McBride (on appointment 8 November 2018)	5,504,288
John Nicholls (on appointment 20 December 2018)	2,148,864

During the year, Directors disclosed in respect of section 148(2) of the Companies Act 1993 and/or section 297 of the Financial Markets Conduct Act 2013 that they (or their associated persons) acquired or disposed of a relevant interest in financial products as follows:

Co-operative share transactions

DIRECTOR	NUMBER OF SECURITIES ACQUIRED	NUMBER OF SECURITIES DISPOSED	CONSIDERATION \$	DATE
Brent Goldsack	–	280,029 ¹	–	8 November 2018
Brent Goldsack	146,334 ¹	–	–	8 November 2018
Brent Goldsack	1,100	–	–	21 November 2018

¹ Share transactions occurred through the disposal and acquisition of a relevant interest and not via trading on the market.

Unit transactions

DIRECTOR	NUMBER OF SECURITIES ACQUIRED	NUMBER OF SECURITIES DISPOSED	CONSIDERATION \$	DATE
Andrew Macfarlane	10,000	–	57,400	20 April 2018
Donna Smit	561 ¹	–	2,713	15 November 2018

¹ Acquired as part of the Contract Fees for Units agreement.

Retail Bond transactions

There were no transactions by Directors (or their associated persons) in Retail Bonds reported during the period from 1 August 2018 to 31 July 2019. No current holdings of Retail Bonds have been advised by Directors (or their associated persons).

Capital Note transactions

There were no transactions by Directors (or their associated persons) in Capital Notes reported during the period from 1 August 2018 to 31 July 2019. No current holdings of Capital Notes have been advised by Directors (or their associated persons).

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

Directors' remuneration

The Directors' Remuneration Committee, comprising six shareholders elected in accordance with the Constitution, makes recommendations for shareholder approval as to the level of Directors' fees.

At the Annual Meeting of shareholders held on 8 November 2018, shareholders approved, on the recommendation of the Directors' Remuneration Committee, the following amounts of remuneration to apply to Elected Directors from the date of that Annual Meeting of shareholders.

Chairman	\$430,000 p.a.
Directors	\$175,000 p.a.
Discretionary additional payments to the Chair of permanent Board Committees (except if the Chair is the Fonterra Chairman)	\$35,000 p.a.

The Board has approved payment of the discretionary additional payment, at the prevailing approved rate, to the Chair of permanent Board Committees. The Board has discretion to set the fees for Directors appointed under clause 12.4 of the Constitution (Appointed Directors). In the period to 31 July 2019 the Board applied the same remuneration levels as above to the Appointed Directors.

The Board has approved the payment to Mr Israel of a travel allowance of \$10,000 per meeting for travel to and from New Zealand to attend Board meetings.

The Appointments and Remuneration Committee and the Chairman of the Board of Directors has the discretion to allocate a discretionary pool of up to \$75,000 per annum for fees for Directors remuneration for additional duties, workload and responsibilities (in each case not to exceed \$25,000 per annum per Director).

Fees paid by subsidiary or associate companies in respect of Fonterra Directors or employees appointed by Fonterra as Directors of those companies are payable directly to Fonterra.

Directors' indemnity and insurance

Fonterra has given indemnities to, and has effected insurance for, Directors and executives of the Company and its related companies, in accordance with section 162 of the Companies Act 1993, and clause 35 of Fonterra's Constitution, which, except for specific matters that are expressly excluded, indemnify and insure Directors and executives against monetary losses as a result of actions undertaken by them in the course of their duties. Among the matters specifically excluded are penalties and fines that may be imposed for breaches of law.