FONTERRA
ANNUAL REPORT
2018

Opening up
Moving forward

Kia mārama
Kia haere ngātahi

Dairy for life

THE YEAR AT
A GLANCE 2018

NZ Milk Collection
for the 2017/18 season

1,505 million kgMS

Farmgate Milk Price

$6.69 per kgMS

Normalised EBIT

$902 million

Return on Capital[1]
6.3%

Normalised Earnings Per Share
24 cents

Free Cash Flow

$600 million

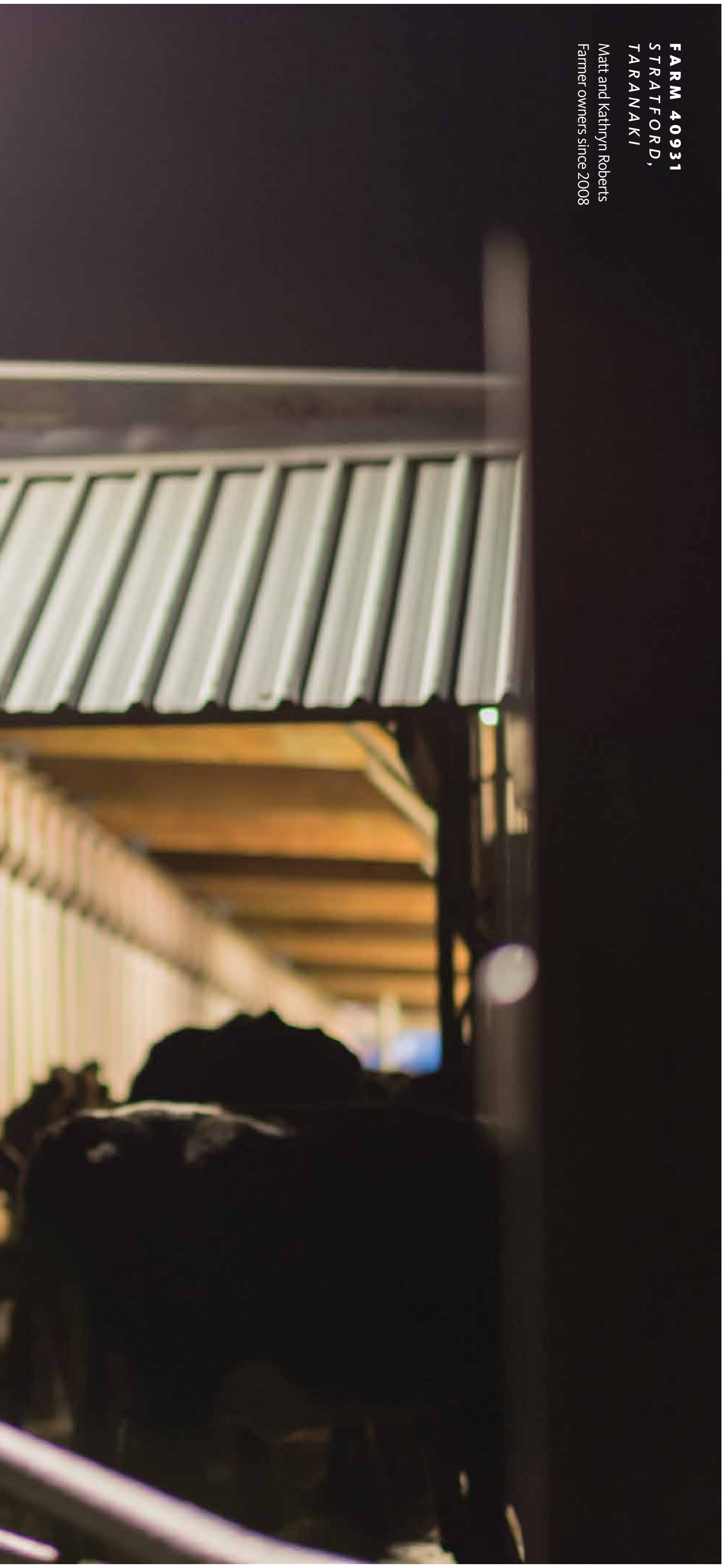
1 Includes Intangibles and Equity Accounted Investments

CONTENTS

Fonterra uses several non-GAAP measures when discussing financial performance. These measures include normalised segment earnings, normalised EBIT, EBIT, normalisation adjustments and payout. These are non-GAAP financial measures and are not defined by NZ IFRS. Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They are used internally to evaluate the underlying performance of business units and to analyse trends. These measures are not uniformly defined or utilised by all companies. Accordingly, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS. These non-GAAP measures are not subject to audit unless they are included in Fonterra's annual financial statements.

Please refer to page 106 for the reconciliation of the NZ IFRS measures to the non-GAAP measures and page 107 for definitions of the non-GAAP measures used by Fonterra.


4:31am



FARM 40931
STRATFORD, TARANAKI
Matt and Kathryn Roberts
Farmer owners since 2008

Our home is New Zealand, where we've been dairy farming for almost 150 years. Our location makes us unique. We're the first country to see the sunrise every morning and we're one of the best places to produce dairy in the world.

Our grass fed farming model puts New Zealand dairy in high demand around the world. This year, our 10,000 farming families produced 1,505 million kilograms of milk solids (kgMS).

PRODUCTION

1,505m kgMS

6:40 am

FARM 34410
SOUTHERN SOUTHLAND
Scott McKenzie, Greenbush Farm
Farmer owners since July 2008

HELPING THE COMMUNITY

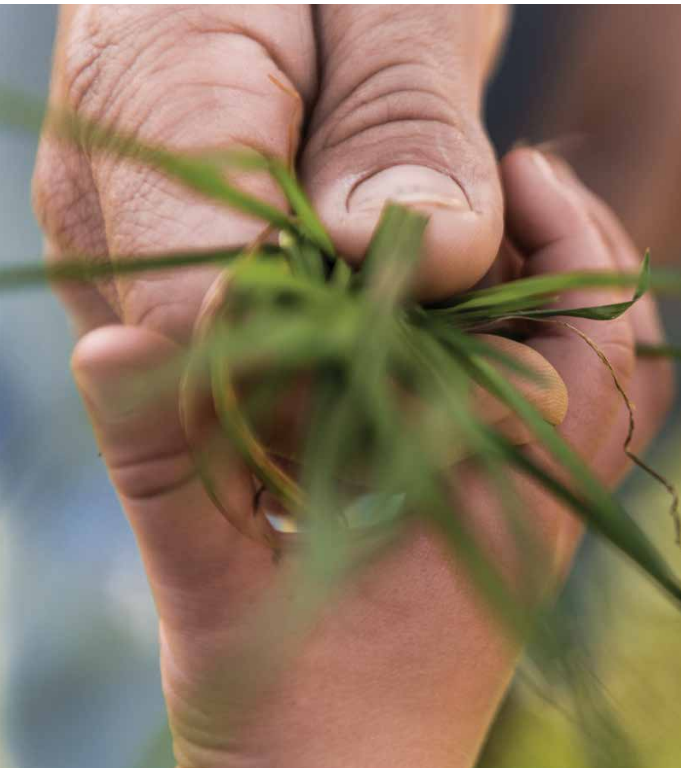
46cents

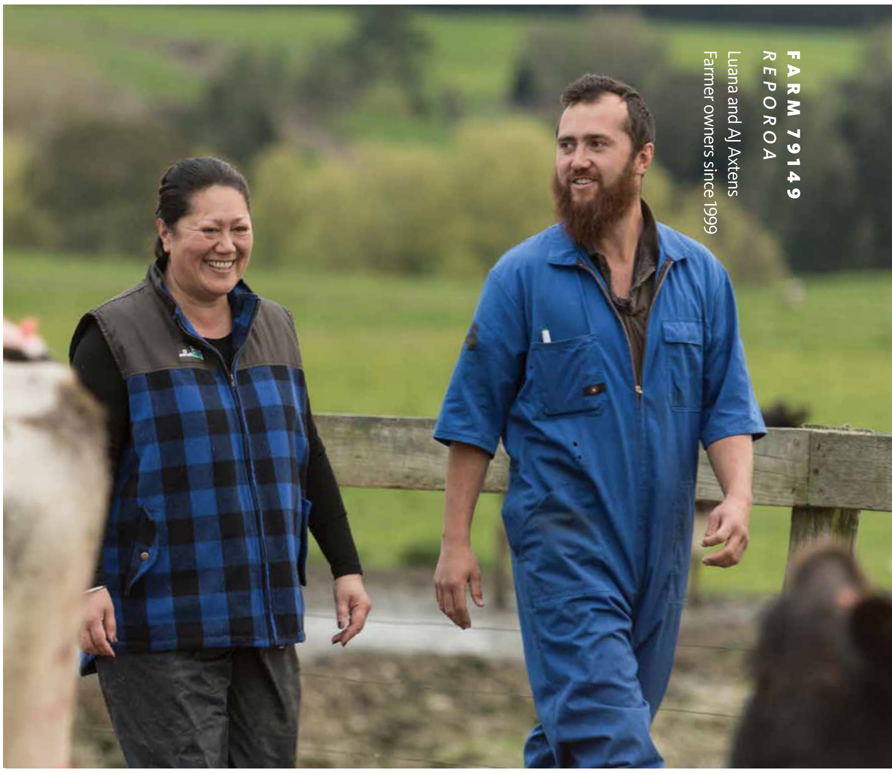
About half of every dollar a farmer earns is spent in their local community.

FARMGATE MILK PRICE

$6.69 per kgMS

Our farmers' hard work makes a significant contribution to regional New Zealand and to the national economy. This year, our farmers earned $6.69 for every kilogram of milk solids they produced.



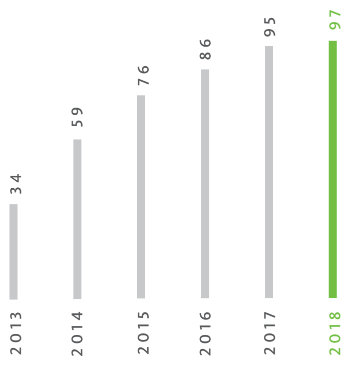


FARM 79149
REPOROA
Luana and AJ Axtens
Farmer owners since 1999

FARM 71284
PUKEKOHE
Steve and Catherine Liefting, farmer owners since 2012, their son Drew is pictured here

10:30am

% OF FONTERRA FARMERS WHO REPORT ON NITROGEN



Our country's environment is precious and a big part of our national identity. Along with our farmers, Fonterra wants to leave things better than we found them for generations to come.

That's why we've signed a pledge, committing to make New Zealand rivers swimmable for our children and grandchildren. It's also why we have a pathway mapped out with the New Zealand Government to achieve net zero emissions across our manufacturing sites by 2050 and climate neutral growth for on-farm emissions in New Zealand by 2030 from a 2015 baseline.

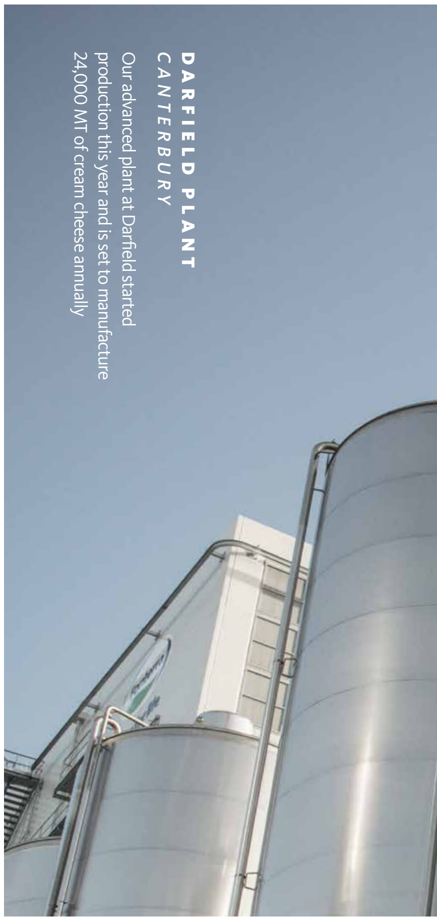
LIVING WATER
TARANAKI

Nowell's Lakes in Taranaki are a significant wetland on one of our Whareroa farms and are managed as a joint Fonterra/Community project

FARM 47870
PATOKA, HAWKES BAY

Nick Dawson
Farmer owner since 2004

We add the most value possible to our farmers' milk. Since the 2016 financial year, we've invested in eight new, resource-efficient plants and lines that have increased our ability to process more volumes of milk into consumer and foodservice products.



DARFIELD PLANT
CANTERBURY
Our advanced plant at Darfield started production this year and is set to manufacture 24,000 MT of cream cheese annually

COMMISSIONED / DUE TO BE COMMISSIONED

FY16
New sliced cheese at Eltham

FY17
New UHT line at Waitoa

FY18
New cream cheese and mini dish butter at Te Rapa
Two new UHT lines at Waitoa

FY19
New cream cheese plant at Darfield
Third mozzarella line at Clandeboye
New butter line commissioned at Edgecumbe to meet global demand

1:45pm

WAITOA UHT PLANT
WAIKATO
Waitoa UHT can pack 14 containers per day which are shipped to China, Taiwan and the Philippines

We provide great nutrition through well-known brands like Anchor™ and Mainland.™ At Fonterra we really do believe that dairy makes a difference to people's lives.

FONTERRA MILK FOR SCHOOLS

70%

Our Fonterra Milk for Schools programme operates in more than 70% of all New Zealand primary schools.

3:30pm

TAUWHARE SCHOOL
HAMILTON
Richie McCaw helping with recycling Fonterra Milk for Schools packs

MILK EXPORTS

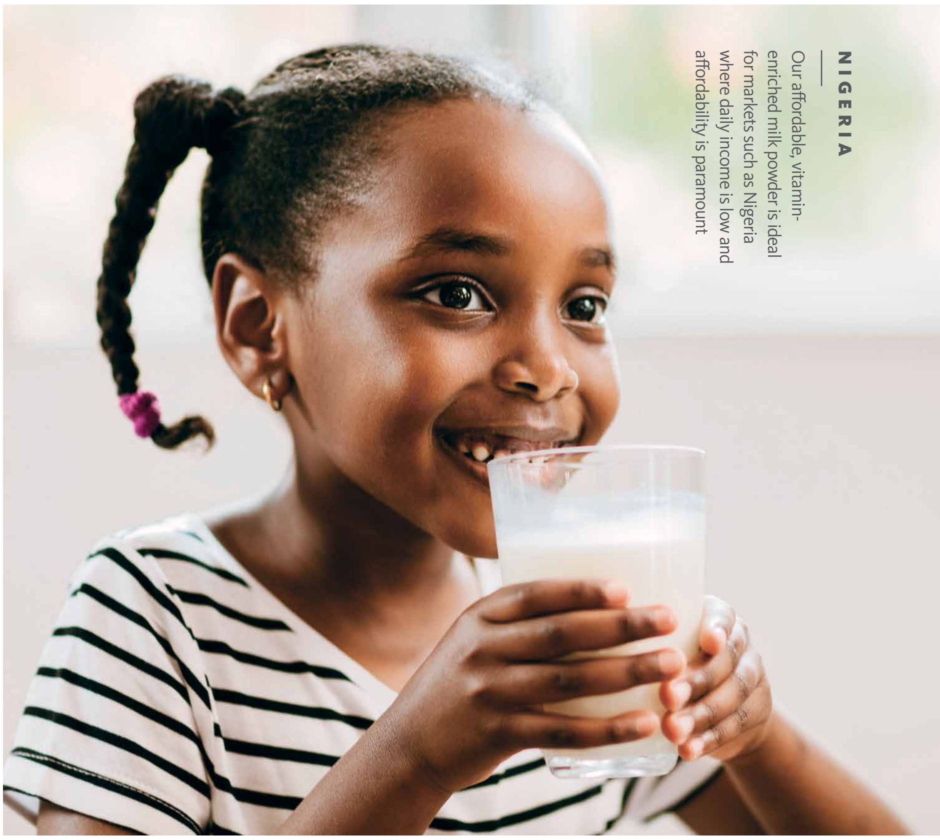
About 95% of our farmers' milk is exported from New Zealand. It's used by customers and consumers in so many ways.

By taking New Zealand milk to the world our farmers are helping contribute about $8 billion back into the New Zealand economy every year.

7:30pm

SHANGHAI

Our Anchor™ UHT milk is a popular everyday nutritional drink in China



NIGERIA

Our affordable, vitamin-enriched milk powder is ideal for markets such as Nigeria where daily income is low and affordability is paramount

Meeting our commitments

John Monaghan
Chairman

There's a saying in sport that you're only as good as your last game. This year's result tells us we have plenty to work on to make the grade.

We haven't met all of the commitments we've made to our farmers and unit holders this year. It's not the first time, but we're determined to make sure it is the last.

Before we talk about the future, let's look at the commitments we have met.

The $6.79 total payout is the third highest in the last decade. It represents more than $10 billion paid to our farmers and a much-needed cash injection into our rural communities.

Our Consumer business in China broke-even for the first time, two years ahead of expectation.

This year, 45% of our farmers' milk went into higher-value products, such as medical nutrition products, cooking creams and flavoured milk with 40% less added sugar.

With the support of our Co-op's Sustainable Dairying Advisors, 1,011 farms now have a Farm Environment Plan to help improve environmental outcomes.

Our Global Operations business has committed to net zero emissions across our manufacturing sites by 2050 to help New Zealand meet its climate change commitments.

More than 140,000 primary school children received free milk through our Milk for Schools programme every school day this year.

We can be proud of those achievements, while acknowledging that we didn't get everything right.

The previously reported $232 million in payments related to our arbitration with Danone, following the 2013 WPC80 precautionary recall, took 10 cents off our earnings guidance.

Beingmate's unacceptable performance over the year has been frustrating.

The value of our Beingmate investment is now $204 million. Beingmate has recently appointed a new, independent General Manager and announced a modest net profit at its half year financial result. We know our farmers and unitholders expect a return on capital on every investment and we continue to work closely with the team in China to get the best possible result for the Co-op.

Our farmers rely on accurate forecasting when planning within their own businesses. Our decision to update our earnings guidance and reduce our 2017/18 forecast Farmgate Milk Price late in the year was frustrating but necessary to protect the balance sheet.

In hindsight, our second half year earnings forecast was too bullish. We had just completed one of our best single quarter performances and your Board and senior management pushed the business to repeat that effort in the last two quarters. We simply didn't deliver across almost every part of the business.

Better accuracy in our earnings forecasts is an obvious priority for us in 2019.

Leadership changes

In March, we announced that CEO Theo Spierings would leave the Co-op. It's a conversation that the Board had been having with Theo for a few months and we agreed that after seven years it was the right time for Theo to move on.

Theo leaves us as a friend of Fonterra. Under his leadership we have a built a China business with an annual revenue of $4 billion, our Foodservice business - which was in its infancy when Theo took over - is now in total a $2 billion a year operation, and we have new partnerships with the world's biggest online sellers, including Alibaba.

John Wilson's decision to stand down as Chairman after a health scare and to retire from the Board in November was unexpected, but ultimately the right decision for John, Belinda and their family.

John has made an important contribution to the New Zealand dairy industry over more than 20 years. He's worked tirelessly on behalf of his fellow farmers within the Co-op and defended our corner on regular trade missions and policy discussions across the fields of science, innovation, and environmental sustainability.

Looking ahead to FY19

These changes in leadership have given us cause to take stock of where we are as a Co-op. At its core, our business is in good heart. But we can always do better and it's time for a refresh in a number of areas.

We are taking a close look at the Co-op's current portfolio and direction to see where change is needed to do things faster, reduce costs, and deliver higher returns on our capital investments.

This includes an assessment of all of the Co-op's investments, major assets and partnerships against our strategy and target return on capital. An investment we are currently looking at all options on is Beingmate in China.

We have reduced the number of Board working groups to focus our effort on guiding, challenging and mentoring the senior management team. They in turn will be taking more accountability for the day-to-day delivery of performance.

Our $6.75 per kgMS forecast Farmgate Milk Price for the 2018/19 season is the third consecutive year of strong milk prices. That's good for farmers and for rural economies where farmers spend 46 cents of every dollar they earn. For our business, it means another year of higher input costs and that is reflected in our FY19 earnings guidance of 25 – 35 cents.

We will continue to focus on our strategy of moving more milk into higher value products. You can also expect to see strict discipline around cost control and more respect for our farmers' and unitholders' invested capital.

Our Co-op has a proud history. It's built off the back of the hard graft and quality milk of the farming families that own it, and by the team of people that turns up to work each day to do its best by those families, maximising the value of their milk.

Your Board and Management know that we need to do a better job at holding up our end.

That's our priority.

John Monaghan

This year's key results

Total cash payout for 2017/18 season

$6.79 per kgMS

New Zealand milk collection for 2017/18 season

1,505 million kgMS

$43m
Fonterra Farm Source™ rewards and benefits

1,011
Farms have Environment Plans

45%

Value-added products

45% of our farmers' milk went into value-added products this year.

Improving our performance

Miles Hurrell
Chief Executive Officer

I'm going to get straight to the point, we have not delivered on the commitments we made to farmers and unitholders in the 2018 financial year (FY18). The headline financial numbers speak for themselves.

There's no two ways about it, these results are disappointing and they simply don't meet the promise we made. I would like to briefly answer three questions to help explain what went wrong, highlight where things are going well and, most importantly, step through what we will be doing differently in FY19.

Where did we get it wrong?

We entered the second half of this year expecting our performance to be weighted to the second half. The reality is, for this to have happened we needed to deliver an outstanding third and fourth quarter after what had been an extremely strong second quarter for sales and earnings. Unfortunately, this didn't eventuate.

Forecasting is never easy, but ours wasn't on the mark and proved to be optimistic. Butter prices didn't come down as we anticipated, which impacted our sales volumes and margins. The increase in the forecast Farmgate Milk Price late in the season, while good for farmers, put pressure on our margins. And our operating costs went up because of higher costs in our Ingredients business, including some one-offs. We also had additional costs for new category growth and higher costs in Australia as we expanded our business. In addition, we had higher IT and R&D expenditure to support future development. While we had planned for these costs to be up in FY18, we had also planned for our earnings to be higher.

All of this happened in a year which was already challenging because of the $232 million payment to Danone and the $439 million write down of our investment in Beingmate.

If we hadn't had these one-off events our performance would still have been down on last year but not by as much. It's for this reason we look at our normalised EBIT of $902 million – it gives us a more meaningful comparison of our operating performance to compare one year to another.

Where did we get it right?

When we look at our normalised EBIT and the underlying performance of our business we can see progress has been made in putting more of our farmers' milk into higher value products. Not as much as we wanted but still definite progress.

Sales volumes were down 3% in FY18 but what is promising is that a larger proportion was sold in Consumer, Foodservice and Advanced Ingredients – our value-add businesses where we get higher gross margins. In fact, 45% of the milk we sold was through these businesses and this is up from 42% in FY17.

Consumer volumes were broadly flat, but Foodservice volumes were up 6% and across the two we added an additional 131 million litres of Liquid Milk Equivalent (LME). The slowdown in growth we saw in FY18 was mainly due to higher prices, selling less butter and more cream in Foodservice and the underperformance of our New Zealand Consumer business.

We grew our businesses in all other regions with our strongest growth in Greater China. In fact, our Consumer business in China broke even this year, two years ahead of our original seven-year target.

A big contributor to this success is the sheer popularity of Anchor™, both online and offline, as a trusted brand of premium dairy.

Higher ingredient prices saw Consumer and Foodservice's input costs increase by $626 million. Through our pricing strategies and brand strength we were able to pass through $551 million of these costs in our products' prices – so, while it was not the full amount, it was still significant. We always need to be mindful in our pricing that there is a limit to what customers and consumers are prepared to pay before they start looking at cheaper alternatives to dairy and other supply sources.

What's next?

I've had a hard look at our performance from the last five years. While our Farmgate Milk Price has improved, many of our measures are not tracking in the right direction. You can see this on page 48 and 49 in this report.

One of the reasons I took on this job is because I understand these results aren't just numbers – they're the livelihoods of our farmers and their families. There are people depending on us and I want to contribute to their lives.

I'm committed and energised to turn these results around – and so too is my team. I've set out a clear plan for how we are going to lift our performance. It relies on us doing the following:

1. **Taking stock of the business** – We will re-evaluate all investments, major assets and partnerships, including our Beingmate investment, to ensure they still meet the Co-operative's needs today. This will involve a thorough analysis of whether they directly support the strategy, are hitting their target return on capital and whether we can scale them up and grow more value over the next two to three years.
2. **Getting the basics right** – We have already begun getting on and fixing the businesses that are not performing. The level of financial discipline will be lifted throughout the Co-operative so debt can be reduced and return on capital improved.
3. **Ensuring more accurate forecasting** – The business will be run on realistic forecasts with a clear line of sight on potential opportunities as well as the risks. We will also be more transparent in our assumptions so farmers and unit holders know exactly where they stand and can make the decisions that are right for them and their businesses.

We have a lot of work ahead of us and a lot of ground to make up. But that is my job for 2019 and I, along with my team, will do everything in my control to make that happen.

Miles Hurrell

Key performance metrics

Net Loss After Tax
$196 million

Normalised EBIT
$902 million
22%

Normalised gross margin
15.4%
down from 16.9%

Return on Capital
6.3%
down from 8.3%

Normalised operating expenses
$2,496 million
7%

Net Debt/EBITDA ratio
4.5 up from 3.5

China Consumer broke even this year, two years ahead of original seven-year plan.

Making change, with purpose

From many angles – shareholder, council, board and management – it became clear we needed to take stock on the future direction of our Co-op. So we have been working hard, together, to define our purpose and vision for Fonterra's next stage, focussing on a simple challenge:

"We do not have a purpose statement that expresses our reason for being and the difference we make. We need a true north that connects and provides a sense of belonging and inspiration for the diverse people that make up our Co-operative." – Duncan Coull

Who's making this happen for us

Farmer Shareholders

Richard Cookson, Waikato
Paul Marshall, Fiordland
Richard Stalker, North Canterbury
Judy Garshaw, Pukekohe
Sheree Ditchfield, Southland
Rachel Haddrell, Maungaturoto (also a Fonterra employee)

Fonterra Employees

Tui Williams,
Team Leader, Farm Source™ Stores
Rachel Irwin,
Farmer Engagement Specialist
Teresa Smyth,
Group Marketing Manger, Identity
Wendy Paul,
Director, Advocacy
Tom Newitt,
Manager, Sustainable Transformation
Alison Brewer,
General Manager, Shareholders' Council

Questions we asked

What gets you up in the morning?

What makes you feel inspired?

What makes you feel you belong somewhere or to something?

What is the legacy that you want Fonterra to create?

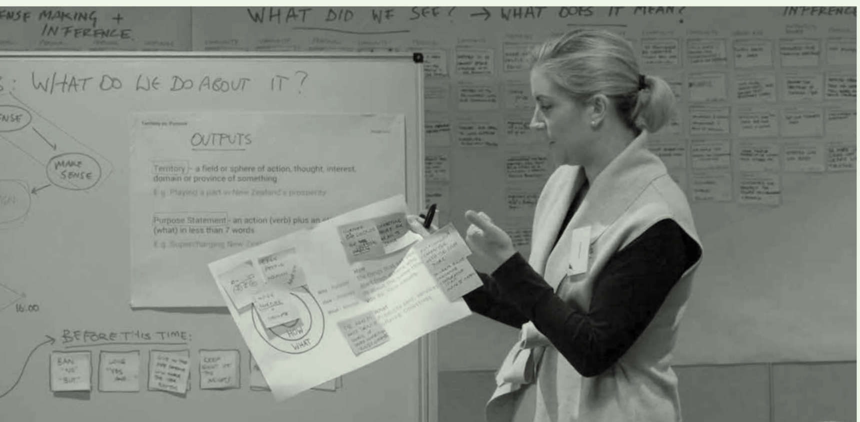
Top answers we heard

We exist to:

1. Support our farmers and rural communities.
2. Create a sustainable dairy industry.
3. Contribute to a better world for myself, my family, my children.
4. Be part of successfully taking New Zealand dairy to the world.

We heard our new Purpose must reflect

- Togetherness
- People
- Land
- Care
- Future



Who we have spoken to

People we have engaged with to gain insights into **"why we exist".**

Over 2,000 farmers via:

- My Connect Conference
- Online survey
- 200+ regional meetings all around the country
- Young Farmers Forum
- Understanding Your Co-operative
- Dairy Women's Network (SI)
- Māori shareholders

Governance:

- Shareholders' Council
- Board
- Fonterra Management Team

Over 3,300 global employees via:

- An online global survey

Plus previous insights from:

160+ customers

700+ NZ Public via RepZ

+ industry bodies and other key stakeholders

Process and key milestones from here

- We have tested our initial six Purpose Themes with 235 diverse people
- We have narrowed down to a few options
- These will be tested widely in September and October
- We plan to launch our new Purpose before the end of 2018

Focussed on achieving our ambition

We do this through our strategy of converting more milk into higher returning products. We are working towards three horizons and have made progress on all three this year.

GROWTH

Sustainable Co-op

Improving health and nutrition, creating prosperity for our farmers and communities, and achieving a healthy environment.

Innovative Co-op

Preparing to lead in the face of fast-moving trends, sudden swings in customer behaviour and unprecedented changes in technology.

Strong Co-op

Continuing our efforts to remain a Strong Co-op. This earns us the right and means to invest for our future.

$10.3 billion

paid to farmers for the 2017/18 season, includes Farmgate Milk Price and Dividend.

Launch of a dedicated medical nutrition division

focussed on selling advanced ingredient solutions to help people suffering from malnutrition and other diseases, as well as helping people age in good health.

19.3%

Energy efficiency improved by 19.3% in NZ manufacturing sites since FY03.

Manufacturing emissions target

2015	2030	2050
	30% Reduction	Net Zero

20%

New target to increase ethnic diversity in senior leadership to 20% by 2022.

Launched the Disrupt 10-Day Challenge

to focus our brightest talent on some of our biggest business problems.

3 Communities of Expertise established

in Robotic Process Automation, Advanced Analytics and Digital Activation to grow capabilities, improve process and capture value in new ways.

68%

Building on indicative findings that one of our probiotic strains reduces gestational diabetes by 68% and postnatal depression by 50%, we're exploring with New Zealand universities their impact on pre-diabetes.

Disrupt helped us win the Diversity and Inclusion Award

at the 2017 Deloitte Top 200 Awards.

Investing in foodspring,™

one of Europe's fastest growing sports nutrition companies.

Volume to higher value

45%

of the milk sold in FY18 was in Consumer, Foodservice and Advanced Ingredients.

Return on Capital

6.3%

Normalised EBIT

902m

99.6%

Stock excluded from 99.6% of permanent waterways on our dairy farms in New Zealand.

Where they know us

From the South Pacific, we sell dairy products and ingredients to 138 markets around the world.

To stay ahead on the global stage we need our farmers' high quality milk, kiwi ingenuity, breakthroughs in dairy nutrition, a great team and the scale to punch above our weight. It can be tricky from New Zealand to make it internationally but we've managed to do it and this means we can take our farmers' milk to the world and bring the value back home.

Total Revenue
$20.4b

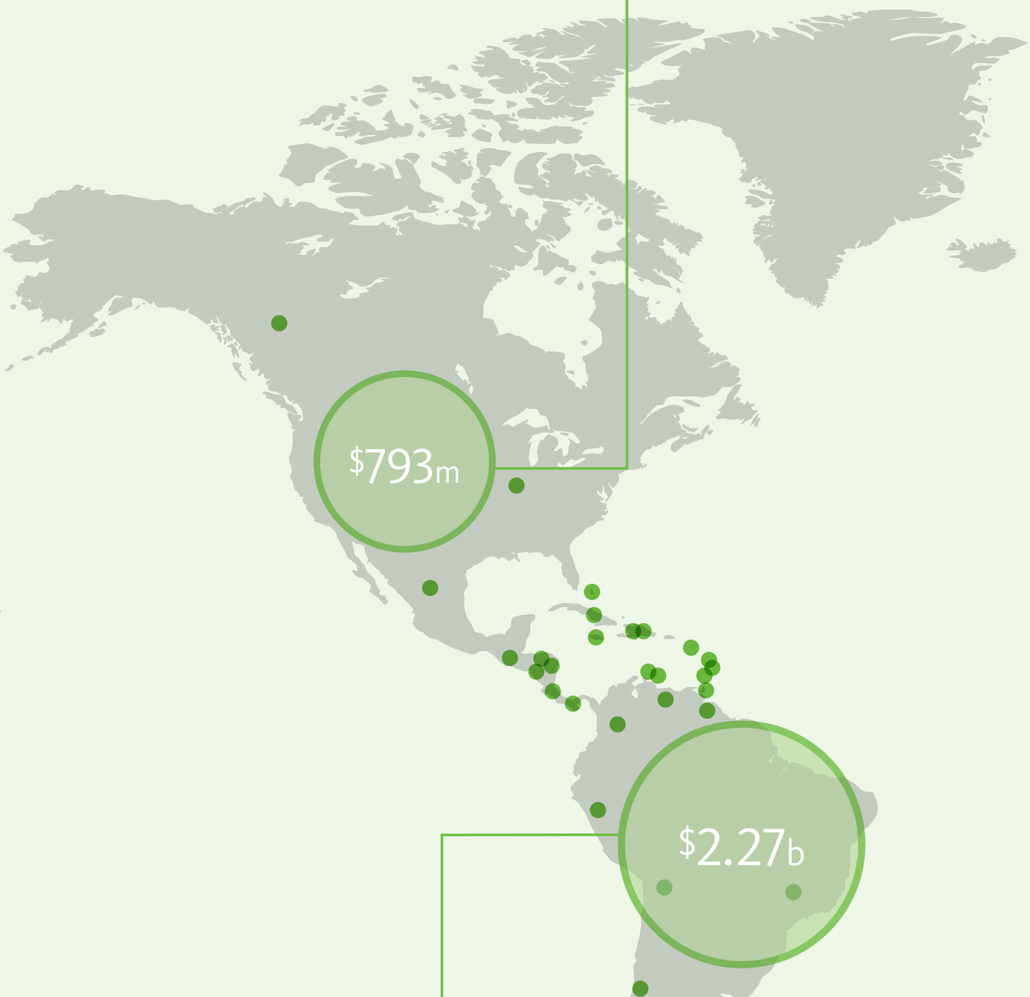
Total Employees
22,358

● Markets we export to.

United States

92
Employees

$793 Million
Revenue



Latin America
(Chile, Brazil, Venezuela)

4,003
Employees

$2.27 Billion
Revenue

7
Manufacturing Sites

Europe

136
Employees

$681 Million
Revenue

1
Manufacturing Site

China

1,697
Employees

$3.98 Billion
Revenue

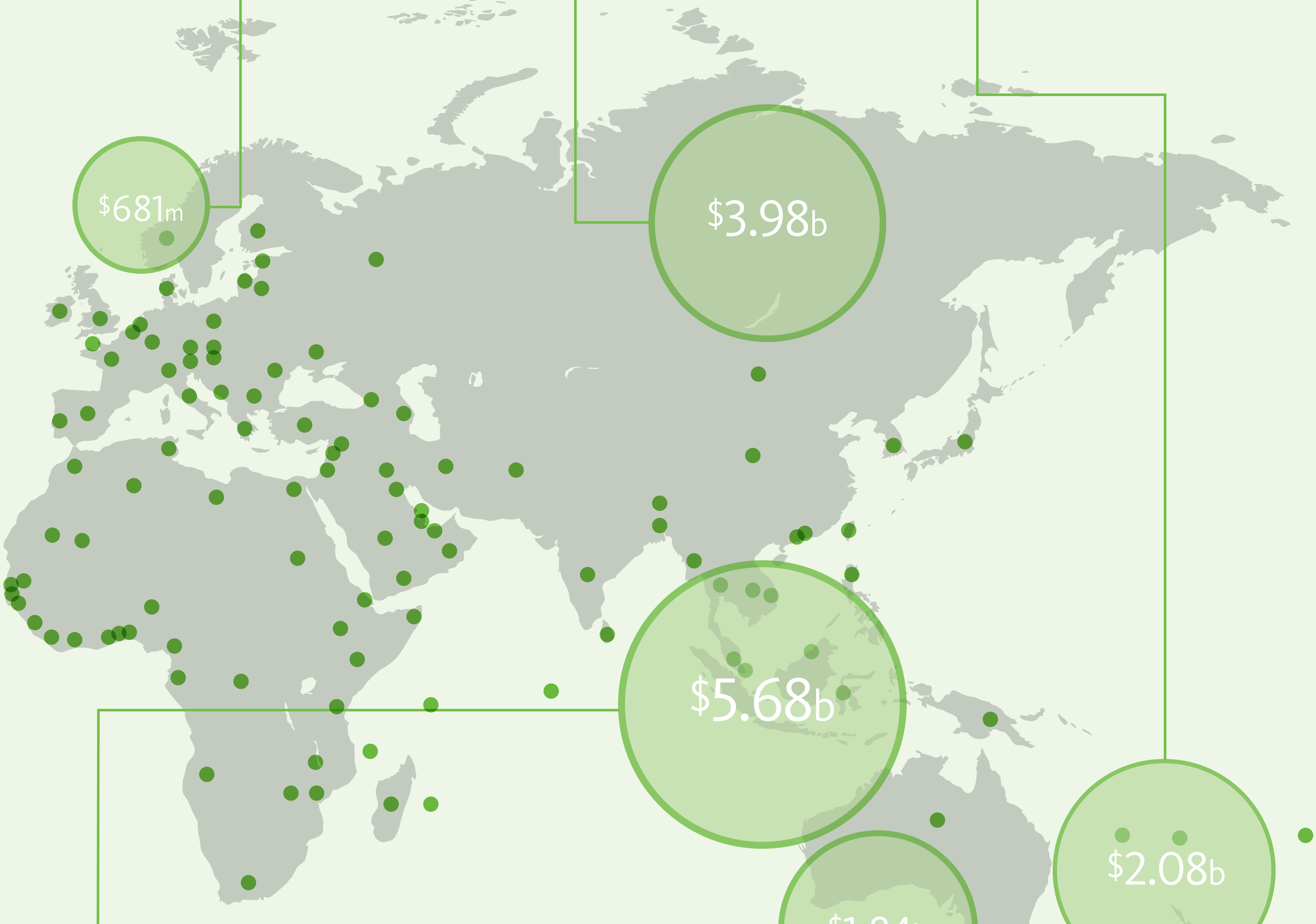
7
Farms

New Zealand

12,298
Employees

$2.08 Billion
Revenue

30
Manufacturing Sites



Rest of Asia

2,392
Employees

$5.68 Billion
Revenue

4
Manufacturing Sites

Australia

1,432
Employees

$1.84 Billion
Revenue

7
Manufacturing Sites

Rest of World

308
Employees

$3.12 Billion
Revenue

2
Manufacturing Sites

$3.12b

Our year in review

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

July 2017

- 2017/18 forecast Farmgate Milk Price announced at $6.75 per kgMS

August 2017

- Tiaki, our Sustainable Dairying Programme, launches

September 2017

- Our Australian flagship cheese plant in Stanhope re-opens after a fire in 2014

November 2017

- New UHT line in Waitoa opens

- Joint venture establishes Columbia River Technologies in the US to meet growing demand for whey protein
- Three new financial tools for farmers launch

Spring

Wet conditions impact NZ milk production volumes

December 2017

- Danone arbitration result
- Farmers participate in Open Gates event and our first Sustainability Report launches

- 2017/18 forecast Farmgate Milk Price revised down to $6.40 per kgMS
- Foodservice business tops $2 billion in annual revenue to become New Zealand's sixth biggest export business

February 2018

- Number of properties impacted by the spread of Mycoplasma bovis increases
- Hema Dairy Fresh Milk hits the shelves of Alibaba's retail stores in China to meet rising demand for premium fresh products
- Partnership with the a2 Milk Company forms the basis of our first commercial production of a2 milk™

March 2018

- Investment in Beingmate downgrade and 10 cent interim dividend announced

100m

Fonterra Milk for Schools celebrates its fifth year and 100 million packs of milk enjoyed

May 2018

- Construction begins on new Brightwater co-fired wood biomass burner
- 2017/18 forecast Farmgate Milk Price raised to $6.75 per kgMS

July 2018

- New butter line at Edgecumbe to meet global consumer demand

August 2018

- 2017/18 forecast Farmgate Milk Price revised down to $6.70 per kgMS and indicated full year dividend likely to be the 10 cents already paid

Summer

Dry summer in some regions

Autumn

Good autumn leads to a surge in production at the end of the season

Healthy environments and strong communities

This is what sustainable dairy farming is all about and why sustainability is core to our strategy.

We want to be a sustainable business. That's why we're facing up to our challenges as a food producer.

Many of the world's sustainability challenges are around food. With a billion more people to feed by 2030, we need to take urgent action.

The growing, making and distribution of food across the world has a massive environmental, social and economic footprint. Globally, food represents 30% of Greenhouse Gas (GHG) emissions, 40% of employment and 10% of consumer spending.

Fonterra supports the *United Nations' Sustainable Development Goals* and we work with others to make significant positive changes. We have prioritised ten goals – these are the ones where we believe we can make the most difference.

Our portfolio of products can help reduce hunger, obesity and deficiencies of key vitamins, thanks to specific and improved formulations, affordable options and nutritional guidance.

But we also know we need to improve our productivity, reduce our impact on waterways and lower GHG emissions. This sees us continuing to focus on resource efficiency, minimising waste right across the supply chain and protecting and restoring freshwater ecosystems.

At the same time we contribute to decent and fair work and economic growth for communities and reducing poverty. We do this by providing good employment opportunities along our value chain, paying a good income to our farmers and sharing expertise with countries in the early stages of developing their dairy industry.

Last year we published our first annual Sustainability Report covering our economic, social and environmental impacts in accordance with the Global Reporting Initiative Standards: Core Option. We will continue to include summary information in our Annual Report but if you are interested in finding out more please read our full Sustainability Report.

SUSTAINABILITY REPORT
FONTERRA 2017

Nutrition

Improving health and wellbeing through the products and services we deliver

Launched Anmum™ Materna

No added sugars formulation in Malaysia

Environment

Achieving a healthy environment for farming and society

64%

Improved water efficiency at Pahiatua by 64% since FY15 (see page 30)

Eliminated single-use plastic bags

From Farm Source™ stores (see page 34)

Community

Delivering prosperity for our farmers and wider communities

New diversity targets, 50% women in senior leadership by 2022

Developing a diverse, skilled and agile workforce (see page 72)

Promoting a healthy and safe working environment

Total recordable injury frequency rate (TRIFR) is 6.1 per million hours worked (see page 81)

Nutrition – What we sell

Dairy is packed full of goodness. It provides energy and high-quality protein which helps grow and repair muscles.

It also helps meet the body's needs for calcium, phosphorus, potassium and vitamin B2, B12 and Vitamin A. Our farmers' milk is helping improve health and wellbeing for people around the world. Here's a snapshot of how we helped this year.

55m litres

Anchor™ Blue Top milk continues to be New Zealand's favourite branded milk – with Kiwis drinking around 55 million litres in the last year.

8

NZMP was awarded eight medals at the International Cheese Awards, one of the world's most prestigious cheese competitions. Gold medals went to NZMP's Epicure cheese, made at Lichfield and its Mild Cheddar, made at Wynyard in Tasmania. NZMP also won two silver and four bronze awards.

310

The number of experts we employ at our world class **Research and Development Centre** to make the best and most innovative products possible.

Bodiology

Our new All-In-One Supplement helps support, rebuild and repair joints, muscles and bones together as one system to help keep adult bodies active.

Movemax ready-to-drink.
Our total Anlene™ brand relaunched in Thailand with upgraded formulation for bones, joints and muscle health.

Malaysia has launched a new Anlene with MoveMax™ and MFGM-Active™ for bone, joints and muscle health. Now with no added sugars and more protein.

Anmum Materna™

Launched no added sugars formulation in Malaysia. It is the only maternal milk to be fortified with probiotic DR10™ to support good gut health.

Anchor™ Life Fortified Low Fat Milk Powder
First specialised milk powder in Sri Lanka with added plant sterols to focus on blood cholesterol reduction.

Launched our **Red Cow** Rasa Padama in Sri Lanka, an affordable skimmed milk mix.

More Choice

a2 Milk™ by Anchor™ is giving consumers more choice.

88%

Our Anchor™ Protein+ increased Anchor™ yoghurt sales by 88% in New Zealand.

Going Digital

In the spirit of going digital, Anchor™ Full Cream Milk Powder was launched in conjunction with World Milk Day as our first Anchor™ milk offering for consumers in Indonesia in an exclusive partnership with Lazada, Southeast Asia's number one e-commerce marketplace.

40% less added sugar Primo's new formula is helping Kiwis consume less added sugar.

Our innovative **SureProtein™ Fast Milk Protein** is an advanced milk protein that helps maximise the benefits of exercise to keep people active and healthy.

Environment

Water

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

Farming

In New Zealand our commitment to keep cows out of waterways on dairy farms has been delivered.

99.6%

Our farmers have fenced 99.6% of permanent waterways and installed bridges or culverts at 99.9% of regular crossings

Our focus now is on Farm Environment Plans (FEPs) and at the end of FY18 there were 1,011 Fonterra farms with an FEP. Read more about our Tiaki Sustainable Dairying programme in the Our Co-op section.

Manufacturing

Our Pahiatua site is in a sensitive water zone, both for the availability of groundwater and the discharge of wastewater. By capturing the water evaporated as steam from milk as it is dried into powder, we can condense it and use it instead of using ground water. Since FY15 we have improved water efficiency at Pahiatua by 64%. With changes made this year, we expect savings of about 500,000 litres per day during the peak season for FY19.

Sustainable Catchments

Our Living Water partnership with the Department of Conservation is focussed on five catchments to identify game-changing and scalable solutions that demonstrate dairying and freshwater can thrive together. Living Water is currently working with 39 other groups and organisations and 92 Fonterra dairy farms.

5,823 ha

enhanced through protection, restoration and pest control

We are now extending our involvement to support farmer and community action across a further 50 catchments in New Zealand.

Climate change

Fonterra recognises climate change as a significant environmental, economic and social challenge and we support a transition to a low emissions global economy.

Farming

Achieve climate neutral growth for on-farm GHG emissions in New Zealand by 2030 from a 2015 baseline

Based on recently completed analysis, the average carbon footprint of our New Zealand milk (excluding land-use change) has been trending down since the 2010/11 season. This improvement has been driven primarily by increased cow productivity and supported by a reduction in supplementary feed imported onto farm.

This year, as part of the New Zealand Dairy Action for Climate Change Plan, in conjunction with Dairy NZ, we have also completed a pilot with more than 100 farmers to provide them with individual GHG reports. This will allow them to monitor their own progress over time.

Manufacturing

Achieve net zero emissions for our global manufacturing operations by 2050

Through our long-running focus on energy efficiency in New Zealand we have achieved a 19.3% reduction in energy intensity since 2003, against a target of 20% by 2020. That is equivalent this year to saving enough energy to power over 220,000 households in New Zealand.

We are also progressing changes to alternative energy sources and we have committed to divesting any coal mining interests by 2025. Renewable alternatives are not readily available but we are investigating a combination of wood biomass and more use of electricity.

At our Brightwater site, we are converting the boiler to co-fire wood biomass with coal, due to go live in October 2018. The co-firing is estimated to reduce factory emissions by about 2,400 tonnes CO_2-e per year or the equivalent of taking about 530 cars off the road.

Community

Dairy Development

We are supporting farmers in key markets around the world to produce dairy more sustainably, by improving feed production, animal health and milk quality, and facilitating demand.

Indonesia

In addition to our dairy scholarship programme, we have launched a dairy cluster in West Sumatra. Supported by local government and working in partnership with the local dairy co-operative, we are training farmers on good practices and training local catering staff on using fresh milk as an alternative ingredient.

Chile

Our first group of nine young Chilean farmers have completed one year of paid, hands-on experience in New Zealand, learning skills from leading farmers.

Sri Lanka

In addition to providing development support for farmers we launched exciting variants to our flavoured milk and yoghurts range to increase demand for their local milk.

Farmers open their gates to New Zealanders

In December, nearly 40 Fonterra farmers opened their gates so New Zealanders had the opportunity to learn about how Fonterra farmers care for waterways and what happens on a dairy farm. Over 4,000 New Zealanders came and got a first-hand look at how a dairy farm operates.

In-school Programmes

Fonterra Milk for Schools

With more than 1,420 schools and 140,000 children taking part, we had a lot of fun this year celebrating our fifth birthday and our 100 millionth serve.

KickStart Breakfast

This year, KickStart Breakfast grew to 976 clubs and served more than 125,000 breakfasts every school week.

Fonterra Grass Roots Fund and other community development

To help create vibrant communities around the world, we provide financial support through the Fonterra Grass Roots Fund and other activities in the countries where we operate.

This year in New Zealand, Australia and Sri Lanka, the Fonterra Grass Roots Fund helped 696 initiatives, contributing $770,000 through grants and equipment donations. In New Zealand, we have provided financial grants, and by buying in bulk, we have also been able to provide at lower cost more than 10,000 high visibility vests and 25 defibrillators directly to local communities.


1.


2.


3.


4.

1. Children at Moragahahena Maha Vidyalaya school celebrate the upgrade of clean water facilities in Sri Lanka.
2. Paeroa Land Search and Rescue in New Zealand used their grant to buy rescue equipment including 10 torches with a 350-metre range.
3. Top participant in volleyball, Camila Gómez receives Soprole™ educational scholarship from Gustavo Rencoret, Senior Corporate Counsel, Soprole, in Chile.
4. Kamo Volunteer Fire Brigade in New Zealand used their grant to buy more powerful saws.
5. Laga Haitong, manager of our Cowbell Farm, in China, presents scholarships to the first successful applicants at the farm.
6. The Fonterra Australia team helping at FareShare food kitchen.

Since 2017 in Australia, we have supported 95 initiatives across Victoria and Tasmania. This year recipients included primary schools, volunteer fire brigades, surf lifesaving and sports clubs.

Helping provide access to clean water and sanitation has remained our focus in Sri Lanka. This year it is estimated that more than 8,500 people, mainly children, have benefited from upgraded infrastructure.

In Greater China, we have introduced a new scholarship scheme to help with the further education of children of workers at our China farms. This year 14 scholarships were awarded.

For 18 years, Soprole™ has supported school sports across the full length of Chile. An estimated 1.5 million people benefit from the support and a further education scholarship is also awarded for the top participant in each discipline.

In Australia, we support Foodbank, Australia's largest hunger relief organisation and in 2017 we donated over 260,000 meals. We also support other similar food bank initiatives throughout the world.


5.


6.

Co-operative solutions

There's lots of competition for milk off farms and we never take our farmers' loyalty for granted. We work hard every day to deliver them more value beyond the milk cheque.

We all want a strong and enduring Co-op, for us and future generations. To achieve that, we must all have a stronger sense of belonging to our Co-op and a clearer direction for the future. Farmers have told us this is what they want.

More than 5,300 of our farmers and employees have provided their thoughts to a working group of the Fonterra Shareholders' Council, with support from the Board, to review Fonterra's purpose. This spring, the Co-op will review that feedback and test some new concepts so a renewed purpose can be introduced across the Co-op before the end of the year.

We have asked our farmers how can we make things better. We've heard that it's important we provide flexible supply options for young farmers, growth farmers and farmers nearing retirement who are working towards succession.

This work falls under three main areas: supporting farm financial performance, connecting people with our Co-op, and on-farm advice and support. We have good progress to report.

Farm Source™

Every year we aim to provide the most competitive pricing for farming supplies and reward farmers for their loyalty to our Farm Source™ stores through deals and discounts. This year our farmers earned $12.6 million Farm Source™ Rewards Dollars.

We provided $19.3 million in discounts for everyday farming supplies and used our buying power to save farmers $6.7 million on fuel and another $1.5 million on power. A deal with Mazda saw 208 vehicles purchased with a combined discount of $2.9 million.

Our stores are working to become more sustainable, eliminating the use of approximately 365,000 plastic bags annually and are looking at other initiatives such as selling fence posts made from recycled plastic.

New financial tools

Flexible financial tools are one way we encourage new farmers into our Co-op and provide financial flexibility for our existing farmer owners.

We made more progress this year, introducing four new financial tools to help make it easier for farmers to share-up and run their farms. These include providing financing to help with compliance which frees up other money for purchasing shares.

These new tools are in addition to **Invest as you Earn, Dividend Reinvestment Plan** and **Share-up Over Time**.

Farm Source™

$19.3m Provided in discounts for everyday farming supplies.

Our buying power is making savings for farmers

$6.7m
Saved on fuel

$1.5m
Saved on power

Financial flexibility

We have four new financial tools to help our farmers

The Strike Price Contract

Allows farmers to buy more shares only when the Farmgate Milk Price goes over the Strike Price.

Rewards Dollars for Shares

Will allow farmers to use their Rewards Dollars accrued at the Farm Source™ store to purchase shares.

Smart Finance

Provides low-interest financing to farmers wanting to make their farms more sustainable.

Contract Fee for Units

Recognises that farmers supplying under a **Share-up Over Time** contract are on their way to becoming shareholders and defers the contract fee to a Trust. The Trust will invest in Units and these will be returned to the farmer when they transition to a shareholder.

Working for our farmers

Supporting sustainable dairying

Milk is the life blood of our Co-op. It is vital we maintain our farmers' ability to operate profitable, productive farms which meet rising community expectations and more demanding regulations.

Through our Tiaki programme, Fonterra farmers have access to world-class technology, reporting and a range of services to support sustainable farming.

This includes our Sustainable Dairying Advisors (SDAs) who support our farmers in implementing good environment practice on farm. This year we have grown our number of SDAs to 23, with a goal to expanding the number to 29 by 2020. This growth is driven by demand, as our SDAs work closely with farmers and support their environmental sustainability. At the end of FY18, 1,011 farms had Farm Environmental Plans (FEPs).

These plans assess the environmental effects and risks associated with farming activities and provide strategies to help individual farms meet their regional requirements, and business and sustainability goals. The FEPs delivered by our SDAs are at no additional cost to Fonterra farmers, saving each an average of $3,500.

Regional councils have recognised the value of the Co-op's FEP template. For example, Environment Canterbury (ECan) approved it for farmers to use to meet the requirements of the Canterbury Land & Water Regional Plan (LWRP).

TIAKI
FARM SOURCE SUSTAINABLE DAIRYING

23
Sustainable Dairying Advisors

1,011
Farm Environment Plans

$3.3m
Saved on service fees

Our tanker on the barge heading for Golden Bay

When the going got tough

Among other on-farm challenges this year, farmers faced floods, droughts, Cyclone Gita and Mycoplasma bovis (M.bovis). Our regional teams rolled up their sleeves to help our farmers and local communities. Here are a few examples:

- When flood waters rose in the Lower South Island at the end of winter, our Emergency Response Team (ERT), crews from the Edendale site and the Farm Source™ team pitched in to help farmers clean up and get ready for calving which was rapidly approaching.
- The ERT was deployed in Taranaki to ensure farms had water and helped to clear farm races, remove fallen trees and repair sheds after Cyclone Gita brought gale-force winds.
- After major slips on Takaka Hill cut off access to Golden Bay, the Co-op organised an emergency barge to get additional tankers to the Takaka site to transport cream out and bring in emergency food, fuel, and essential supplies.
- While M.bovis poses no risk to milk quality or food safety, the Co-op worked with Government, sector groups, and other dairy companies to minimise the serious animal and farmer welfare implications. With significant effort by the Farm Source™ network and tanker operators, the Co-op coordinated the testing of every herd supplying milk and organised more than 60 farmer meetings. We placed a number of employees directly into the national response and we also lead an Industry Working Group to coordinate and support industry efforts to help farmers.

Face-to-face with farmers

Our regional network is designed to ensure we have face to face contact with our farmers

1,200

Farmers visited the Fonterra head office

850

Events, including Interim Results meetings, M.bovis town halls, nitrogen pages drop-in days and Farm Source™ store supplier nights

More than 70 farmers participated in our offshore study programmes to China

50

Site tours attended by farmers and our neighbours from rural communities

Webinars viewed over 3,300 times:

- Water
- Fat Evaluation Index Grading System
- On-farm technology
- Interim results

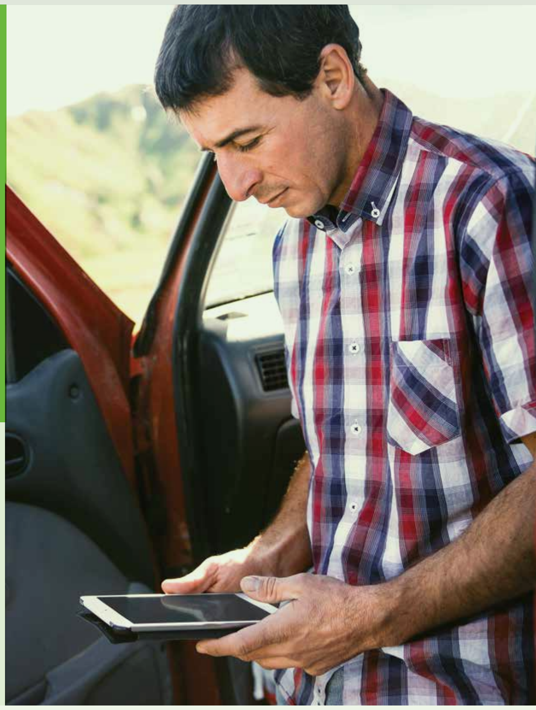
Connecting with our farmers

630

Farmers attended the inaugural My Connect Conference

More digital, more convenient

Our farmers are fast digital adopters with our smartphone apps being used to help run operations on more than 90% of our farms. We continue to enhance the offering and this year launched the digital version of the Dairy Diary farmers use to help track food safety and quality compliance. More than 2,500 Fonterra farms have already downloaded the app, opting for the digital version instead of the paper-based system. The digital version, available in the hand and on the spot, makes compliance easier.



>90%

Of our farmers use our smartphone apps

On average, farmers that access our apps or website on their mobile device do so five days a week

Farmer spotlight

Our Co-op takes huge pride in the achievements of our farmers

29 of 33

Regional New Zealand Dairy Industry Awards won by Fonterra farmers

6 of 11

Regional Ballance Farm Environment Awards won by Fonterra farmers

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

New Zealand Share Farmer of the Year

Dan and Gina Duncan

Northland's Dan and Gina Duncan were declared NZ Share Farmer of the Year.

New Zealand Dairy Manager of the Year

Gerard Boerjan

Gerard Boerjan from Takapau was named NZ Dairy Manager of the Year.

Responsible Dairying Award

Wynn and Tracy Brown

Wynn and Tracy Brown from Matamata took home the new "Responsible Dairying Award" which recognises dairy farmers who are demonstrating leadership in their approach to dairying, have proven results and are respected by their farming peers and their community.

Dairy Woman of the Year

Loshni Manikam

All three finalists in the Dairy Woman of the Year Award were Fonterra farmers and the title was taken home by Southland farmer and dairy leadership coach Loshni Manikam. Other finalists were Tracey Collis from Eketahuna and Rachel Baker from Hawke's Bay.

Māori Excellence in Farming Award

Onuku Māori Lands Trust

Bay of Plenty-based Onuku Māori Lands Trust won the 2018 Ahuwhenua Trophy for Māori Excellence in Farming — Moyra Bramley, Chairwoman, was on hand to accept the award.

Young Māori Farmer Award

Harepaora Ngahea

Farm Manager Harepaora Ngahea from Te Teko won the Ahuwhenua Young Māori Farmer Award.

Honour Roll for Milk Quality Excellence

Legend

Farming entities that achieved grade free for at least the last ten seasons.

A M Flanagan
B L & Estate R J Mohring
B S & P J Strang
C & H Mabey
C J & K L Ladd
C M & K M O'Donoghue
C R & A K Spence
Est of M F Blake & M Blake
F A & R C M Smits Ltd
G B & J S Coulter
Golden Mile Farms Ltd
Inishbulfin Farm Ltd
J A & Estate of KJ Jolly
K & S MacKenzie Farms Limited
K F Wallace
Kemra Farm Ltd
L J & L M Still
Lakeland Farms Ltd
M J & L M Van Tiel
Miroc Limited
Owhango Farms Limited
P T & V M Youngman
R & P Woods Farms Ltd
R J & E F Madsen
R S & R D Gordon
Romill Partners
Rye Downs Ltd
Schorn Trust
Serendipity Trust
Takitimu Trust
Thomag Ltd
Willowbank Estate Ltd

Achievement

Top 10 farming entities with the lowest somatic cell count.

1. **G L & G F Bell**
2. **Le Emari Trust T/A Willowbridge Dairies**
3. **K J & H Chalmers Ltd**
4. **B G & S L A Butler Family Trust**
5. **M C & J P Fisher**
6. **J C & F M Henchman**
7. **Kydz Contracting Ltd**
8. **M A & S A Anderson**
9. **Owen & Robyn Ruddell Partnership**
10. **Ruthe Farms Ltd/L A Ruthe**

Gold

Farming entities that achieved grade free for at least the last four seasons.

5 M Trust
A & D Milne
A & G Martelli Family Trust
A & N Harvey Family Trust
A A & L J Edward Trust
A H & A C Webster
A Holten & N Brown
A J & K L Murdoch
A J & K M West
A J Dodds & Sons Ltd
A K & M E Tyler
A M Flanagan
A P & C Knibbs
A R Mills
Abacus Dairy Ltd
Abbey Farm Partnership
Abbott Brothers
Abbott Trusts Partnership
ABH Trust
AGC Farms Ltd
Ahipaipa Farms Ltd
Airlie Lodge (Walton) Ltd
Allison Family Farms Ltd
Alton Pastures Ltd
Amberhay Ltd
Ararata Holdings Ltd
Armer Farms (N I) Ltd
Arnold Farming Ltd
Ashgrove Dairy Farms Ltd
Avon Downs Ltd
Awapuketea Farming Company Ltd
B & D Dodunski
B & E V Blake
B & J Kelly P/Ship
B C & K A Keller
B D Mead
B J & P Brisco
B J Laing
B L & D J Haylock
B M & B C & JH Geddes
B N & P A Jones
B P & P N Kennedy
B R Dinnington Ltd
Barmac Dairies Ltd
Barneyco Trust Partnership
Barriball Farms Ltd
Beechbank Dairies Ltd
Bell Farm 2008 Ltd
Bellevue Enterprises Ltd
Bent River Farms
Benvale Ltd
Berkhout Holdings Ltd
Berwick Holdings Ltd
Bibberne Farms Ltd
Birchland Partnerhip
Black & White Cow Company Ltd
BM & GI Watson Ltd
Bogaard Farms NZ Ltd
Borrowdale Trust
Boswell Dairy Ltd
Bothwell Farms Ltd
Bremna Farms Ltd
Briley Farm Trust
Bullot Family Trust
Burnside Farms Ltd
Burton Trust
C & B Jensen Family Trust
C & D Padrutt Trust
C & M Tippett
C & R M Moir
C B Farms Ltd
C E & D L Rogers
C F & M T Muller
C J & C J McKenzie Ltd
C T & K M A McLean
C W & J Redshaw
C W & M Y Matthews
Family Trust
C.D. Farms Ltd
Carnarvon Farms Ltd
Casey Coxhead Ltd
Caskey Farms
Chislehurst Farms Ltd
Claremont Trusts Partnership
Clinton & Pamela Smeath
Clutha Lea Ltd
CM Farming Ltd
Colhaven Ltd
Collins Family Trust
Cotlands Ltd
Cowley Dairies Ltd
CPX Ltd
Cranief Clifton Ltd
Creekside Pastures Ltd
Cross Dairies Ltd
D & D Alexander Trust
D & E Cole
D & I Edward Ltd
D & S Farms
D A & M A Mullan
D C & V F Frew
D Crofskey
D E & M E Hines
D J & E A Turner
D J & G M Hooper
D J & J A Veen
D J & R E G Goodwin
D J & S A McMillin
D L & S J Deeming
D P & T G Schumacher
D P & T M Stephens
D R & E M Henman
D R & L M Locke Ltd
D S & L R Wilson Ltd
D T & K L Picard
D W & M E Kidd
Dacre Milk Ltd
Dacre Milk Partnership
DairyNZ Ltd
Dawn Dairies Ltd
DDB Dairy Enterprises Ltd
Derrys Farm Ltd
DR & PJ Hannah Ltd
Drumblade Farm Ltd
Drylands Trust
Drysdale Holdings Ltd
Dugald McKenzie Family Trust
E F & J A Allcock
E J & S M Smeath
E L & D J Brook
Eichler Farms Ltd
England Trusts Partnership
Estate E A Bonner
Estate of Elizabeth Paretuarangi Ormsby
Euro Land Ltd
Excel Dairying Ltd
F B Bonenkamp & J B Cunningham
F W G & J P Stanbridge
Fairview Trust
Falcon Farms Trust
Far South Farms Ltd
Fardale Dairies Ltd
Farmer Fred Ltd
Farming Tee Jay Ltd
Farview Farms Ltd
Fonterra - O'Brien Farm
Forest Hill Downs Ltd
Four Roads Farms Ltd
Fowler Family Prosperity Trust
Frisia Farm Trust
G & C Came Ltd
G & M Gloyn
G A & J M Fox
G A & K T Lynch
G A & V M Weir
G A Knight
G B & D G Hodges Trust
G C & J M Knowles
G E & J Porteous
G E & V E Cooper
G E Sutherland Trust
G J Farms Ltd
G K & D J Landon Family Trust
G L & G F Bell
G P & C A Whiteman
G R J & R J Saddleton
Garn Farms Ltd
Gee 'N' Tee Ltd
Given Family Trust
Glen Eden Otago Ltd
Glen Oroua Dairies Ltd
Glengarry (Dvke) Farming Co Ltd
Golden Key Trust
Grat Farms Ltd
GRC Farms Ltd
Gregory Farms Ltd
Gydeland Farm Ltd
H G & C K Meijer
Hall Family Farms Ltd
Haresfield Farms Ltd
Hayden and Korina Brown Partnership
Hayley Buckman Family Trust
Henderson Partnership Farm
Heyland Farms Ltd
Highpines Ltd
Hillcrest at Fairfax Ltd
Hillcrest Farms Ltd
Hillgrove Trust

Our farmers are committed to milk quality excellence, year-after-year, ensuring that we collect the best possible milk. In addition to the honour roll below, we also acknowledge the effort of all Grade Free, Merit and Achievement recipients. Our farmers are our greatest assets.

Hines Family Trust
Hoogeveen Farms Ltd
Howard Farm Ltd
Huntly Road Dairies Ltd
Hutton Farm Holdings Ltd
I Hampton & A Golvin
I J Sutherland Partnership
Interlaken Farms Ltd
J & J Anderson Family Trust Partnership
J & LM Van Burgsteden
J A & J H Hine
J B & L M Suisted Ltd
J B & S M Duynhoven
J E & C T Brien
J E & D M Cooper
J H & H R Smyth
J L & H M Coatsworth
J L & K S Gwerder Family Trust
J L & M A Cooke
J L Hooper & A L Robertson
J M & T M Van Hout
J M De Renzy
J P & M J Horgan
J R & A T M Hale
J W & A M Steeghs
J W Prictor
James Lyttle
James Martelli
Janssen NZ Ltd
Jascas Trust
Jaska Farm Trust
Jayland Partnership
JC Beattie Trust
JDQ Ltd
Jerzey Rock Farm Ltd
JJ & AB Roskam Ltd
JM Cross & LA Hazelton
Johnson Farm Co. Ltd
K B & K R Whiteman
K B Olesen & R J Stephens
K J & H Chalmers Ltd
K J & J B Argyle
K J & M T Dwyer Trusts P/S
K R & S M Rooney
K W & D M Blackstock
K W & D R Lowe Family Trust
Kaimai Dairy Ltd
Kainui Peatlands Ltd
Kaipara View Farming Ltd
Kalman Farms Trusts P/Ship
Kauri Falls Investments Ltd
Kerenui Ltd
Kevin Fleming Ltd
Kieran McErlean Trust
Kim Steffert Family Trust
King's Junction Ltd
Knockinnon Farm Trust
Kywaybre Farms Ltd
L J & M Prictor
L J Hodges
L.G. & J.M. Morris Ltd
Laing Dairy Ltd
Lawson Road Farm Ltd
Lesdale Friesians Ltd
Lizlyn Dairies Ltd
Lockerbie Farms 2001 Ltd

Longacre Properties Ltd
Lord & Veltman Ltd
Ludell Ltd
Ludimac Dairying Ltd
Lutz Farming Company Ltd
Lynton Dairy Ltd
M & A Schrader Family Trust
M & C O'Grady Ltd
M & J Barker Trust
M C & J P Fisher
M E Hunt & Son Ltd
M G & A M Hurley
M I & P M Stevenson Family Trusts P/ship
M J & A S Taylor Family Trust
M J & S D Hopson
M J & T M Davies
M J & W P Van Veen
M J Diprose Ltd
M J McDowall
M J Murray & Estate of A B Murray
Maken Milk Ltd
Malandra Downs Ltd
Manuka Ridge Ltd
Mark A Mullan Trust
Marua Partnership
Mary Allen Farm Ltd
Matricksen Ag Holdings Ltd
Mattajude Family Trust
Maude Peak Farm Trust
Mavora Farms Ltd
Maxlands Farms Ltd
McCullough Family 2008 Ltd
McFetridge Farms Ltd
McGee Partnership
McGowan-Weake Partnership
Mead Family Farm Ltd
Membury Oak Farm Ltd
Meyer Family Trust
Milestone Trust
Milkwell Ltd
Mitchells Milky Way Ltd
MJ & KL Family Trust
Molehill Farm Ltd
Morrison Farms Ltd
MR & TJ Frost Ltd
Mu Kau Ltd
Mudspring Farms Ltd
N A & K M McColl
N R & K L Gaskin
N R & L A Fox
NB & LJ Crosbie Ltd
Ngahape Valley Farm Ltd
Ngutunui Dairies Ltd
North Star Farming Ltd
NR Ensor Ltd
Ohtawa Farms Ltd
Okapua Farming Company Ltd
O'Reilly Family Trust
Otira Farm Ltd
Otu Creek Farm Ltd
P & T & S & Y Thompson
P A Hoogeveen
P D & J M Bish
P D & S S Sharpe
P G & D J Collins

P G & D M Dombroski
P H & W F Iorns
P H S & P C Byford
P J & M L Cotter
P L & R E Berryman
P R & V P Dawson
P V & P G Mullin Trust
Parkhill Farms Ltd
Perlow Dairies Ltd
Pharlee Trust
Phimister Farming Ltd
Piwakawaka Farm Trust
PJ Nelson Farming Ltd
Placement Services Ltd
Port Molyneux Dairies Ltd
Puketi Farming Enterprises Ltd
Puniho 606 Partnership
Quirke Family Trust
R & A Tait T/A Black Cow Dairies
R & K Houghton Family Trust
R & S Singh
R A & J L Hamilton
R A F & J R Clubb
R F & C L Lansdaal Ltd
R J Troughton
R N Cornes
R T & E A Brown Ltd
R W & R R O'Brien
R W & W J Cudby Family Trust
R.L. Mathis Ltd
Rainbowcreek Farms Ltd
Relyt Farm Ltd
Rich Feet Ltd
River Heights Ltd
Riverside Farms (Taranaki) Ltd
Riverview Farms 2001 Ltd
Riverview Trust
RK & A Hines Ltd
RKW Partnership
Rodney G & S J Joblin
Rogers Farming Ltd
RV & LH Kokich Farms Ltd
Ryelands Farm Company Ltd
S & S Iorns
S A & J L England
S B & Y M Thompson
S England & P Walker
S G & B L Thirkell
S G McKenzie
S L & J P Vincent
S M Shead
Sabin & Co Ltd
Sean McErlean Trust
Seven of Nine Ltd
Shabict Ltd
Shawlink Ltd
Shenandoah Trust
Silvacrest Farms Ltd
Silverdene Farms (2000) Ltd
Sim Brothers Ltd
Sim Family Farms Ltd
Sisley Farms Ltd
Slatz Trust
Somerset Trust
Springpark Farms 2008 Ltd
Steffert Farms Ltd
Stephen Zink

Steven Bennett Family Trust
Stoneyburn Dairy Ltd
T & C Brown Ltd
T & K Rae Family Trust
T D & J A Rhind
T R D Reesby
Tamatea Farms Ltd
Tawa Land Company Ltd
Tayco Farm Ltd
Te Ngutu Land Holding Co Ltd
Te Repo Farms Ltd
Teaghlach Trust
Telesis Trust
The Adare Company Ltd
The D & A Roberts Family Trust
The Goble 2000 Trust
The Herewahine Trust
The Hyjinks Trust
The Red Cow Company Ltd
The Taieri Dairy Company Ltd
Trimor Ltd
Trinity Lands Ltd
Trustees Kokako Station
Tuki Tuki Awa Ltd
TW Langford Family Trust
Two Name Farming Ltd
Up At 5 Ltd
V E & D M Grant
Vale Green Services Ltd
Van Rossum Ltd
VBI Ltd
Ventura Dairies Ltd
W & C Candy Trust
W B Scott Family Trust
W B Wouters
W Dreadon & K Barnett-Dreadon
W G & M D Orr
W J & J G Pile Family Trust
W R & Z W Kite
W.A & H.R Simpson Farming Ltd
Waicola Holdings Ltd
Wainui Dairies
Waiotu Farms Ltd
Waiparu Farm Ltd
Waiparu Holdings Ltd
Waipiata Trust
Waituna Investments Ltd
Wallace Johnstone Ltd
Walters Holdings (2008) Ltd
Wards Schrader Trusts Partnership
Webber & Maxwell Partnership
Webber Farm Ltd
West Mains Farm Ltd
Westmeath Trust
Whakahora Farm Ltd
Whakanui Farms Ltd
Whakanui Stud Ltd
Whenuakura Farm Ltd
Wichland Farms Ltd
Willcox Farms Ltd
Willowfields Ltd
Willowhaugh Enterprises Ltd
Windy Ridge (Fleming) Ltd
WP & A Moore
Wylam Dene Farms Ltd

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

Employee spotlight

Palatasa Havea

Principal Research Scientist
Fonterra Research and Development Centre, Palmerston North

As a 17-year-old student attempting to pass Year 10 for the third year in a row, Palatasa (Tasa) Havea never imagined that one day he'd be granted one of New Zealand's top honours.

Fast forward a few decades and Tasa's work, both as a scientist and as a leader in his community, was recognised when he was made a member of the New Zealand Order of Merit for his services to the Pacific community and the dairy industry.

It's believed Tasa is Tonga's first food science PhD. His work as a principal research scientist at Fonterra's Research and Development Centre has resulted in ten patents for the Co-op.
He's played a vital role in pioneering the use of whey protein in a range of products that is returning hundreds of millions of dollars to the New Zealand economy.

Deeply involved in his local community, Tasa has also worked alongside the New Zealand Government for many years bringing about policies and funding to support Pacific Island people to reach their potential.

Tasa is now a member of the New Zealand Order of Merit.

It is believed Tasa is Tonga's first food science PhD.

Tasa's work with whey protein is returning hundreds of millions of dollars to the New Zealand economy.

Tasa's research has resulted in ten patents for the Co-op.

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Hema Daily Fresh Milk team

China

Staying ahead of the curve is a tough challenge in fast-changing China. But the launch of Hema Daily Fresh Milk in Shanghai has put our Co-op at the forefront of product innovation.

One step ahead, teams from our Consumer and Foodservice business in China and Food Safety Quality and Technical teams in New Zealand partnered with Alibaba's innovative retailer Hema Fresh to launch our Co-op's first fresh milk product in China. From concept to launch in just over three months, the product was developed with incredible speed and relentless focus on food safety and quality. Each bottle is on sale for just a day and delivered to the consumer within 30 minutes of an order.

Hema Daily Fresh is the first step in our Co-op selling fresh milk in China. Sourced directly from the Co-op's farm hub in Hebei province, the range capitalises on rising domestic demand for higher-quality fresh products, as part of the 'premiumisation' of China's consumer market.

Stirling team

South Otago

A site at the bottom of the South Island but on top of their game, Stirling is focussed on being the most productive site in the country.

The 110-person South Otago team has been working hard to deliver sustainable change over many years across all parts of the site, from transport and health and safety to people and customers.

Stirling is one of the most efficient and productive sites in the country. The team has put every part of its business under a spotlight to deliver increased value. The results are impressive – the site is running for longer, breakdowns are reduced and 1.8 million litres of milk each day during the peak of the season is being turned into some of the world's most-loved cheeses.

The site boasts a state-of-the-art biological treatment plant which uses natural organisms to treat waste water – the only one of its kind in the Southern Hemisphere. Stirling will also transition from coal to renewable energy as part of our goal to achieve net zero emissions across our sites by 2050.

In light of the team's hard-won gains, Stirling was awarded two prestigious awards at our 2018 Best Site Cup Awards. These awards recognise the team's long-term commitment to excellence and creating sustainable change over many years. They also won a silver award with a score of 99.15 out of 100 at the Wisconsin Cheese Awards.

Board of Directors

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1. John Monaghan
2. Clinton Dines
3. Brent Goldsack
4. Bruce Hassall
5. Simon Israel
6. Andrew Macfarlane
7. Nicola Shadbolt
8. Donna Smit
9. Scott St John
10. Ashley Waugh
11. John Wilson

1. John Monaghan

Board Responsibilites *Farmer-elected Director, Chairman, Chair of the Co-operative Relations Committee, Member of the People, Culture and Safety Committee and the Nominations Committee*
Term of Office *Elected 2008, last re-elected 2017*
John Monaghan was elected to the Fonterra Board in 2008 and became Chairman in 2018. Prior to joining the Fonterra Board John was Chairman of the Fonterra Shareholders' Council and the inaugural Chair of the Governance Development Programme. He is also a director of Centre Port Limited and Centre Port Properties Limited. He holds a number of farming directorships and is a trustee of the Wairarapa Irrigation Trust. John has dairy farming interests in the Wairarapa and Otago regions. John has taken a lead role in representing Fonterra's interests on global trade issues and has strong networks domestically and internationally with key stakeholders.

2. Clinton Dines

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

3. Brent Goldsack

Board Responsibilites *Farmer-elected Director, Member of the Co-operative Relations Committee, the Risk Committee and the Milk Price Panel.*
Term of Office *Elected 2017*
Brent Goldsack was elected to the Fonterra Board in 2017. Brent had a 25-year career in both New Zealand and abroad in various corporate advisory roles, including being a Partner at PwC for more than 12 years. Brent is a Chartered Accountant. Brent serves on the Boards of Canterbury Grasslands Limited, Waitomo Petroleum Group Limited and its subsidiaries and The New Zealand Fieldays Society. Brent is actively involved as a shareholder of three dairy operations in the Waikato and has shareholding interests in two other dairy farms with operations in both New Zealand and the United States. Brent is also the General Manager of a 3,000 cow dairy operation. In addition to his strong financial skills and knowledge, Brent has particular expertise in Fonterra's Farmgate Milk Price and the drivers of the Co-operative's earnings.
BCA, CA

4. Bruce Hassall

Board Responsibilites *Appointed Director, Chair of the Audit and Finance Committee and the Nominations Committee, Member of the Risk Committee and the Milk Price Panel and is an observer on the People, Culture and Safety Committee.*
Term of Office *Appointed 2017*
Bruce Hassall was appointed to the Fonterra Board in 2017. Bruce is a Chartered Accountant and has had a 35-year career at PwC, including holding the position of Chief Executive Officer of the New Zealand practice from 2009 to 2016. Bruce is Chairman of The Farmers Trading Company Limited, Prolife Foods Limited and Fletcher Building Limited (with effect 1 September 2018) and serves as a director on the Board of Bank of New Zealand. He is a member of the University of Auckland Business School Advisory Board and was a founding Board Member of the New Zealand China Council. Bruce has extensive experience in financial reporting information system processes, risk management, business acquisitions, capital raising and IPOs across listed and private companies.
BCom, FCA (CAANZ)

5. Simon Israel

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

6. Andrew Macfarlane

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

7. Nicola Shadbolt *ONZM*

Board Responsibilites *Farmer-elected Director, Member of the Audit and Finance Committee and the Risk Committee*
Term of Office *Elected 2009, last re-elected 2015*
Nicola Shadbolt was elected to the Fonterra Board in 2009 and serves on the Board of the Manager of the Fonterra Shareholders' Fund. Nicola has worked in government, agribusiness, consultancy and academia and is now a Professor of Farm and Agribusiness Management. She serves on the board of the International Food & Agribusiness Association and, as chair, on a large dairy farming business. Nicola was made an Officer of the New Zealand Order of Merit for services to agribusiness in 2018. Nicola lives in the Manawatu, the base for her four farming and forestry equity partnerships, which include two dairy farms. Nicola's expertise across international agribusiness sectors includes a strong focus on the crucial role that science and sustainability play in creating enduring value for Fonterra, its owners and New Zealand.
B.Sc(Hons), M.AgrSc(Hons), DipBusStud (Accountancy), FNZIPIM (Reg), FAICD, INSEAD IDP-C

8. Donna Smit

Board Responsibilites *Farmer-elected Director, Member of the Audit and Finance Committee and the Co-operative Relations Committee*
Term of Office *Elected 2016*
Donna Smit was elected to the Fonterra Board in December 2016. Donna lives and farms at Edgecumbe, and has built and owns seven dairy farms in Eastern Bay of Plenty and Oamaru. Donna is a Director of Ballance Agri Nutrients and Kiwifruit Equities Limited and a Trustee of the Dairy Women's Network. Donna is a Chartered Accountant and was a company administrator at kiwifruit Co-operative EastPack for 24 years. Donna's strong focus on financial and risk management has been built through her extensive business experience and financial background, and complements her deep dairy farming experience.
CA

9. Scott St John

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

10. Ashley Waugh

Board Responsibilites *Farmer-elected Director, Chair of the Risk Committee, Member of the Audit and Finance Committee and the People Culture and Safety Committee*
Term of Office *Elected 2015*
Ashley Waugh was elected to the Fonterra Board in 2015. Ashley serves on the Board of Seeka Limited and the Colonial Motor Company Limited. He previously chaired the Board of Moa Group Limited. Ashley spent ten years with The New Zealand Dairy Board followed by eight years with National Foods in Australia including the last four years as Chief Executive Officer. Ashley lives on his dairy farm near Te Awamutu and has shareholding interests in Puke Roha Limited in Pokuru. Ashley has had hands-on experience as a leader of a consumer brands business and a track record of value creation, which underpins his expertise and interest in financial discipline and risk management.
BBS

11. John Wilson

Board Responsibilites *Farmer-elected Director, Chair of the People, Culture and Safety Committee*
Term of Office *Elected 2003, last re-elected 2015*
John Wilson was elected to the Fonterra Board in 2003 and became Chairman in 2012, stepping down in July 2018. Previously he served as the inaugural Chairman of the Fonterra Shareholders' Council. John is a director of Turners & Growers Limited and the Hugh Green Group and its subsidiary companies. John also serves on the Executive Board of the New Zealand China Council. He is a chartered member of the Institute of Directors in New Zealand. John lives on his dairy farm near Te Awamutu and jointly owns a dairy farming business based near Geraldine, South Canterbury. John's governance and leadership experience of diverse and complex businesses, includes co-operatives, extensive family and farming businesses, business councils and global industry bodies.
B.Agr.Sc

Management Team

1. Miles Hurrell
2. Marc Rivers
3. Lukas Paravicini
4. Robert Spurway
5. Judith Swales
6. Kelvin Wickham
7. Mike Cronin
8. Mark Van Zon

1. Miles Hurrell

Chief Executive Officer

In August 2018, Miles Hurrell was appointed as Chief Executive Officer. In Miles' most recent position as Chief Operating Officer, Farm Source,™ he led Fonterra's global Co-operative farming strategy which includes farmer services and engagement, milk sourcing and the chain of 70 Farm Source™ rural retail stores throughout New Zealand. Miles' 19 years of experience in the dairy industry has spanned four continents. From 2010 to 2014, Miles was General Manager Middle East, Africa, Eastern Europe and Russia. In this position he led a period of sustained growth during a time of political unrest across these regions. He reset the African sales strategy and was a Director of Fonterra's joint venture with Africa's largest dairy company, Clover Industries Limited. From 2006 to 2008, Miles oversaw the streamlining of the Co-operative's European operations before moving to the United States to establish new offshore partnerships. In 2014, Miles was appointed the Co-operative Affairs Group Director and in 2016 he took up his role with Farm Source. Miles has completed management programmes at INSEAD (International Executive Development), London Business School (Finance), Kellogg's North Western University (Global Sales) and IMD (marketing). He has also had governance roles with Prolesur, Falcon (China Farms), MyMilk and Global Dairy Platform.

2. Marc Rivers

Chief Financial Officer

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

3. Lukas Paravicini

Chief Operating Officer Global Consumer and Foodservice

Lukas Paravicini heads Fonterra's Global Consumer & Foodservice business whose 11,000 people are committed to bringing dairy nutrition to 80 countries across the world. He first joined Fonterra as CFO in 2013 after a long career with Nestlé where he held a number of senior positions including General Manager for Nestlé Professional Europe, CFO of Nestlé Brazil, Vice President of Global Business Services and CFO of Nestlé Professional, and Nestlé's globally managed Out-of-Home business. Lukas' extensive experience in dairy provides him with an in-depth understanding of how dairy can deliver people's needs for delicious nutritious food. He has lived and worked in some of Fonterra's most strategically important markets. He holds a Business and Administration degree from the University of Zurich, Switzerland, and speaks five languages.

4. Robert Spurway

Chief Operating Officer, Global Operations

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

5. Judith Swales

Chief Operating Officer - Velocity and Innovation

Judith Swales shapes the future of Fonterra by harnessing innovation, emerging technologies, game changing business models and new ways of working, while embedding a performance driven culture. She joined the Co-operative in 2013 as Managing Director Fonterra Oceania, where she led the successful turnaround of the Australian business and oversaw Fonterra Brands New Zealand. The daughter of a milkman, Judith grew up helping her father on his daily milk run.
She has extensive experience in senior management and business turnarounds, and prior to joining Fonterra was the Managing Director of Heinz Australia, and CEO and Managing Director of Goodyear Dunlop, Australia and New Zealand. Before coming to Australia in 2001, Judith worked for a number of UK retailers which culminated in her move to Australia as the Managing Director of Angus and Robertson. She has served as a Non-Executive Director on the DuluxGroup Board since April 2011 and is a Director on the Global Dairy Platform Board. Judith has a degree in Microbiology and Virology.

6. Kelvin Wickham

Chief Operating Officer, NZMP

Kelvin Wickham leads the sales and marketing of all Fonterra ingredients globally, delivering solutions to our global customers, ensuring optimisation of supply and demand, commodity price risk management, and championing the NZMP™ brand. Kelvin has more than 29 years' experience in the dairy industry and has played a key role in building markets, customer relationships and partnerships. His previous role of President Greater China and India focussed on directing the development of Fonterra's business in these expanding markets, during which he oversaw a period of rapid growth. Prior to that, Kelvin led Fonterra's Supplier and External Relations team, and was Managing Director of Fonterra's Global Trade overseeing the launch of GlobalDairyTrade. From 2005 to 2007 he was the Director of Sales and Operations Planning. Kelvin holds a chemical and materials engineering degree, a Master of Management and a Diploma of Dairy Science and Technology.

7. Mike Cronin

Managing Director Corporate Affairs

Mike is the Managing Director Corporate Affairs, where he oversees Health, Safety, Resilience and Risk; Legal; Social Responsibility; Governance; Food Safety, Quality and Regulatory Affairs; Global Stakeholder Affairs; Communications; Advocacy and Fonterra Brand teams. Mike is also responsible for co-ordinating the CEO's office, the Fonterra Management Team, and the Fonterra Board.
After joining Fonterra in 2002 Mike has worked on many of Fonterra's most significant projects, including the buyback of the Anchor brand in New Zealand, Trading Among Farmers and the Governance and Representation Review. Prior to 2014, Mike was the General Manager of Strategy Deployment. He was appointed Group Director Governance and Legal before taking on his current role in 2014. Mike has a Bachelor of Laws and Bachelor of Arts from the University of Auckland.

8. Mark Van Zon

Managing Director of People and Culture

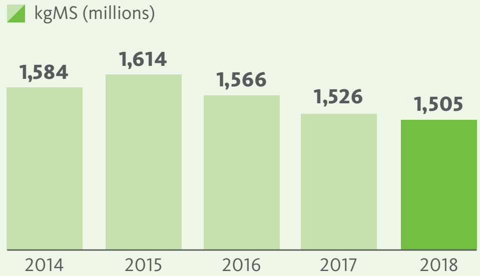
Mark Van Zon was appointed Acting Managing Director of People and Culture in 2018 after Joanne Fair took up a secondment to lead Fonterra Brands New Zealand. Mark oversees the delivery of Fonterra's people strategy, which includes innovative solutions to attract, develop and retain global talent, and to improve staff engagement across our 22,000 employees. Prior to joining Fonterra in 2017, Mark was based in Seattle and led Starbucks' international reward team. His overseas experience also includes various Human Resources roles in the Netherlands and UK. Mark is a well-rounded Human Resources leader having worked across a range of industries including logistics, IT and consulting, retail and fast-moving consumer goods. Mark holds a Master of Commerce (Hons) from the University of Auckland.

OUR PERFORMANCE

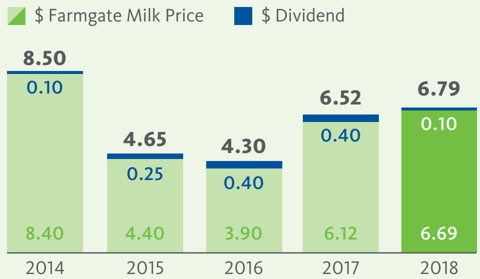
Group financial metrics

These charts have been selected to represent the financial metrics for Fonterra. We have provided an historical summary of our performance which we intend to include in our annual results on an ongoing basis.

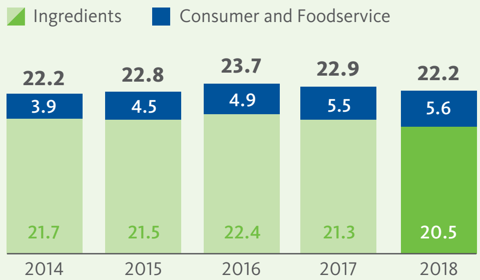
Milk Collection



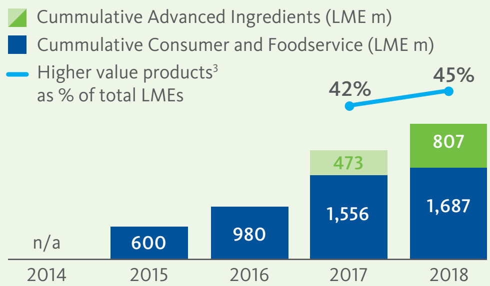
Total Cash Payout



Sales Volume (LME bn)[1]



Additional Volume to Higher Value[2]

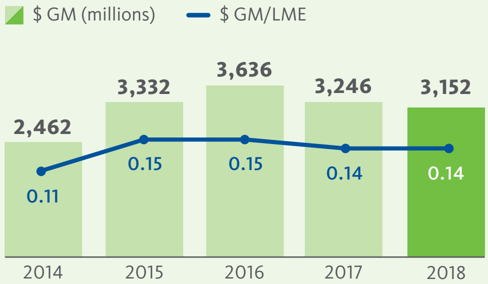


1 Does not add to total due to inter-group eliminations. Ingredients include China Farms.

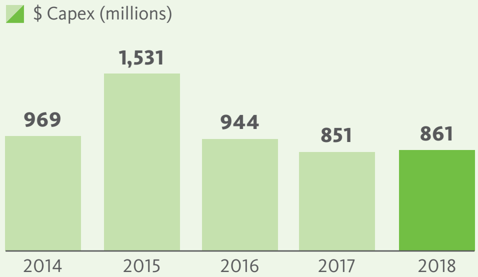
2 Advanced ingredients split only from 2017.

3 Comprises Advanced Ingredients and Consumer and Foodservices products.

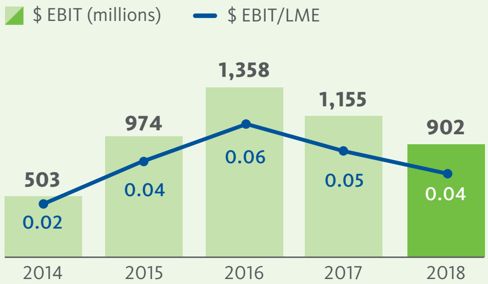
Normalised Gross Margin



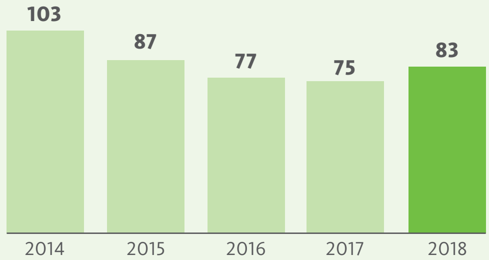
CAPEX[6]



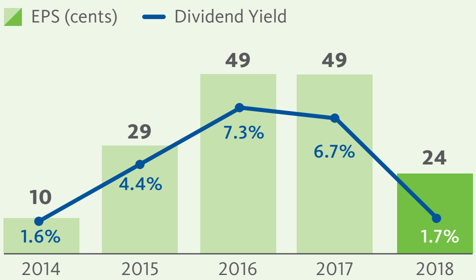
Normalised EBIT



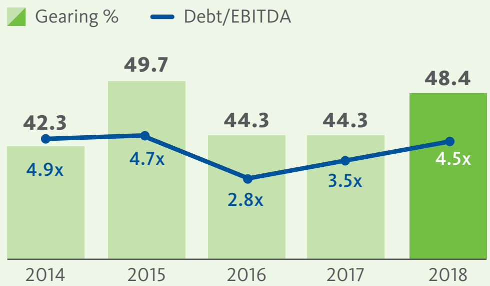
Working Capital Days



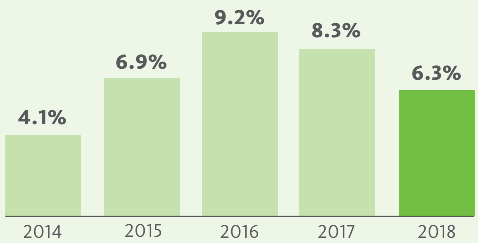
Normalised EPS and Dividend Yield[4]



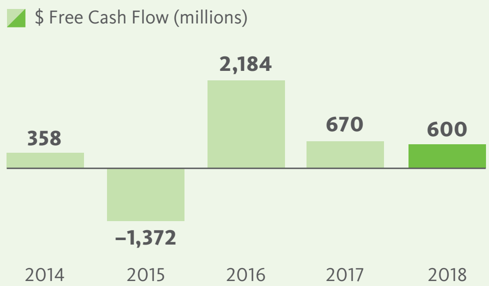
Leverage



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



Free Cash Flow



4 FY18 divided over volume weighted average FCG price of $5.84 across the year.

5 Equity accounted investments.

6 Calculated on the accrual basis.

Group Overview

It was a mixed year for us. On one hand we saw a 9% uplift in the Farmgate Milk Price to $6.69 per kgMS. On the other, our earnings performance was disappointing and well below our targets.

We continued to shift more volume to higher value products but we had less volume to sell due to record low opening inventories and lower milk collections in New Zealand. Our normalised earnings before interest and tax (EBIT) were down 22% to $902 million, including a downward adjustment to the Farmgate Milk Price of 5 cents per kgMS. The lower EBIT was due to the lower sales volumes, tighter margins due to the higher Farmgate Milk Price, especially the increase late in the season, and higher operating costs. We also had two large one off items, the payment for the Danone arbitration award and Beingmate write-down, that significantly impacted our reported EBIT, which was down 77% to $262 million. Our return on capital was unsatisfactory at 6.3%, down 2% compared to last year.

As a result of this disappointing financial performance, we decided to limit our dividend to just the 10 cents paid in April and reduce the Farmgate Milk Price to strengthen our balance sheet and protect the long-term interests of the Co-operative.

	FOR THE YEAR ENDED		
NZD MILLION	31 JULY 2018	31 JULY 2017	CHANGE
Volume (LME, billion)	**22.2**	22.9	(3%)
Volume (000 MT)	**4,123**	4,180	(1%)
Normalised sales revenue	**20,431**	19,214	6%
Normalised gross margin	**3,152**	3,246	(3%)
Normalised gross margin percentage	**15.4%**	16.9%	–
Normalised operating expenses	**(2,496)**	(2,335)	7%
Reported EBIT	**262**	1,120	(77%)
Normalised EBIT[1]	**902**	1,155	(22%)
Net finance costs	**(416)**	(355)	17%
Tax (expense)/credit	**(42)**	(20)	115%
Net (loss)/profit after tax	**(196)**	745	(126%)
Earnings per share (cents)	**(14)**	46	(130%)
Normalised earnings per share (cents)	**24**	49	(51%)
Dividend per share (cents)	**10**	40	(75%)
Adjusted debt to EBITDA[2] (ratio)	**4.5X**	3.5X	–
Gearing ratio[3]	**48.4%**	44.3%	–
Return on capital[4]	**6.3%**	8.3%	–
Free cash flow	**600**	670	(10%)
Capital expenditure	**861**	851	1%

1 This includes the normalisation of Beingmate investment and the Danone arbitration decision.

2 Ratio is economic net interest bearing debt divided by earnings before interest, tax, depreciation and amortisation (EBITDA). Both debt and EBITDA are adjusted for the impact of operating leases.

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

4 Return on capital is calculated as normalised EBIT, less a notional tax charge divided by capital employed. Capital employed includes brands, goodwill and equity-accounted investments. Return on capital, excluding brands, goodwill and equity-accounted investments was 8.0% (31 July 2017: 11.1%).

Net Loss After Tax

$196 m

Normalised EBIT

$902 m

22%

Return on Capital

2%

6.3%

Normalised Earnings Per Share

51%

24 cents

Group Overview CONTINUED

In the 2018 financial year, Fonterra grew total normalised revenue by 6% where higher product pricing offset the decline in overall sales volumes of Liquid Milk Equivalents (LMEs).

Our overall sales volumes of LMEs were down 3% mainly due to the lower sales volumes in our Ingredients business where we had lower opening inventory and lower collections in New Zealand. We continued to sell increased volumes of higher value products with sales of Advanced Ingredients increasing by 334 million LMEs and we also shifted 131 million more LMEs into Consumer and Foodservice. This increased sales volumes in Consumer and Foodservice by 2%, which was below our targets and mainly due to customer demand being impacted by higher prices and increased competition.

Our group normalised gross margin per LME of $0.14 was in line with the previous year. However, the lower sales volumes and higher group operating costs meant normalised EBIT decreased by $253 million to $902 million. After two years of reducing our costs, normalised group operating costs were 7% higher than last year with Ingredients and centrally held costs making up the majority of the increase. In Ingredients we had higher operating costs across the business, including some one-offs. We also had costs for new category growth and higher costs in Australia as we expanded our business. In addition, we had higher IT and R&D expenditure to support the future development of our Co-operative.

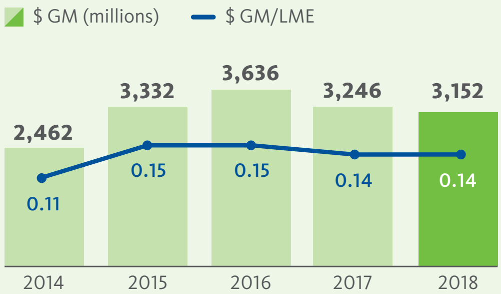
In Ingredients, normalised EBIT decreased by 7% to $879 million. Gross margin in New Zealand Ingredients improved on last year but was offset by other parts of Ingredients and as a result normalised gross margin was stable. The higher operating costs resulted in the lower EBIT.

Normalised EBIT for Consumer and Foodservice was down 9% on last year to $525 million[1]. Higher prices for ingredients, especially for fat products, impacted demand and while we increased prices through our pricing and marketing strategies we were not able to fully recover the higher input costs.

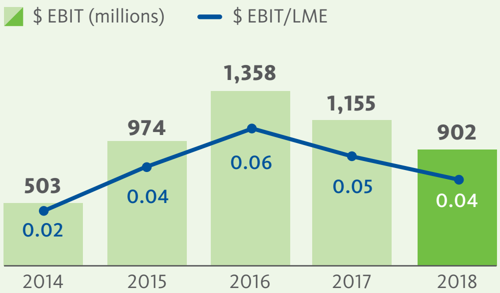
China Farms recorded a direct loss of $9 million for the year. Production, and consequently sales volumes, were down due to some changes in the herd to better match the annual highs and lows in customer demand for milk. We also had to make an unbudgeted investment in our effluent management to meet discharge standards. Next year we expect volumes to increase and on-farm productivity to improve.

Our Ingredients business is responsible for purchasing the raw milk from the farms and capturing the highest value for this milk, and this resulted in an additional $30 million loss. We are progressing our strategy of moving this milk up the value curve through partnerships with the likes of Hema Fresh, Starbucks, McDonald's and other Quick Service Restaurants (QSR) channels. At less than 5% of our milk from China Farms, these are still small volumes but our plan is to continue to grow them over time.

Normalised Gross Margin



Normalised EBIT



1 Normalised EBIT has been restated for FY17 from $614 million to $576 million as we reallocated some group overhead costs to markets.

Net finance costs were $61 million higher than last year due to higher average borrowings and the one-off $26 million interest payment made to Danone. Our gearing ratio increased to 48.4% from 44.3% last year. This included the result of the Danone arbitration award and impairment of Beingmate, which collectively accounted for 3.2% of the decline. Our working capital days went up by eight days from 75 to 83 because of higher carrying values of inventory and receivables, due to the late season increase in the Farmgate Milk Price. Free cash flow, being the cashflow that is available to pay interest and dividends, and to reduce debt, decreased by $70 million to $600 million. This was because of lower earnings, and higher working capital and capital expenditure for the year. Our capital expenditure went up to $861 million compared to $851 million last year and included a number of big projects such as construction of a third mozzarella plant at our Clandeboye site, a cream cheese plant at our Darfield site and the expansion of our Stanhope plant, which will increase its cheese production capacity by 35,000 metric tonnes.

This was a year of challenging operating performance and we are focussed on improving the business performance of all assets. This combined with strong financial discipline will strengthen the balance sheet and improve the return on invested capital.

Normalised Operating Expenses

$2,496m

7%

Free Cash Flow

$600m

10%

Gearing Ratio

4.1%

48.4%

Ingredients

In our Ingredients business normalised sales revenue increased by 7% where higher sales prices more than offset the lower sales volumes due to record low opening inventory and lower collections. Our total normalised gross margin was in line with last year – however, increased operating costs to achieve these gross margins meant our EBIT declined by 7% to $879 million.

Summary Financials

	FOR THE YEAR ENDED		
NZD MILLION	31 JULY 2018	31 JULY 2017	CHANGE
Volume (LME, billion)	**20.5**	21.3	(4%)
Volume ('000 MT)	**2,986**	3,019	(1%)
Normalised sales revenue	**16,306**	15,266	7%
Normalised total gross margin	**1,472**	1,473	0%
– New Zealand ingredients	**1,346**	1,239	9%
Reference products	**555**	428	30%
Non-reference products	**791**	811	(2%)
– Australia ingredients	**77**	78	(1%)
– China raw milk[1]	**(30)**	(38)	
– Other gross margin	**79**	192	(59%)
Normalised EBIT[2]	**879**	943	(7%)
Gross margin ($ per MT) – New Zealand Ingredients			
Reference products ($ per MT)	**309**	232	33%
Non-reference products ($ per MT)	**1,275**	1,165	9%
Return on capital[3]	**8.3%**	9.8%	–

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

2 Normalised EBIT for Ingredients excludes unallocated costs.

3 Return on capital is calculated as normalised EBIT, less a notional tax divided by capital employed. Capital employed includes brands, goodwill and equity-accounted investments. Return on capital, excluding brands, goodwill and equity-accounted investments was 8.2% (31 July 2017: 10.3%).

Volume

Milk collection across New Zealand for the 2017/18 season was 1,505 million kgMS, down 1% compared to the previous season. Difficult weather conditions were the prevailing theme this season with some regions hit harder than others. Many North Island and upper South Island farmers experienced extremely wet conditions in spring causing damage to their pasture, stunting both grass growth and supplementary feed production. This was followed, in some regions, by difficult dry conditions which affected pasture growth across the rest of the season.

In Australia, milk collection for the 2017/2018 season reached 153 million kgMS, 30 million kgMS higher than the 2016/17 season. Strong volume growth in Australia was predominantly due to increased market share as we gained supply from competitors.

Ingredients' sales volumes were down 4% for the year, driven by the lower opening inventories and the lower collections in New Zealand. This year we increased sales of Advanced Ingredients by 334 million LMEs, which is consistent with our strategy of shifting more of our farmers' milk into higher value products. The main products that contributed to the increased sales of Advanced Ingredients were premium consumer powders into the Middle East and South East Asia.

Value

Ingredients' revenues were up 7% on last year due to higher commodity prices and higher sales volumes in Australia, offsetting the lower opening inventory and milk collections in New Zealand.

Our New Zealand Ingredients business manufactures five ingredient products that inform the Farmgate Milk Price. These are referred to as reference products, while all other products are referred to as non-reference products. Revenue per metric tonne for reference products was up 14% and remained largely flat for non-reference products.

Total Ingredients' normalised gross margin was in line with last year, and includes the adjustment to the milk price of 5 cents per kgMS, benefitting gross margin by $74 million. This was achieved on a lower sales volume and therefore represents an improved gross margin per LME.

New Zealand Ingredients' gross margin increased 9% to $1,346 million. Gross margins for reference products were $555 million, or $309 on a per metric tonne basis, which represents an increase of 33%. This included recovering pricing lags from the previous year and is in line with the margin per metric tonne for FY16.

The gross margins for non-reference products were $791 million, down 2% on last year because of lower sales volumes. Gross margin per metric tonne for non-reference products was 9% higher at $1,275.

Australian ingredients' gross margin was in line with last year including a planned 40 cents per kgMS payment to suppliers. EBIT decreased by 44% because last year included some one-off benefits that were not repeated this year.

The overall Ingredients' gross margin was also impacted by a $30 million loss representing the difference between the domestic milk price and the internal raw milk price paid to China Farms. Last year this loss was $38 million. We include the China Farms' volumes and earnings in Ingredients as we use our sales expertise to maximise sales revenue of the raw milk.

The improved gross margin for New Zealand Ingredients was off-set by lower margins in "Other gross margin". This included a reduction in profitability from globally sourced products and last year we had a number of one-off benefits that were not repeated this year.

Overall, normalised gross margin was in line with last year but our operating costs were higher and there were some one-offs. In addition, we had costs for new category growth and higher costs in Australia as we expanded our business. This resulted in normalised EBIT of $879 million, down 7% on last year.

Added

334 million LMEs to Advanced Ingredients

Normalised Total Gross Margin

$1,472m in line with 2017

New Zealand Ingredients' Revenue and Volume[1]

NZD MILLION	FOR THE YEAR ENDED 31 JULY 2018	31 JULY 2017	CHANGE
Production Volume ('000 MT)			
Reference products	**1,849**	1,837	1%
Non-reference products	**762**	749	2%
Sales Volume ('000 MT)[2]			
Reference products	**1,794**	1,841	(3%)
Non-reference products	**620**	696	(11%)
Revenue Per MT (NZD)[2]			
Reference products	**4,851**	4,262	14%
Non-reference products	**5,637**	5,567	1%

1 Table excludes bulk liquid milk. The bulk liquid milk volume for the year ended 31 July 2018 was 68,000 MT of kgMS equivalent (year ended 31 July 2017 was 76,000 MT of kgMS equivalent).

2 Revenue and sales volume exclude Foodservice volumes to China, Latin America and Quick Service Restaurant channels. This volume for the year ended 31 July 2018 was 198,000 MT (year ended 31 July 2017 was 143,000 MT).

Consumer and Foodservice

We continued to move more volume into our higher value Consumer and Foodservice business where our sales volumes grew by 131 million LMEs, 2% up on last year.

This was less than our targeted growth and was mainly due to higher prices, product mix changes and the underperformance of our New Zealand business. We achieved volume growth in all other regions with the strongest growth from our Greater China business.

Higher ingredient prices meant significantly higher input prices in both our Consumer and Foodservice businesses.

Through our pricing strategies and brand strength our increased prices contributed an additional $551 million to earnings but this was not sufficient to cover the additional $626 million of costs we incurred from the higher input costs. As a result, our normalised EBIT was down 9% on last year to $525 million[1].

Summary Financials

	FOR THE YEAR ENDED		
$ MILLION	31 JULY 2018	31 JULY 2017	CHANGE
Volume (LME, billion)	**5.6**	5.5	2%
– Consumer	**3.2**	3.1	0%
– Foodservice	**2.4**	2.3	6%
Volume ('000 MT)	**1,798**	1,783	1%
Normalised sales revenue	**7,122**	6,517	9%
Normalised gross margin	**1,683**	1,744	(3%)
Gross margin (%)	**24%**	27%	–
– Consumer	**28%**	29%	–
– Foodservice	**16%**	22%	–
Normalised EBIT	**525**	576	(9%)
Return on capital[2]	**8.3%**	9.3%	–

Normalised EBIT: key performance drivers

	FOR THE YEAR ENDED	
$ MILLION	31 JULY 2018	31 JULY 2017
Normalised EBIT prior year	**576**	580
Volume	**14**	(16)
Price	**551**	278
Cost of goods sold	**(626)**	(329)
Operating expenses and other[3]	**10**	63
Normalised EBIT	**525**	576

1 Normalised EBIT has been restated for FY17 from $614 million to $576 million as we reallocated some group overhead costs to markets.

2 Return on capital is calculated as normalised EBIT, less notional tax charge divided by capital employed. Capital employed includes brands, goodwill and equity-accounted investments. Return on capital, excluding brands, goodwill and equity-accounted investments was 35.1% (31 July 2017: 42.7%).

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

Volume by region

Greater China

In Greater China our volumes went up 11% driven by strong growth in Mainland China. Consumer volumes increased 24% on last year with strong growth in all Anchor™ products. Based on market share, Anchor™ UHT milk is now the number one imported milk in Mainland China, in both e-commerce and offline channels. Foodservice volumes increased 9% on last year with continued momentum in UHT culinary cream through expansion into new cities and our launch of a beverage house channel which includes tea houses that sell tea macchiatos. In Greater China Foodservice there was a significant shift in product mix from butter to culinary UHT creams due to the increase in butter prices. Butter has a high ratio of LMEs per metric tonne so this shift in our product mix was one of the key reasons our LME growth in Greater China was not as high as the previous year.

Latin America

Latin America delivered 12 million more LMEs than last year. Soprole™ had another strong year with its volumes up 31 million LMEs which is 7% up on last year. We had lower sales in Venezuela as the socio-economic situation impacted consumer demand and there were also difficulties accessing the raw ingredients and packaging materials to run the factories at optimal levels. In Brazil there were also difficult economic conditions but we were able to keep volumes in line with last year. We were able to extend our leadership positions in the children's category and in the northeast of Brazil.

Asia

We had consistent growth across all Asian, Middle East and African markets. Volumes were up by 71 million LMEs, a 4% increase on last year – this includes growth in both Consumer and Foodservice. We achieved our strongest growth in Consumer in Malaysia and Sri Lanka. In Foodservice, the Middle East, Vietnam and Thailand had strong performances with volume growth from butter in the Middle East and cream in Vietnam and Thailand. In Consumer, growth was driven by Fernleaf powders in Malaysia, the launch of our Red Cow brand in Sri Lanka and the Middle East and the re-launch of Anlene™ across the Asian region.

Oceania

Volumes were down 5% because of challenges in our New Zealand business and marginally lower volumes in Australia. New Zealand's volumes were down 70 million LMEs, 9% lower than last year. This was due to the issues with our move to a new distribution centre, which we highlighted in our interim results, combined with higher prices and changes in consumer preferences. We have now put in place a plan for turning around New Zealand's performance. In Australia, Foodservice volumes were flat. Excluding the Wagga Wagga Route business divested in October 2016, Consumer achieved a volume increase versus 2017. This was primarily due to liquid milk, Western Star butter sales and recently launched Western Star cream.

Greater China LME
1,413 million ▲ 11%

Latin America LME
747 million ▲ 2%

Asia LME
1,773 million ▲ 4%

Oceania LME
1,656 million ▼ 5%

Consumer and Foodservice CONTINUED

Consumer and Foodservice Performance

	LME (BILLION)			NORMALISED EBIT ($M)		
	YEAR ENDED 31 JULY 2018	YEAR ENDED 31 JULY 2017	CHANGE	YEAR ENDED 31 JULY 2018	YEAR ENDED 31 JULY 2017	CHANGE
Greater China	**1.41**	1.28	11%	**165**	204	(19%)
Latin America	**0.75**	0.74	2%	**117**	91	29%
Asia	**1.77**	1.70	4%	**176**	194	(10%)
Oceania	**1.66**	1.74	(5%)	**67**	87	(23%)
Consumer and Foodservice	**5.59**	5.46	2%	**525**	576	(9%)

Value by region

Greater China

In Greater China, we delivered normalised EBIT of $165 million, down 19% on last year's $204 million. Foodservice margins declined to 15.2% compared to 23.7% last year. The main reason was an increase in input costs as fat prices rose significantly and impacted the profitability of butter. In addition, there was also increased competition in UHT cream from Europe. Our pricing strategy was set to maintain our market share so we can benefit from future product price increases. Consumer gross margins were steady, and combined with increased volumes, this business broke-even two years ahead of our business plan. This was achieved through the popularity of Anchor™ UHT milk which holds the number one market share in the imported UHT milk category, for both the online and offline channels. In addition, the launch of Anchor™ ambient yoghurt and the Daily Fresh milk range into Alibaba's new premium food stores, Hema Fresh, contributed to this result.

Latin America

Latin America increased EBIT by 29% from $91 million in 2017 to $117 million in 2018. This was driven by another year of solid performance from Soprole™ in the mature cheese and yogurt categories. In addition, Brazil turned around its performance and went from a loss position to breakeven in a challenging economic environment. In Brazil's children's category, we grew our market share ahead of our competitors and now hold 32% market share by value. There was a one-off benefit of around $14 million from restructuring our USD obligations in Venezuela.

Asia

Asia delivered EBIT of $176 million compared to last year's $194 million, down 10%. In Consumer, our pricing strategies and marketing initiatives enabled us to keep our gross margin percentage in line with last year. However, price controls in some local markets did impact our profitability because we were not able to fully pass through higher input costs. This impacted us most significantly in Sri Lanka. We launched our Red Cow brand in Sri Lanka and the Middle East to support growth in these regions. The lower price point makes it attractive to customers and contributes to our margin. In Foodservice, we increased our sales volumes by 6% but the higher input costs meant our margins and profitability were down on last year.

Oceania

Oceania delivered EBIT of $67 million, 23% less than last year. This lower profitability was due to operational challenges in New Zealand which experienced lower margins from the higher than expected costs involved in moving to and starting up our new distribution centre. This also impacted customer service levels and sales volumes, which were down 9% on last year. In addition, butter sales declined because of higher prices. However, in Australia, we were able to maintain our number one market share position in cheese and spreads.

Added

131 million LMEs to Consumer and Foodservice

Latin America EBIT

$117m

29%

Oceania EBIT

$67m

23%

China Farms

Our farming operations in China are comprised of seven farms across two hubs, producing high quality fresh milk.

Volume

Yutian is our most established hub with around 17,000 milking cows. Our second hub, Ying, is our newest hub with around 14,000 milking cows.

Excluding one-off milk powder sales in FY17, sales volumes decreased by 12% to 273 million LMEs this year. This was predominantly due to lower production as changes are made to the herd profile to improve its future productivity. As these changes take effect, we expect volumes to increase 10% per annum to reach 370 million LMEs by 2021.

Value

Our strategy for China Farms is to deliver the highest value through integrating them into our Ingredients and Consumer and Foodservice businesses in Greater China. China Farms' partnerships with Hema Fresh, Starbucks, McDonald's and other QSR channels continue to build positive momentum, as its raw milk goes into higher value channels. At less than 5% of our milk from China Farms these are still small but our plan is to continue to grow them over time.

We also aim to reduce our cost base on an ongoing basis. However, this year several one-off costs to meet discharge standards combined with higher feed costs due to tariffs and higher commodity prices have impacted earnings, resulting in a direct normalised EBIT loss of $9 million. Excluding these one-offs, China Farms have reduced their costs by 6% since 2016 and will continue to focus on improving their cost base through operational and procurement efficiencies.

Our Ingredients business is responsible for purchasing the raw milk from the farms and capturing the highest value for this milk, and this resulted in an additional $30 million loss.

Launched the Daily Fresh milk range
into Alibaba's new premium food stores, Hema Fresh

Sales volumes

12%[1] 273 million LMEs

Costs down

6% since 2016

	FOR THE YEAR ENDED		
NZD MILLION	31 JULY 2018	31 JULY 2017	CHANGE
Volume (LME, billion)	**0.3**	0.3	(19%)
Volume (000 MT)	**22**	26	(15%)
Sales revenue	**262**	269	(3%)
Normalised EBIT	**(9)**	1	(1,734%)

1 Excluding one-off milk powder sales in FY17.

Historical Financial Summary

Market Statistics

	JULY 2018	JULY 2017	JULY 2016	JULY 2015	JULY 2014
Fonterra Seasonal Statistics					
Total New Zealand milk collected (million litres)	**16,932**	17,051	17,585	18,143	17,932
Highest daily volume collected (million litres)	**82.0**	80.1	86.9	89.7	87.1
New Zealand shareholder supply milk solids collected (million kgMS)	**1,404**	1,417	1,453	1,520	1,533
New Zealand contract supply milk solids collected (million kgMS)	**101**	109	113	94	51
New Zealand milk solids collected (million kgMS)	**1,505**	1,526	1,566	1,614	1,584
Total number of shareholders at 31 May	**10,162**	10,267	10,579	10,753	10,721
Total number of sharemilkers at 31 May	**2,712**	2,722	3,098	3,379	3,398
Total number of shares on issue at 31 May (million)	**1,612**	1,607	1,602	1,599	1,598
Shareholder Supplier Returns					
Payout					
Farmgate Milk Price (per kgMS)[2]	**6.69**	6.12	3.90	4.40	8.40
Dividend (per share)	**0.10**	0.40	0.40	0.25	0.10
Dividend yield (%)[3]	**1.7**	6.7	7.3	4.4	1.6
Cash payout (per share)[4]	**6.79**	6.52	4.30	4.65	8.50
Retentions (per share)[5]	**–**	0.06	0.11	0.04	–
Weighted average share price ($ NZD)[6]	**5.84**	5.96	5.48	5.60	6.26
Ingredient Price					
Weighted average commodity prices ($ USD per MT FOB)					
Whole Milk Powder[7]	**3,091**	2,855	2,111	2,639	4,824
Skim Milk Powder[7]	**1,968**	2,216	1,803	2,552	4,504
Butter[7]	**5,575**	4,221	2,830	3,027	3,920
Cheese[8]	**3,853**	3,763	2,766	3,477	4,706
Fonterra's average NZD/USD conversion rate[9]	**0.71**	0.70	0.71	0.79	0.81
Staff Employed					
Total staff employed (000s, permanent full-time equivalents)	**21.5**	21.4	21.3	22.0	18.2
New Zealand	**11.9**	11.7	11.4	11.9	11.4
Overseas	**9.6**	9.7	9.9	10.1	6.8

Group Overview

	JULY 2018	JULY 2017	JULY 2016	JULY 2015	JULY 2014
Income					
Volume (liquid milk equivalents, billion)[10]	**22.2**	22.9	23.7	22.8	22.2
Volume (000s MT)[10]	**4,123**	4,180	4,313	4,303	3,965
Sales revenue ($ million)	**20,438**	19,232	17,199	18,845	22,275
Normalised EBITDA ($ million)[11]	**1,446**	1,681	1,928	1,535	1,041
Normalised EBIT ($ million)[12]	**902**	1,155	1,358	974	503
Normalised NPAT ($ million)[13]	**382**	781	789	456	157
Reported earnings per share	**(0.14)**	0.46	0.51	0.29	0.10
Normalised earnings per share	**0.24**	0.49	0.49	0.29	0.10
Revenue Margin Analysis (Normalised)					
EBITDA[14]	**7.1%**	8.7%	11.2%	8.1%	4.7%
EBIT[15]	**4.4%**	6.0%	7.9%	5.2%	2.3%
NPAT[16]	**1.9%**	4.1%	4.6%	2.4%	0.7%
Cash flow ($ million)					
Operating cash flow[17]	**1,548**	1,376	3,278	668	1,367
Free cash flow	**600**	670	2,184	(1,372)	358
Net working capital[18]	**3,156**	2,779	1,857	3,363	4,013
Capital Measures					
Equity excluding hedge reserve ($ million)	**6,616**	7,056	6,883	7,196	6,452
Economic net interest-bearing debt ($ million)[19]	**6,199**	5,601	5,473	7,120	4,732
Economic debt to debt plus equity ratio[20]	**48.4%**	44.3%	44.3%	49.7%	42.3%
Net debt/EBITDA[21]	**4.5x**	3.5x	2.8x	4.7x	4.9x
Capital employed ($ million)[22]	**9,552**	9,093	9,392	9,487	8,493
Capital expenditure ($ million)[23]	**861**	851	944	1,531	969
Return on capital (including intangibles and EAI)[24]	**6.3%**	8.3%	9.2%	6.9%	4.1%
Return on capital (excluding intangibles and EAI)[25]	**8.0%**	11.1%	12.4%	8.9%	4.7%

Historical Financial Summary CONTINUED

Regional Breakdown – Ingredients[26]

	JULY 2018	JULY 2017	JULY 2016
Sales Volume (000 MT)[27]			
Reference Products	**1,794**	1,841	1,920
Non-reference Products	**620**	696	720
Revenue ($/MT)[27]			
Reference Products	**4,851**	4,262	3,276
Non-reference	**5,637**	5,567	4,972
Gross Margin ($/MT)			
Reference Products	**309**	232	330
– Margin	**6.4%**	5.4%	10.1%
Non-reference Products	**1,275**	1,165	1,348
– Margin	**22.6%**	20.9%	27.1%
Ingredients			
Volume (liquid milk equivalents, million)[10]	**20,520**	21,305	22,390
Volume (000s MT)[10]	**2,986**	3,019	3,074
Revenue ($ million)	**16,306**	15,266	13,005
Gross margin ($ million)	**1,472**	1,473	1,860
Gross margin %[28]	**9.0%**	9.7%	14.3%
Normalised earnings ($ million)	**879**	943	1,204
Normalised earnings margin %[29]	**5.4%**	6.2%	9.3%

Divisional Breakdown – Ingredients[30,31]

	JULY 2018	JULY 2017	JULY 2016
Global Ingredients And Operations			
– Volume (liquid milk equivalents, million)[10]	18,427	19,369	20,350
– Volume (000s MT)[10]	2,778	2,879	2,911
– Revenue ($ million)	14,564	14,087	11,835
– Gross margin ($ million)	1,297	1,333	1,733
– Gross margin %[28]	8.9%	9.5%	14.6%
Fonterra Ingredients Australia			
– Volume (liquid milk equivalents, million)[10]	1,755	1,619	1,600
– Volume (000s MT)[10]	350	305	316
– Revenue ($ million)	1,877	1,522	1,396
– Gross margin ($ million)	77	78	58
– Gross margin %[28]	4.1%	5.1%	4.2%
Other And Eliminations			
– Volume (liquid milk equivalents, million)[10]	338	317	440
– Volume (000s MT)[10]	(142)	(165)	(153)
– Revenue ($ million)	(135)	(343)	(226)
– Gross margin ($ million)	98	62	69

Regional Breakdown – Consumer And Foodservice[32]

	JULY 2018	JULY 2017	JULY 2016
Oceania			
Volume (liquid milk equivalents, million)[10]	**1,656**	1,743	1,834
Volume (000s MT)[10]	**623**	636	698
Revenue ($ million)	**2,159**	1,952	2,051
Gross margin ($ million)	**433**	438	444
Gross margin %[28]	**20.1%**	22.4%	21.6%
Normalised earnings ($ million)	**67**	87	97
Normalised earnings margin %[29]	**3.1%**	4.5%	4.7%
Asia			
Volume (liquid milk equivalents, million)[10]	**1,773**	1,703	1,549
Volume (000s MT)[10]	**331**	310	292
Revenue ($ million)	**1,865**	1,810	1,944
Gross margin ($ million)	**456**	501	599
Gross margin %[28]	**24.5%**	27.7%	30.8%
Normalised earnings ($ million)	**176**	194	244
Normalised earnings margin %[29]	**9.4%**	10.7%	12.6%
Greater China			
Volume (liquid milk equivalents, million)[10]	**1,413**	1,278	874
Volume (000s MT)[10]	**266**	237	167
Revenue ($ million)	**1,564**	1,277	916
Gross margin ($ million)	**335**	359	329
Gross margin %[28]	**21.4%**	28.1%	35.9%
Normalised earnings ($ million)	**165**	204	131
Normalised earnings margin %[29]	**10.5%**	16.0%	14.3%
LATAM			
Volume (liquid milk equivalents, million)[10]	**747**	735	623
Volume (000s MT)[10]	**578**	600	643
Revenue ($ million)	**1,534**	1,478	1,385
Gross margin ($ million)	**459**	446	436
Gross margin %[28]	**29.9%**	30.2%	31.5%
Normalised earnings ($ million)	**117**	91	108
Normalised earnings margin %[29]	**7.6%**	6.1%	7.8%
Total Consumer And Foodservice			
Volume (liquid milk equivalents, million)[10]	**5,590**	5,459	4,882
Volume (000s MT)[10]	**1,798**	1,783	1,800
Revenue ($ million)	**7,122**	6,517	6,296
Gross margin ($ million)	**1,683**	1,744	1,808
Gross margin %[28]	**23.6%**	26.8%	28.7%
Normalised earnings ($ million)	**525**	576	580
Normalised earnings margin %[29]	**7.4%**	8.8%	9.2%

Historical Financial Summary CONTINUED

Regional Breakdown – Consumer[30,31]

	JULY 2018	JULY 2017	JULY 2016
Oceania			
Volume (liquid milk equivalents, million)[10]	**1,228**	1,309	1,415
Volume (000s MT)[10]	**525**	538	599
Revenue ($ million)	**1,644**	1,508	1,618
Gross margin ($ million)	**340**	355	354
Gross margin %[28]	**20.7%**	23.5%	21.9%
Asia			
Volume (liquid milk equivalents, million)[10]	**1,131**	1,104	1,030
Volume (000s MT)[10]	**233**	220	215
Revenue ($ million)	**1,238**	1,284	1,482
Gross margin ($ million)	**377**	402	492
Gross margin %[28]	**30.5%**	31.3%	33.2%
Greater China			
Volume (liquid milk equivalents, million)[10]	**139**	112	76
Volume (000s MT)[10]	**71**	58	43
Revenue ($ million)	**343**	269	233
Gross margin ($ million)	**149**	120	105
Gross margin %[28]	**43.0%**	44.6%	45.1%
Latin America			
Volume (liquid milk equivalents, million)[10]	**653**	637	543
Volume (000s MT)[10]	**550**	569	613
Revenue ($ million)	**1,418**	1,363	1,289
Gross margin ($ million)	**429**	414	405
Gross margin %[28]	**30.3%**	30.4%	31.4%
Total Consumer			
Volume (liquid milk equivalents, million)[10]	**3,151**	3,162	3,064
Volume (000s MT)[10]	**1,379**	1,384	1,470
Revenue ($ million)	**4,643**	4,424	4,622
Gross margin ($ million)	**1,295**	1,291	1,359
Gross margin %[28]	**27.9%**	29.2%	29.4%

Regional Breakdown – Foodservice[30, 31]

	JULY 2018	JULY 2017	JULY 2016
Oceania			
Volume (liquid milk equivalents, million)[10]	**427**	433	419
Volume (000s MT)[10]	**98**	98	99
Revenue ($ million)	**515**	444	433
Gross margin ($ million)	**93**	83	90
Gross margin %[28]	**18.1%**	18.8%	20.8%
Asia			
Volume (liquid milk equivalents, million)[10]	**643**	599	520
Volume (000s MT)[10]	**98**	90	77
Revenue ($ million)	**627**	526	462
Gross margin ($ million)	**79**	99	107
Gross margin %[28]	**12.6%**	18.8%	23.2%
Greater China			
Volume (liquid milk equivalents, million)[10]	**1,273**	1,166	798
Volume (000s MT)[10]	**195**	179	124
Revenue ($ million)	**1,221**	1,008	683
Gross margin ($ million)	**186**	239	224
Gross margin %[28]	**15.2%**	23.7%	32.8%
Latin America			
Volume (liquid milk equivalents, million)[10]	**94**	97	80
Volume (000s MT)[10]	**28**	32	30
Revenue ($ million)	**116**	115	96
Gross margin ($ million)	**30**	32	31
Gross margin %[28]	**25.9%**	27.8%	32.3%
Total Foodservice			
Volume (liquid milk equivalents, million)[10]	**2,437**	2,295	1,817
Volume (000s MT)[10]	**419**	399	330
Revenue ($ million)	**2,479**	2,093	1,674
Gross margin ($ million)	**388**	453	452
Gross margin %[28]	**15.7%**	21.7%	27.0%

Historical Financial Summary CONTINUED

Operating Performance – China Farms

	JULY 2018	JULY 2017	JULY 2016
Volume (liquid milk equivalents, million)[10]	**273**	335	229
Volume (000s MT)[10]	**22**	26	16
Revenue ($ million)	**262**	269	183
Gross margin ($ million)	**5**	23	(40)
Gross margin %[28]	**1.9%**	8.6%	(22.0%)
Normalised earnings ($ million)	**(9)**	1	(59)
Normalised earnings margin %[29]	**(3.4%)**	0.4%	(32.2%)

Notes to the Historical Financial Summary

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

2 From the beginning of the 2009 season the Farmgate Milk Price has been determined by the Board. In making that determination, the Board takes into account the Farmgate Milk Price calculated in accordance with the principles set out in the Farmgate Milk Price Manual.

3 FY18 dividend over volume weighted average FCG price of $5.84 for the period 1 Aug-31 Jul.

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

5 Retentions are calculated as net profit after tax attributable to Co-operative shareholders at 31 July divided by the number of shares at 31 May, less dividend per share.

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

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

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

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

10 Includes sales to other strategic platforms. Represents external sales.

11 Normalised earnings before interest, tax, depreciation and amortisation and is calculated as profit for the period before net finance costs, tax, depreciation and amortisation.

12 Represents segment earnings before unallocated finance income, finance costs and tax. For the years ended 31 July 2016, 2015 and 2014, Greater China has been disclosed separately in alignment with the disclosures in the segment note. For the years ended 31 July 2013 and earlier, Greater China was part of Asia. The year ended 31 July 2015 has been restated to reflect changes to the organisation of business units that occurred in the year ended 31 July 2016. The year ended 31 July 2014 has been restated to reflect changes to the organisation of business units that occurred in the year ended 31 July 2015.

13 Normalised Net Profit after Tax attributable to equity holders of the Parent.

14 Normalised EBITDA divided by sales revenue.

15 Normalised EBIT divided by sales revenue.

16 Normalised net profit after tax divided by sales revenue.

17 Cash flow generated by normal business operations, less net taxes paid.

18 Working Capital is calculated as current trade receivables plus inventories, less current trade payables and accruals. It excludes amounts owing to suppliers and employee entitlements.

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

20 Economic debt to debt plus equity ratio is calculated as economic net interest-bearing debt divided by economic net interest-bearing debt plus equity excluding hedge reserves.

21 Debt payback ratio is economic net interest bearing debt divided by EBITDA. Both debt and EBITDA are adjusted for the impact of operating leases.

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

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

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

25 Return on capital is calculated as normalised EBIT, less equity accounted investees' earnings, less a notional tax charge, divided by capital employed.

26 Figures excludes bulk liquid milk. The bulk liquid milk volume for the year ended 31 July 2018 was 68,000 MT of kgMS equivalent (year ended 31 July 2017 was 76,000 MT of kgMS equivalent).

27 Revenue and sales volume exclude Foodservice volumes to China, Latin America and Quick Service Restaurant channels. This volume for the year ended 31 July 2018 was 198,000 MT (year ended 31 July 2017 was 143,000 MT).

28 Normalised gross margin divided by sales revenue.

29 Normalised EBIT divided by revenue.

30 Adjusted to reflect normalisation adjustments.

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

32 Includes share of Consumer and Foodservice overhead allocations, the total impact of which is $59 million.

Corporate Governance

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

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

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

This Corporate Governance statement is current as at 13 September 2018 and has been approved by the Fonterra Co-operative Group Limited Board.

CHANGES TO THE FONTERRA BOARD

In line with the changes approved by farmer shareholders in October 2016, from 2 November 2017 the number of Directors elected by farmer shareholders (Farmer Directors) on the Board is not more than seven, with not more than four Directors appointed by the Board (Appointed Directors). There were a number of changes to the Fonterra Board during the financial year ending 31 July 2018. In November 2017:

– Mr David Jackson, an Appointed Director, retired and Mr Bruce Hassall was appointed to the Board to fill this vacancy.

– Mr Ian Farrelly's appointment to the Board completed.

– Ms Leonie Guiney and Mr David McLeod, both Farmer Directors, retired from the Board and Mr Brent Goldsack and Mr Andrew Macfarlane were elected to the Board as Farmer Directors.

COMPLIANCE WITH BEST PRACTICE GOVERNANCE STANDARDS

The Board's governance framework takes into consideration contemporary standards in New Zealand and Australia, including the principles in the NZX Corporate Governance Code which came into effect for reporting periods from 1 October 2017 (NZX Code).

Fonterra focusses on governance in a way that promotes:

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

Corporate Governance CONTINUED

Principle 1: Code of Ethical Behaviour

CODE OF ETHICS

A culture of honesty and integrity is integral to Fonterra's reputation and commitment to become the world's most trusted source of dairy nutrition. Fonterra expects its Directors, officers and employees to maintain high ethical standards and to operate ethically and legally in the countries where we do business, underpinned by its four values - especially 'Do What's Right'.

Fonterra's code of ethics is made up of three documents: Code of Business Conduct - The Way We Work, the Board Charter and Fonterra's Ethical Behaviour Group Policy. These documents set clear expectations for our Directors and employees regarding ethical behaviour including the requirement for honesty and integrity, dealing with conflicts of interest, the use of corporate information and assets and property, giving and receiving gifts, procedures for whistle blowing and managing breaches. All three documents are required to be reviewed and approved annually. The Board has also developed a Code of Conduct for Directors.

The Way We Work also provides practical guidance on how to apply Fonterra's four values in everyday situations with farmer shareholders, unitholders, customers, suppliers and the wider community.

Fonterra's Ethical Behaviour Group Policy and The Way We Work are published in multiple languages and are available to all employees on Fonterra's intranet. As with other Fonterra Group Policies, employee training is included within Fonterra's global induction programme and annually refreshed. Individuals are assessed to ensure understanding of Group Policies and an annual certification process promotes compliance.

Fonterra funds an independently operated whistle-blowing hotline. The hotline gives individuals a confidential channel (by phone, email, mail, or online) to report concerns about behaviour that is unethical or does not meet the standards described in The Way We Work. This hotline is available in all regions where Fonterra operates. In the 2018 financial year, 42 disclosures were made globally to the hotline. All disclosures were fully investigated, appropriate action taken and timely updates made available to the whistle-blower.

Fonterra operates a Conflict of Interest Register where employees must enter all actual or potential conflict of interests. Fonterra also operates a Gift & Entertainment Register where employees must record all gifts given or received, and hospitality and entertainment with third parties. The Way We Work, the Board Charter and Fonterra's Ethical Behaviour Group Policy are available on www.fonterra.com.

SECURITIES TRADING POLICY

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

The Securities Trading Policy is available, along with other key Group Policies on www.fonterra.com.

All Directors comply with the legislative requirements for disclosing interests in listed voting securities of Fonterra and its related companies.

Principle 2: Board Composition and Performance

BOARD CHARTER

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

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

BOARD APPOINTMENTS

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

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

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

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

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

Corporate Governance CONTINUED

A three member Independent Selection Panel recommends appropriate candidates to the Board's Nominations Committee to be put to farmer shareholders for their consideration to be elected as Farmer Directors. The members of the Independent Selection Panel are all independent of Fonterra. One member is appointed by the Board, one by the Shareholders' Council and a third appointed by the other two members of the panel. In addition to candidates recommended by the Nominations Committee, there is a self-nomination process where candidates can propose themselves for election as Farmer Directors with the support of 35 shareholders.

The Farmer Directors are elected by postal ballot and online voting by farmer shareholders. The voting packs circulated to all farmer shareholders include biographical information on each candidate including relevant skills and experience. The elections are overseen by the Shareholders' Council.

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

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

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

DIRECTOR INDEPENDENCE

The rules of the Fonterra Shareholders' Market (FSM Rules) require Fonterra to have a minimum of two Independent Directors or if there are eight or more Directors, three or one-third of the total number of Directors of Fonterra, whichever is greater. With Fonterra's current Board of 11 Directors, four must be Independent Directors.

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

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

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

As at 31 July 2018, Clinton Dines, Bruce Hassall, Simon Israel and Scott St John each did not have (and continue not to have) any disqualifying relationship in relation to Fonterra and were therefore Independent Directors. David Jackson was an Independent Director until his resignation with effect from 2 November 2017.

John Monaghan, who is a Farmer Director, is the Board-elected Chairman.

DISCLOSURE

Information about each Director (including experience, length of service, independence and ownership interests) is disclosed at the end of this section or in the statutory information section of this Annual Review, and is also available on www.fonterra.com.

DIVERSITY & INCLUSION POLICY

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

Fonterra has published its Diversity and Inclusion Policy on www.fonterra.com and appointed a dedicated Diversity and Inclusion Manager to drive our global strategic framework.

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

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

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

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

DIVERSITY AND INCLUSION TARGET AND OBJECTIVES

In 2018, Fonterra formalised its commitment to increasing the representation of women and ethnic minorities within senior leadership levels. The Board approved aspirational targets and objectives to increase women in leadership from current levels of around 33% to 50%[1] by 2022 and further targeting a mix of 20% ethnic diversity within global leadership levels[2].

To achieve our gender and ethnicity targets, the objective of ensuring a balance of 50/50 gender balance which comprises 20% ethnic diversity of candidates for long and short-lists for leadership roles was agreed by the Board. All selection decisions continue to be made on merit.

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

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

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

Corporate Governance CONTINUED

EXECUTIVE LEADERSHIP GENDER COMPOSITION

As at 31 July 2017

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

As at 31 July 2018
The gender composition of Fonterra Management Team members remains unchanged between 2017 and 2018.

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

BOARD GENDER COMPOSITION

As the majority of Directors are appointed by farmer shareholders through an independent process, the Board has not adopted gender targets for the Board in 2018. The Board remains committed to addressing the gender composition of the Board, including by building a pipeline of Directors through the Fonterra Governance Development Programme and through the independent Farmer Director election process.

As at 31 July 2017

BOARD	GENDER			
FTE	MALE	FEMALE	GENDER DIVERSE	UNDECLARED
12	9	3	–	–
%	75%	25%	0%	0%

As at 31 July 2018
As at 31 July 2018 the gender composition of Board members comprised two female and nine male Directors.

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

ONGOING TRAINING

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

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

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

Corporate Governance CONTINUED

ASSESS PERFORMANCE

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

DIVISION OF ROLES

The Chairperson and Chief Executive roles at Fonterra are not exercised by the same individual.

Principle 3: Board Committees

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

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

COMMITTEE OR GROUP	MEMBERSHIP AS AT 31 JULY 2018		PURPOSE
People, Culture and Safety Committee	John Wilson (Chair) Ashley Waugh John Monaghan Simon Israel (Independent)	Clinton Dines (Independent) Bruce Hassall (observer)	To assist the Board in fulfilling its governance responsibilities in relation to the recruitment, retention, remuneration and development of Directors, executives and other employees, and to promote a safe and healthy working environment.
Audit and Finance Committee	Bruce Hassall (Chair and Independent) Andrew Macfarlane Ashley Waugh	Scott St John (Independent) Nicola Shadbolt Donna Smit	To assist the Board in fulfilling its governance responsibilities in relation to Fonterra's financial reporting, audit activities, treasury matters, financial risk management and internal control frameworks.
Risk Committee	Ashley Waugh (Chair) Bruce Hassall (Independent) Brent Goldsack	Nicola Shadbolt Clinton Dines (Independent)	To assist the Board in fulfilling its corporate governance responsibilities relating to Fonterra's management of key enterprise wide risks. This includes strategic and operational risks, through Fonterra's risk management framework, the behaviours required of its people and its guidelines, policies and processes for monitoring and mitigating enterprise-wide risks.
Co-operative Relations Committee	John Monaghan (Chair) Andrew Macfarlane	Brent Goldsack Donna Smit	To assist the Board in fulfilling its governance responsibilities in relation to the supply of milk from Fonterra suppliers, and to seek to resolve supplier complaints before reference to the Milk Commissioner.
Nominations Committee	Bruce Hassall (Chair and Independent) Clinton Dines (Independent) Andrew Macfarlane	John Monaghan Duncan Coull (SHC observer) Matthew Pepper (SHC observer)	To recommend to the Board candidates for election as Farmer Directors.
Milk Price Panel	Scott St John (Chair and Independent) Bruce Hassall (Independent) Brent Goldsack	Andrew Wallace (Independent) Bill Donaldson	To provide assurances to the Board as to the governance of the Milk Price and the Milk Price Manual, and the proper application of the Milk Price Principles.

BOARD AND COMMITTEE ATTENDANCE

	BOARD		AUDIT & FINANCE COMMITTEE		CO-OPERATIVE RELATIONS COMMITTEE		MILK PRICE PANEL		NOMINATIONS COMMITTEE		PEOPLE, CULTURE & SAFETY COMMITTEE		RISK COMMITTEE	
	Eligible to Attend	Attendance	Eligible to Attend	Attendance	Eligible to Attend	Attendance	Eligible to Attend	Attendance	Eligible to Attend	Attendance	Eligible to Attend	Attendance	Eligible to Attend	Attendance
Clinton Dines	18	16	–	–	–	–	–	–	1	1	8	8	4	4
Ian Farrelly	6	6	1	1	1	1	–	–			–	–	–	–
Brent Goldsack	12	11	–	–	4	4	4	4			–	-	2	1
Leonie Guiney	4	4	–	–	1	1	–	–			–	–	1	1
Bruce Hassall	12	12	7	7	–	–	4	3			7	5	2	2
Simon Israel	18	18	–	–	–	–	–	–			8	8	–	–
David Jackson	6	6	1	1	–	–	3	3	1	1	2	2	1	1
David MacLeod	4	4	–	–	1	1	–	–			–	–	1	1
Andrew Macfarlane	12	12	5	5	4	3	–	–			–	–	–	–
John Monaghan	16	15	–	–	5	5	–	–			8	7	–	–
Nicola Shadbolt	18	18	7	6	–	–	–	–	1	1	–	–	4	4
Donna Smit	18	18	7	6	4	4	–	–			–	–	–	–
Scott St John	18	18	7	7	–	–	7	7			–	–	–	–
Ashley Waugh	18	16	5	5	1	1	3	2			8	8	2	2
John Wilson	18	18	5	5	–	–	–	–	1	1	8	8	1	1

AUDIT AND FINANCE COMMITTEE

There is an established Audit and Finance Committee as described on the previous page.

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

MILK PRICE PANEL

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

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

The Dairy Industry Restructuring Act 2001 (New Zealand) requires that the Chair and a majority of the members of the Panel are independent. The Panel consists of two Appointed Directors, one Farmer Director and two appropriately qualified persons nominated by the Shareholders' Council, at least one of whom must be independent. The Chair must be one of the Appointed Director members. The Panel is currently chaired by Scott St John. Other Board members are Bruce Hassall and Brent Goldsack. The Shareholders' Council appointees are Andrew Wallace and Bill Donaldson. The Board confirmed that at 31 July 2018, Scott St John, Bruce Hassall and Andrew Wallace are considered to be Independent Members of this Panel.

MAJORITY INDEPENDENT DIRECTORS – AUDIT AND FINANCE COMMITTEE, NOMINATIONS COMMITTEE AND PEOPLE, CULTURE AND SAFETY COMMITTEE

The Audit and Finance Committee, Nominations Committee and People, Culture and Safety Committee committees do not comprise a majority of Independent Directors.

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

Fonterra does not consider that this is a significant issue, as both the Audit and Finance Committee and the Nominations Committee are chaired by Independent Directors, with the People, Culture and Safety Committee chaired by a Farmer Director. In addition, under the FSM Rules, the Audit and Finance Committee is not required to comprise of a majority of Independent Directors.

Employees attend Audit and Finance Committee and People, Culture and Safety Committee meetings at the request of the Committees.

TAKEOVER OFFER

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

Corporate Governance CONTINUED

Principle 4: Reporting and Disclosure

DISCLOSURE POLICY

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

Fonterra has established a Disclosure Committee that holds regular and ad hoc meetings to oversee Fonterra's continuous disclosure obligations. The members of the Disclosure Committee are the CEO, CFO, Managing Director Corporate Affairs, Director Capital Markets and the Director, Governance.

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

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

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

WEBSITE DISCLOSURE

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

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

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

NON-FINANCIAL REPORTING

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

In this Annual Report, we provide coverage of both financial and non-financial matters. Non-financial reporting includes coverage of progress on strategy in the 'Who is Fonterra" section. High-level consideration of material environmental, social and governance (ESG) factors and practices are included in the 'Our Sustainability ' section.

In December 2017 Fonterra issued its first Sustainability Report based upon GRI guidelines to further expand our non-financial disclosure for each financial year. We plan to release our Sustainability Report annually, with the next report due to be issued in November 2018.

Corporate Governance CONTINUED

Principle 5: Remuneration

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

DIRECTOR REMUNERATION

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

The members of the Directors' Remuneration Committee as at 31 July 2018 were David Gasquoine (Chair), John Gregan, Glenn Holmes, Scott Montgomerie, Stephen Silcock, and Gerard Wolvers.

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

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

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

The details of the Directors' remuneration are contained on page 58 of the Annual Financial Results for the year ended 31 July 2018.

REMUNERATION OF OUR PEOPLE

Our People, Culture and Safety Committee, that governs the remuneration of management, reviewed and made changes to our remuneration approach to better balance the need to attract and retain talented people, with the need to deliver the highest possible overall returns to our farmers and unitholders.

Key changes made last year were to amend the short-term (STI) and long-term incentive (LTI) Plans to better align them to our overall performance. The details of these programmes are outlined below but it is worth highlighting that the LTI plans are now based on Return on Capital (ROC) and Earnings per Share (EPS) metrics. Some of the outcomes of these changes in FY18 were:

- We did not meet the minimum performance thresholds for the new LTI Plan in FY18 and therefore no LTI payments were earned.
- The result is a 57% year-on-year decrease in total remuneration payments for our CEO and a similar level of decrease for our senior executives.
- For the FY18 performance period outlined in this report, our CEO Theo Spierings will receive total remuneration of \$3,545,777 versus \$8,320,324 earned in FY17.

REMUNERATION BENCHMARKING

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

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

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

Our remuneration levels are independently benchmarked against comparable companies. Adjustments may occur on a cyclical basis, such as an annual salary review, or on an as-needed basis to recognise factors such as additional responsibilities.

The framework is designed to 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:

- Focussing 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 People, Culture and Safety Committee at its discretion. The Board and the Committee retain absolute discretion in respect to payments for all incentive schemes.

EXECUTIVE REMUNERATION AND INCENTIVE PLANS

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

Fixed Remuneration

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

Corporate Governance CONTINUED

Short-Term Incentives

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

At the beginning of each financial year, the Board agrees the business plan and organisational objectives. These objectives form the basis on which the year's STI plan is then set. The FY18 STI outcomes for the CEO and FMT are determined by three elements:

- Fonterra Group Performance (Volume, EBIT and an Organisational Efficiency measure)
- Health & Safety and Food Safety & Quality
- Total Farmer Pay-out

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

The Board retains complete discretion of STI outcomes and may adjust the final outcome as it deems appropriate.

Long-Term Incentives

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

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

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

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

The Board retains complete discretion of LTI outcomes and may adjust the final outcome as it deems appropriate

CEO REMUNERATION

This year, Fonterra will report CEO remuneration to reflect both actual remuneration paid in the fiscal year for previous performance, and remuneration earned for performance relating to the current fiscal year. All values are reported in New Zealand Dollars. The information contained in this section relates to Mr Spierings who was in the role of CEO for the duration of FY18.

CEO Remuneration Earned for FY18 Performance

'Remuneration Earned' aligns remuneration outcomes with performance periods, providing what we believe is a clearer indication of pay for performance. LTI and STI outcomes are listed against the relevant performance period, regardless of when the payment is made. We believe this reporting approach provides the right balance of transparency and disclosure while accurately reflecting the outcomes for a given fiscal year.

PERIOD	SALARY	BENEFITS	STI	LTI	TOTAL REMUNERATION
FY18	2,462,800	103,275	979,702[1]	0[2]	3,545,777[3]
FY17	2,462,800	242,340	1,182,144	4,433,040[4]	8,320,324[5]

1 Represents the FY18 STI outcome. This payment was approved by the Board in September 2018 and will be paid in October 2018.

2 Fonterra's LTI Plan did not meet minimum performance thresholds in FY18 and therefore no remuneration was earned.

3 Represents a 57% year-on-year decrease in remuneration realised vs FY17.

4 Represents the FY17 Velocity Leadership Incentive outcome.

5 FY17 Total Remuneration Earned.

For FY18, Mr Spierings realised the following compensation:

(a) CEO Fixed Remuneration

Over the course of the FY18 financial year, the CEO earned fixed remuneration of $2,462,800 (unchanged from FY17).

(b) CEO Short-Term Incentive

The STI value of the CEO's remuneration is set at 60% of fixed remuneration if all targets are achieved.

For the 2018 Financial year, the CEO realised a total STI payment of $979,702 ($1,182,144 in 2017 Financial Year). This is against a target of $1,477,680. The board has approved this STI outcome and payment will be made in October 2018.

(c) CEO Long-Term Incentive

The LTI value of the CEO's remuneration is set at 60% of fixed remuneration if all targets are achieved.

- FY18 LTI
- FY18-19 LTI
- FY18-20 LTI
- For the 2018 Financial year, the CEO realised a total LTI payment of $0. This is against a target of $1,477,680.

Participation in the FY18-19 and FY18-20 LTI Plan ceases on resignation and any LTI deferrals from these plans are forfeited. The board retains complete discretion over final LTI payments and may adjust the final outcome as it deems appropriate.

CEO Remuneration Paid within the FY18 fiscal year

'Remuneration Paid' is how CEO remuneration has been traditionally reported, reflecting remuneration in the period it is received, rather than the performance period the payment relates to. For example, incentive payments relating to FY17 performance are received and reported in FY18.

PERIOD	SALARY	BENEFITS	STI	LTI	TOTAL REMUNERATION
FY18	2,462,800	235,099[1]	1,182,144[2]	4,191,686[3]	8,071,729
FY17	2,462,800	170,036	1,832,323[4]	3,855,248	8,320,407

1 Represents Superannuation/Kiwisaver.
2 Represents FY17 STI paid in FY18.
3 Comprises of previous year(s) deferred compensation - FY15 LTI (0.2m), FY16 VLI (0.66m), FY17 VLI (3.32m).
4 Represents FY16 STI paid in FY17.

REMUNERATION AND INCENTIVE PLANS FOR SALARIED STAFF

Fixed Remuneration

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

Review of Fixed Remuneration

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

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

Short Term Incentive Plans

The majority of permanent salaried employees in Fonterra participate in an annual short-term incentive (STI) plan. In FY18, this incentive covered approximately 6,000 employees.

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

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

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

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

Other Incentive Plans

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

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

Long Term Incentive Plans

Fonterra offers a Long-Term Incentive (LTI) plan for certain senior executives. This plan is designed to reward and retain key senior executives based on longer-term objectives. The Fonterra Management Team (FMT) is eligible to participate, as well as a selected number of senior executives who lead large functions within our core business units, hold significant profit and loss responsibility, or head significant corporate functions.

The nature of these long-term Incentive plans means that payments can be deferred over multiple time periods. This means that, in any given year, multiple payments may be made for incentives earned in prior years. For purposes of clarification, we have summarised below the LTI Plans that are active or where potential deferred payments are yet to be made.

Corporate Governance CONTINUED

Velocity Leadership Incentive (FY16/17)

The Velocity Leadership Incentive (VLI) was the LTI plan in place for FY16 and FY17. It has been discontinued and did not apply in FY18. The VLI was introduced as a targeted two-year plan to accelerate and reward the Fonterra business transformation, which the Co-operative refers to as 'Velocity'. The FMT, selected senior management, and a small number of employees who led significant work streams in FY16 in support of Velocity were eligible to participate in the VLI.

In FY16 and FY17 Velocity delivered significant benefits across the Farmgate Milk Price, earnings and working capital. In FY17 it also supported a material uplift in Fonterra's organisational health and employee engagement.

The FY16 VLI was paid in cash with 70% paid following the end of FY16, and the remaining 30% deferred over two years in two payments of 15% - one in FY17 and the other in FY18. On target performance under the FY16 VLI was set at 60% of fixed salary for the CEO, 50% for the FMT, and ranged from 25% to 50% of fixed salary for other participating employees. In FY16, Velocity delivered above expectations in terms of both financial performance arising from efficiency and value creation.

The FY17 VLI payment schedule was changed to a 50% payment following the end of FY17, with the remaining 50% deferred over two years in two payments of 25% - one in FY18 and the other to be in FY19. The payment of the first deferral was dependent on achievement of a stipulated lift in organisational health to recognise the importance of sustainable change. The stipulated organisational health hurdle was met and the first deferral was paid in December 2017.

On target performance under the FY17 VLI was set at 60% of fixed salary for the CEO, 50% of fixed salary for the FMT, and ranged from 25% to 50% of fixed salary for other participating employees.

The People, Culture and Safety Committee governs the VLI plan and approves all results and payments in respect of the VLI.

The Board retains overall discretion in relation to all aspects of the VLI.

FY18–FY20 Long-Term Incentive

In FY18, the People, Culture, and Safety Committee approved a new LTI plan for FY18 to FY20 and beyond.

The change marked a return to a more traditional LTI plan. It is designed to incentivise the FMT and certain senior executives in relation to the achievement of the longer-term strategic objectives of the Co-operative.

This LTI uses two core financial metrics to measure achievement of the Co-operative's performance. The metrics are Return on Capital (ROC) and Earnings per Share (EPS), both of which are commonly used globally in long term incentive plans. These metrics are important as they directly align to the Co-operative's performance, and its returns to its farmer shareholders, and are readily measurable. These outcomes sit alongside the Co-operative's objective of maximising the Farmgate Milk Price in a sustainable manner.

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

The FY18-FY20 LTI targets for ROC and EPS were set at the beginning of FY18, with reference to the FY18-FY20 business plan.

The FMT and selected senior executives are eligible to participate. The Board retains overall discretion in relation to all aspects of the FY18-FY20 LTI.

FY18 and FY18-19 Long-Term Incentives

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

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

For the FY18 and FY18-19 Plans, assuming performance thresholds have been met, 50% of the resulting outcome is paid as cash in October the following fiscal year and 50% is deferred as cash for 12 months. The Board retains overall discretion in relation to all aspects of the FY18 LTI and the FY18-19 LTI, including payment of deferral.

FY19–FY21 Long-Term Incentive

The FY19-21 LTI Plan is based on an identical structure and retains the same measures as the FY18-20 LTI Plan. The FY19-21 LTI Plan targets for ROC and EPS have been set with reference to the FY21 business plan and have been approved by the Board.

The Board retains overall discretion in relation to all aspects of the FY19-FY21 LTI.

Corporate Governance CONTINUED

Principle 6: Risk Management

RISK MANAGEMENT FRAMEWORK

Fonterra ensures its performance is optimised through the identification and management of the most material risks to the business. The Board receives regular updates from the Risk Committee and reporting on Fonterra's Risk Management Framework.

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

Our Risk Management Framework is aligned with international best practice and includes a consistent process that:

- Considers our goals and relevant context
- Identifies any assumptions or uncertainties that could affect achieving our goals
- Prioritises control effort through assessing the potential consequences of a risk materialising, the likelihood of that occurrence
- Considers risk drivers
- Evaluates current controls, their effectiveness and outcome acceptability
- Introduces new controls or action plans to strengthen our position
- Regularly reviews control effectiveness, context changes and resulting exposure.

Fonterra's Risk Management Policy outlines our risk principles, accountabilities and the requirements for managing and reporting risk within the business. At the highest level, the most material risks to the business are grouped to reflect our focus on people, strategy, and identity.

In the Sustainability section, we provide more detailed information on our risk management approach for health and safety, food safety and quality, environmental and animal welfare risks.

These are reviewed regularly to consider any changes or need to adapt control strategies, through an Integrated Risk Forum that enables key business leaders identified as risk and opportunity guardians to assess and manage current risks and identify and prepare for emerging risks. These matters are reported to, and recorded by, the Risk Committee.

We aim to deepen the understanding, management and reporting of key business risks as well as reporting on emerging risk as part of our approach to strengthening organisational resilience.

HEALTH AND SAFETY

Fonterra is committed to providing a safe and healthy work environment for anyone who is affected by our operations. Continuous health and safety improvement is an integral part of everything we do. Achieving effective health and safety improvement is regarded as essential to our long-term success and an integral part of our values and how we run our business.

We have focussed programmes to address our critical risks and our injury reduction ambitions.

Fonterra's health and safety performance is measured using a number of reactive and preventive indicators. These include Total Recordable Injury Frequency Rate (TRIFR), number of serious harm injuries and status of self-assurance and internal control Audits conducted throughout the business.

Our TRIFR has increased over the past year from 5.2 to 6.1 with slightly fewer serious harm injuries in FY18 overall compared to FY17.

We remain committed to achieving our longer term TRIFR goal of five which represents world class within our industry group.

Our focus is to continue to track our efforts on a broad range of health and wellbeing programmes to enhance our people care and actively prevent incidents from occurring.

Corporate Governance CONTINUED

Principle 7: Auditors

AUDITOR FRAMEWORK

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

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

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

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

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

The fees paid to Fonterra's auditor, PricewaterhouseCoopers are detailed in Note 4 to the Annual Financial Results for the year ended 31 July 2018.

An RFP process is currently underway for the provision of external audit services for the financial year ended 31 July 2020.

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

INTERNAL AUDIT

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

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

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

- Evaluating the effectiveness of risk management, controls and governance processes
- Delivering reasonable assurance over key business risks to the Audit and Finance Committee and Management
- Providing recommendations for control environment improvements
- Executing assignments in compliance with Institute of Internal Audit Standards

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

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

Corporate Governance CONTINUED

Principle 8: Shareholder Rights and Relations

WEBSITE

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

SHAREHOLDERS' COUNCIL

One of the Board's most important relationships is with the Shareholders' Council. The Council, Fonterra's representative body, which is established under the Fonterra Constitution, is independent of the Board and as at 31 July 2018 comprised 25 farmer shareholders elected as councillors, representing 25 wards across New Zealand. The Shareholders' Council was created to be the guardian of the Co-operative Principles which apply to the cornerstone activities of the Co-operative. The functions of the Council are set out in the Constitution. The Council reviews the Board's Statement of Intentions for the performance and operations of the Group and publishes an annual report, commenting on these matters.

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

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

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

FARMER COMMUNICATIONS

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

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

FARMER MEETINGS

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

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

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

FONTERRA.COM AND FARM SOURCE™ DIGITAL TOOLS

Presentations on the development of the business are available on the fonterra.com website. The Group also uses email alerts, including regular updates from the Chairman and regular farmer shareholder updates.

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

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

ANNUAL MEETING

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

Notices of Meetings are sent to farmer shareholders at least ten working days before the meeting.

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

ANNUAL REPORT

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

OTHER DISCLOSURES

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

VOTING

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

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

Summary Financial Statements

FOR THE YEAR ENDED 31 JULY 2018

Contents

Directors' Statement
FOR THE YEAR ENDED 31 JULY 2018

The Directors hereby approve and authorise for issue the summary financial statements for the year ended 31 July 2018 presented on pages 85 to 102. For and on behalf of the Board:

JOHN MONAGHAN	**BRUCE HASSALL**
Chairman	Director
12 September 2018	12 September 2018

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 a FMC Reporting Entity under the Financial Markets Conduct Act 2013. Fonterra is also required to comply with the Dairy Industry Restructuring Act 2001.

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

The Board has elected to present summary financial statements for the year ended 31 July 2018 as part of the Annual Report sent to Shareholders. These summary financial statements include notes setting out key information.

These summary financial statements are presented for the year ended 31 July 2018. The comparative information is for the year ended 31 July 2017. These summary financial statements of the Group have been prepared using the same accounting policies and measurement basis as the Group's full financial statements for the year ended 31 July 2018.

In the process of applying the Group's accounting policies, management make a number of judgements, estimates of future events, and assumptions. These are all believed to be reasonable based on the most current set of circumstances available to the Group. Judgements and estimates that have the most significant effect on the amounts recognised in the financial statements for the year ended 31 July 2018 are those used to determine the recoverable amounts of the following assets: the investment in Beingmate (Note 7), the China Farms assets and the goodwill attributed to the consumer and foodservice businesses in New Zealand and Brazil. These matters are also communicated as key audit matters in the audit opinion on the full financial statements.

The full financial statements for the year ended 31 July 2018, approved and authorised for issue by the Board on 12 September 2018, have been audited by PricewaterhouseCoopers and given an unqualified opinion.

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

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

OUR FINANCIALS

Income Statement

FOR THE YEAR ENDED 31 JULY 2018

	NOTES	GROUP $ MILLION 31 JULY 2018	GROUP $ MILLION 31 JULY 2017
Revenue from sale of goods		**20,438**	19,232
Cost of goods sold	2	**(17,279)**	(15,968)
Gross profit		**3,159**	3,264
Other operating income		**192**	190
Selling and marketing expenses		**(651)**	(641)
Distribution expenses		**(572)**	(550)
Administrative expenses		**(873)**	(810)
Other operating expenses		**(400)**	(334)
WPC 80 recall costs		**(196)**	–
Impairment of equity accounted investees		**(405)**	(35)
Net foreign exchange (losses)/gains		**(12)**	29
Share of profit of equity accounted investees		**20**	7
Profit before net finance costs and tax		**262**	1,120
Finance income		**23**	34
Finance costs		**(439)**	(389)
Net finance costs		**(416)**	(355)
(Loss)/profit before tax		**(154)**	765
Tax expense	9	**(42)**	(20)
(Loss)/profit after tax		**(196)**	745
(Loss)/profit after tax is attributable to:			
Equity holders of the Co-operative		**(221)**	734
Non-controlling interests		**25**	11
(Loss)/profit after tax		**(196)**	745

	GROUP $ 31 JULY 2018	GROUP $ 31 JULY 2017
Earnings per share:		
Basic and diluted earnings per share	**(0.14)**	0.46

The accompanying notes form part of the financial statements.

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 JULY 2018

	GROUP $ MILLION	
	31 JULY 2018	31 JULY 2017
(Loss)/profit after tax	**(196)**	745
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges and other costs of hedging, net of tax	**(459)**	128
Net investment hedges and translation of foreign operations, net of tax	**188**	(124)
Hyperinflation gains/(losses) attributable to equity holders	**17**	(1)
Share of equity accounted investees' movements in reserves	**–**	–
Other reserve movements	**(1)**	(2)
Total items that may be reclassified subsequently to profit or loss	**(255)**	1
Items that will not be reclassified subsequently to profit or loss:		
Net fair value gains on investments in shares	**8**	2
Foreign currency translation losses attributable to non-controlling interests	**(2)**	(3)
Hyperinflation movements attributable to non-controlling interests	**12**	–
Non-controlling interests other movements	**–**	(2)
Total items that will not be reclassified subsequently to profit or loss	**18**	(3)
Total other comprehensive expense recognised directly in equity	**(237)**	(2)
Total comprehensive (expense)/income	**(433)**	743
Total comprehensive (expense)/income is attributable to:		
Equity holders of the Co-operative	**(468)**	737
Non-controlling interests	**35**	6
Total comprehensive (expense)/income	**(433)**	743

Statement of Financial Position

AS AT 31 JULY 2018

	NOTES	GROUP $ MILLION 31 JULY 2018	GROUP $ MILLION 31 JULY 2017
ASSETS			
Current assets			
Cash and cash equivalents		**446**	393
Trade and other receivables		**2,355**	2,303
Inventories		**2,917**	2,593
Tax receivable		**47**	32
Derivative financial instruments		**59**	580
Other current assets		**141**	181
Total current assets		**5,965**	6,082
Non-current assets			
Property, plant and equipment		**6,810**	6,391
Equity accounted investments		**615**	887
Livestock		**288**	319
Intangible assets		**3,227**	3,115
Deferred tax assets		**583**	363
Derivative financial instruments		**204**	239
Other non-current assets		**323**	446
Total non-current assets		**12,050**	11,760
Total assets		**18,015**	17,842
LIABILITIES			
Current liabilities			
Bank overdraft		**161**	11
Borrowings	5	**831**	1,112
Trade and other payables		**2,116**	2,117
Owing to suppliers	6	**1,579**	1,330
Tax payable		**35**	34
Derivative financial instruments		**296**	43
Provisions		**14**	40
Other current liabilities		**101**	44
Total current liabilities		**5,133**	4,731
Non-current liabilities			
Borrowings	5	**5,907**	5,151
Derivative financial instruments		**480**	547
Provisions		**130**	148
Deferred tax liabilities		**5**	9
Other non-current liabilities		**11**	8
Total non-current liabilities		**6,533**	5,863
Total liabilities		**11,666**	10,594
Net assets		**6,349**	7,248
EQUITY			
Subscribed equity		**5,887**	5,858
Retained earnings		**934**	1,637
Foreign currency translation reserve		**(364)**	(552)
Hedge reserves		**(267)**	192
Other reserves		**29**	5
Total equity attributable to equity holders of the Co-operative		**6,219**	7,140
Non-controlling interests		**130**	108
Total equity		**6,349**	7,248

Statement of Changes in Equity

FOR THE YEAR ENDED 31 JULY 2018

GROUP $ MILLION	SUBSCRIBED EQUITY	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION RESERVE	HEDGE RESERVES	OTHER RESERVES	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
	ATTRIBUTABLE TO EQUITY HOLDERS OF THE CO-OPERATIVE							
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**
As at 1 August 2016	**5,833**	1,384	(428)	64	6	6,859	88	6,947
Profit after tax	–	734	–	–	–	734	11	745
Other comprehensive income/(expense)	–	–	(124)	128	(1)	3	(5)	(2)
Total comprehensive income/(expense)	–	734	(124)	128	(1)	737	6	743
Transactions with equity holders in their capacity as equity holders:								
Dividend paid to equity holders of the Co-operative	–	(481)	–	–	–	(481)	–	(481)
Equity instruments issued	**25**	–	–	–	–	25	42	67
Dividend paid to non-controlling interests	–	–	–	–	–	–	(28)	(28)
As at 31 July 2017	**5,858**	1,637	(552)	192	5	7,140	108	7,248

Cash Flow Statement

FOR THE YEAR ENDED 31 JULY 2018

	GROUP $ MILLION	
	31 JULY 2018	31 JULY 2017
Cash flows from operating activities		
Profit before net finance costs and tax	262	1,120
Adjustments for:		
Foreign exchange losses/(gains)	239	(1)
Depreciation and amortisation	544	526
Impairment of equity accounted investees	405	35
Other	5	(20)
	1,193	540
Decrease/(increase) in working capital:		
Inventories	(313)	(177)
Trade and other receivables	75	(634)
Amounts owing to suppliers	277	745
Payables and accruals	98	(100)
Other movements	42	(48)
Total	179	(214)
Cash generated from operations	1,634	1,446
Net taxes paid	(86)	(70)
Net cash flows from operating activities	1,548	1,376
Cash flows from investing activities		
Cash was provided from:		
– Proceeds from disposal of property, plant and equipment	26	105
– Proceeds from sale of livestock	79	62
– Co-operative support loans	149	41
– Other cash inflows	13	10
Cash was applied to:		
– Acquisition of property, plant and equipment	(858)	(690)
– Acquisition of livestock (including rearing costs)	(45)	(89)
– Acquisition of intangible assets	(147)	(103)
– Advances to and investments in equity accounted investees	(151)	(42)
– Other cash outflows	(14)	–
Net cash flows from investing activities	(948)	(706)
Cash flows from financing activities		
Cash was provided from:		
– Proceeds from borrowings	4,334	4,174
– Interest received	18	13
– Other cash inflows	–	38
Cash was applied to:		
– Interest paid	(446)	(393)
– Repayment of borrowings	(4,077)	(3,968)
– Dividends paid to non-controlling interests	(27)	(28)
– Dividends paid to equity holders of the Co-operative	(453)	(456)
– Other cash outflows	(74)	(2)
Net cash flows from financing activities	(725)	(622)
Net (decrease)/increase in cash	(125)	48
Opening cash	382	357
Effect of exchange rate changes	28	(23)
Closing cash	285	382
Reconciliation of closing cash balances to the statement of financial position:		
Cash and cash equivalents	446	393
Bank overdraft	(161)	(11)
Closing cash	285	382

Notes to the Summary Financial Statements

FOR THE YEAR ENDED 31 JULY 2018

PERFORMANCE

1 SEGMENT REPORTING

The financial information reviewed by the Fonterra Management Team (FMT) has evolved over the past two years to reflect the changes in the management structure to support the operations of the Group. From 1 August 2017 the financial information reviewed by the Fonterra Management Team is solely based on the previously identified 'strategic platforms'.

a) Operating segments

Operating segments reflect the way financial information is regularly reviewed by the 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. To enable underlying segment performance to be compared between reporting periods a normalised segment income statement has been presented. Comparative segment income statements have been re-presented on a normalised basis.

Transactions between segments are based on estimated market prices, with the exception of the sale of milk from China Farms to Ingredients. The transfer price used for these transactions is an amount reflective of long-term milk price trends in China.

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, the ingredients business in Australia (including Milk Supply and Manufacturing) and the ingredients business in South America.
Consumer and foodservice	
– Oceania	Represents the fast-moving consumer goods (FMCG) and foodservice businesses in New Zealand and Australia (including export to the Pacific Islands).
– Asia	Represents FMCG and foodservice businesses in Asia (excluding Greater China), Africa and the Middle East.
– Greater China	Represents FMCG and foodservice businesses in Greater China.
– Latin America	Represents FMCG and foodservice businesses in South America and the Caribbean.
China Farms	Represents farming operations in China.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

a) Operating segments continued

GROUP $ MILLION — 31 JULY 2018

	INGREDIENTS	CONSUMER AND FOODSERVICE: OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL	CHINA FARMS	UNALLOCATED COSTS AND ELIMINATIONS	TOTAL
Normalised segment income statement									
External revenue[1]	13,485	2,001	1,849	1,564	1,532	6,946	–	–	20,431
Inter-segment revenue	2,821	158	16	–	2	176	262	(3,259)	–
Revenue from sale of goods	16,306	2,159	1,865	1,564	1,534	7,122	262	(3,259)	20,431
Cost of goods sold	(14,834)	(1,726)	(1,409)	(1,229)	(1,075)	(5,439)	(257)	3,251	(17,279)
Segment gross profit	1,472	433	456	335	459	1,683	5	(8)	3,152
Operating expenses	(808)	(373)	(289)	(183)	(368)	(1,213)	(31)	(444)	(2,496)
Net other operating income	111	8	18	14	24	64	22	(5)	192
Net foreign exchange gains/(losses)	50	(1)	(9)	(1)	(2)	(13)	–	(37)	–
Share of profit/(loss) of equity accounted investees	54	–	–	–	4	4	(5)	1	54
Normalised segment earnings before net finance costs and tax	879	67	176	165	117	525	(9)	(493)	902
Normalisation adjustments:									
Reduction in the carrying value of investment in Beingmate[2]	–	–	–	(439)	–	(439)	–	–	(439)
WPC80 recall costs[3]	(196)	–	–	–	–	–	–	–	(196)
Time value of options[4]	(5)	–	–	–	–	–	–	–	(5)
Segment earnings before net finance costs and tax	678	67	176	(274)	117	86	(9)	(493)	262
Finance income									23
Finance costs									(439)
(Loss)/profit before tax									(154)
Other segment information:									
Volume[5] (liquid milk equivalents, billion)	20.52	1.66	1.77	1.41	0.75	5.59	0.27	(4.18)	22.20
Volume[5] (metric tonnes, thousand)	2,986	623	331	266	578	1,798	22	(683)	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)	352	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.

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

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.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

a) Operating segments continued

	GROUP $ MILLION								
	31 JULY 2017								
	INGREDIENTS	CONSUMER AND FOODSERVICE					CHINA FARMS	UNALLOCATED COSTS AND ELIMINATIONS	TOTAL
		OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL			
Normalised segment income statement									
External revenue[1]	12,986	1,810	1,668	1,272	1,478	6,228	–	–	19,214
Inter-segment revenue	2,280	142	142	5	–	289	269	(2,838)	–
Revenue from sale of goods	15,266	1,952	1,810	1,277	1,478	6,517	269	(2,838)	19,214
Cost of goods sold	(13,793)	(1,514)	(1,309)	(918)	(1,032)	(4,773)	(246)	2,844	(15,968)
Segment gross profit	1,473	438	501	359	446	1,744	23	6	3,246
Operating expenses	(725)	(355)	(306)	(161)	(370)	(1,192)	(31)	(387)	(2,335)
Net other operating income	106	4	4	6	8	22	14	6	148
Net foreign exchange gains/(losses)	42	–	(5)	–	3	(2)	(1)	9	48
Share of profit/(loss) of equity accounted investees	47	–	–	–	4	4	(4)	1	48
Normalised segment earnings before net finance costs and tax	943	87	194	204	91	576	1	(365)	1,155
Normalisation adjustments:									
Gain on sale of Darnum manufacturing plant[2]	42	–	–	–	–	–	–	–	42
Reduction in the carrying value of investment in Beingmate[3]	–	–	–	(76)	–	(76)	–	–	(76)
Time value of options[4]	(1)	–	–	–	–	–	–	–	(1)
Segment earnings before net finance costs and tax	984	87	194	128	91	500	1	(365)	1,120
Finance income									34
Finance costs									(389)
Profit before tax									765
Other segment information:									
Volume[5] (liquid milk equivalents, billion)	21.30	1.74	1.70	1.28	0.74	5.46	0.34	(4.16)	22.94
Volume[5] (metric tonnes, thousand)	3,019	636	310	237	600	1,783	26	(648)	4,180
Depreciation and amortisation ($ million)	(367)	(31)	(15)	(2)	(33)	(81)	(26)	(52)	(526)
Capital expenditure[6]	592	60	23	–	34	117	38	104	851
Equity accounted investments	209	–	–	617	10	627	45	6	887
Capital employed[7] ($ million)	7,950	463	117	22	270	872	789	(518)	9,093

The segment note for the year ended 31 July 2017 has been restated. $42 million of operating expenses and $4 million of other operating income has been reallocated from Unallocated Costs and Eliminations to the Consumer and Foodservice operating segments. The reallocation has been made to better reflect costs in the segment in which they are reported to the FMT, to aid comparability between years.

1 Total Group revenue from the sale of goods is $19,232 million. The difference of $18 million relates to the normalisation of time value of options.

2 The $42 million normalisation adjustment relates to other operating income.

3 Of the $76 million normalisation adjustment, $35 million relates to impairment of equity accounted investees and $41 million relates to Fonterra's equity accounted share of Beingmate's losses.

4 Of the $1 million normalisation adjustment, $18 million relates to revenue offset by $19 million of net foreign exchange losses.

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

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.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

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 2018	**3,980**	**5,684**	**1,836**	**2,076**	**793**	**681**	**2,272**	**3,116**	**20,438**
Year ended 31 July 2017	3,383	5,165	1,592	2,056	1,254	838	2,162	2,782	19,232

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 2018	**5,538**	**467**	**1,324**	**928**	**827**	**1,127**	**1,052**	**11,263**
As at 31 July 2017	5,479	347	1,285	840	738	1,481	988	11,158

	GROUP $ MILLION	
	AS AT 31 JULY 2018	AS AT 31 JULY 2017
Reconciliation of geographical segment's non-current assets to total non-current assets:		
Geographical segment non-current assets	**11,263**	11,158
Deferred tax assets	**583**	363
Derivative financial instruments	**204**	239
Total non-current assets	**12,050**	11,760

2 COST OF GOODS SOLD

	GROUP $ MILLION	
	31 JULY 2018	31 JULY 2017
Opening inventory	**2,593**	2,401
Cost of milk:		
– New Zealand sourced	**10,115**	9,471
– Non-New Zealand sourced	**1,245**	932
Other costs	**6,243**	5,757
Closing inventory	**(2,917)**	(2,593)
Total cost of goods sold	**17,279**	15,968

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

DEBT AND EQUITY

3 SUBSCRIBED EQUITY INSTRUMENTS

Co-operative shares, including shares held within the Group

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

	CO-OPERATIVE SHARES (THOUSANDS)
Balance at 1 August 2017	**1,606,933**
Shares issued under the dividend reinvestment plan[2]	**4,990**
Balance at 31 July 2018	**1,611,923**
Balance at 1 August 2016	1,602,703
Shares issued under the dividend reinvestment plan[2]	4,230
Balance at 31 July 2017	1,606,933

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

2 Total value of $29 million (31 July 2017: $25 million)

The rights attaching to Co-operative shares are set out in Fonterra's Constitution, available in the 'About Us/Our Governance' 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 2018, 111,423,603 Co-operative shares (31 July 2017: 126,047,304) were legally owned by the Custodian, on trust for the benefit of the Fund.

	UNITS (THOUSANDS)
Balance at 1 August 2017	**126,047**
Units issued	**20,946**
Units surrendered	**(35,569)**
Balance at 31 July 2018	**111,424**
Balance at 1 August 2016	111,992
Units issued	29,933
Units surrendered	(15,878)
Balance at 31 July 2017	126,047

The rights attaching to units are set out in the Fonterra Shareholders' Fund 2018 Annual Report, available in the 'Investors/Fonterra Shareholder's Fund' section of Fonterra's website.

Capital management and structure

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

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

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

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

4 DIVIDENDS PAID

The Dividend Reinvestment Plan applied to all dividends in the table below.

	$ MILLION	
DIVIDENDS	YEAR ENDED 31 JULY 2018	YEAR ENDED 31 JULY 2017
2018 Interim dividend – 10 cents per share[1]	**161**	–
2017 Final dividend – 20 cents per share[2]	**321**	–
2017 Interim dividend – 20 cents per share[3]	**–**	321
2016 Final dividend – 10 cents per share[4]	**–**	160

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.

3 Declared on 21 March 2017 and paid on 20 April 2017 to all Co-operative shares on issue at 5 April 2017.

4 Declared on 18 August 2016 and paid on 9 September 2016 to all Co-operative shares on issue at 1 September 2016.

5 BORROWINGS

Economic net interest-bearing debt

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

	GROUP $ MILLION	
	AS AT 31 JULY 2018	AS AT 31 JULY 2017
Net interest-bearing debt position		
Total borrowings	**6,738**	6,263
Cash and cash equivalents	**(446)**	(393)
Interest-bearing advances[1]	**(332)**	(435)
Bank overdraft	**161**	11
Net interest-bearing debt	**6,121**	5,446
Value of derivatives used to manage changes in hedged risks on debt instruments	**78**	155
Economic net interest-bearing debt	**6,199**	5,601

1 Includes Fonterra Co-operative Support Loan balance of $177 million (31 July 2017: $135 million) which are netted against amounts owing to suppliers.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

5 BORROWINGS CONTINUED

Total borrowings in the table above are represented by:

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

	GROUP $ MILLION						
	BALANCE AS AT 1 AUGUST 2016	PROCEEDS	REPAYMENTS	FOREIGN EXCHANGE MOVEMENT	CHANGES IN FAIR VALUES	OTHER	BALANCE AS AT 31 JULY 2017
Commercial paper	454	951	(1,249)	–	–	8	164
Bank loans	879	2,698	(2,713)	(10)	–	–	854
Finance leases[1]	143	–	(6)	–	–	–	137
Capital notes[2]	35	–	–	–	–	–	35
NZX-listed bonds	499	–	–	–	1	–	500
Medium-term notes	4,342	525	–	(138)	(158)	2	4,573
Total borrowings[3]	6,352	4,174	(3,968)	(148)	(157)	10	6,263

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

2 Capital notes are unsecured subordinated borrowings.

3 All other borrowings are unsecured and unsubordinated.

Leverage ratios

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

- Debt payback. The debt payback ratios are adjusted for the impact of operating leases. They are calculated as 1. Funds from operations divided by economic net interest-bearing debt, and 2. Economic net interest-bearing debt divided by earnings before interest, tax, depreciation and amortisation (EBITDA).
- 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 2018 was 48.4 per cent (31 July 2017: 44.3 per cent).

The Group is not subject to externally imposed capital requirements.

Liquidity risk

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

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

The Group manages its liquidity by retaining cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Fonterra's funding facilities are reviewed at least annually, which is one of the key financial risk management activities undertaken by the Group to ensure an appropriate maturity profile given the nature of the Group's business. At balance date the Group had undrawn lines of credit totalling $3,732 million (31 July 2017: $3,811 million).

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

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

WORKING CAPITAL

6 OWING TO SUPPLIERS

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

	GROUP	
	AS AT 31 JULY 2018	AS AT 31 JULY 2017
Owing to suppliers[1] ($ million)	**1,579**	1,330
Farmgate Milk Price[2] (per kgMS)	**$6.69**	$6.12
Of this amount:		
– Total advance payments made during the year	**$5.55**	$5.21
– Total owing as at 31 July	**$1.14**	$0.91
Amount advanced during the year as a percentage of the milk price for the season ended 31 May	**83%**	85%

1 This amount is after offsetting $177 million of Fonterra Co-operative Support Loan repayments relating to the 2017/18 season (31 July 2017: $135 million).

2 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 and the price for milk supplied on standard terms. It can be found in the 'Investors/Farmgate Milk Prices' section of the Fonterra website.

INVESTMENTS

7 EQUITY ACCOUNTED INVESTMENTS

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

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

		OWNERSHIP INTERESTS (%)	
EQUITY ACCOUNTED INVESTEE NAME	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	AS AT 31 JULY 2018	AS AT 31 JULY 2017
DMV Fonterra Excipients GmbH & Co. KG	Germany	**50**	50
Beingmate Baby & Child Food Co., Ltd	China	**18.8**	18.8
Falcon Dairy Holdings Limited	Hong Kong	**51**	51

All investees have balance dates of 31 December.

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

As part of Fonterra's long-term investment in the China market Fonterra holds an 18.8 per cent shareholding in Beingmate. The investment is recognised in the Consumer and Foodservice Greater China operating segment. During the year Beingmate's share price has traded significantly below the share price at the time Fonterra acquired its investment, and also below the base share price used in the valuation assessments at 31 July 2017 and 31 January 2018. As a result, the carrying value of the investment has been assessed for impairment at 31 July 2018. To assess the recoverable amount of the investment a fair value less costs to sell methodology has been applied.

The fair value of the investment has been determined using an estimate of what a market participant would pay for a similar long-term strategic equity stake in Beingmate under current market conditions. The key assumptions used in determining the fair value are the base share price and the net premium above the base share price (acquisition premium) that would be paid for a long-term strategic investment of a similar size. This valuation methodology requires judgement, and is Level 3 in the fair value hierarchy as it is not based on market observable inputs.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

7 EQUITY ACCOUNTED INVESTMENTS CONTINUED

The assumptions underlying the calculation of the fair value of the 18.8 per cent strategic investment in Beingmate are:

RMB PER SHARE	AS AT 31 JULY 2018 AUDITED	AS AT 31 JANUARY 2018 UNAUDITED	AS AT 31 JULY 2017 AUDITED
Weighted average share price period	**30 trading days up to 31 July 2018**	15 trading days from 22 January 2018	30 trading days pre-trading halt date up to 10 July 2017
Weighted average base price	**4.91**	5.36	13.66
Net premium (including costs to sell)	**0.48**	0.52	2.45
Implied value per share	**5.39**	5.88	16.11

Base share price assumption

For the year ended 31 July 2018, to remove the impact of market volatility, a 30 trading-day period (20 June 2018 to 31 July 2018) was used to determine the base share price. The closing share price as at 31 July 2018 was RMB5.26 per share. The shares are traded on the Shenzhen stock exchange and accordingly the share price changes regularly, including during the period between balance date and the date these financial statements were authorised for issue. A change in the base share price to RMB4.50 per share would lead to elimination of the $18 million excess of recoverable amount over the carrying amount.

For the six months ended 31 January 2018, to remove the impact of market volatility, a 15 trading-day period immediately after the forecast earnings downgrade announced by Beingmate on the 21 January 2018 was used (22 January 2018 to 9 February 2018). It was appropriate to use information from immediately after the reporting date as the Beingmate share price continued to decline despite no new information being provided to the market. This was considered the most appropriate period as the market had fully reflected the earnings downgrade impact.

For the year ended 31 July 2017, Beingmate shares were on a trading halt from 12 July 2017 to 4 September 2017, therefore in the absence of an active market, the period immediately before the trading halt (26 May to 10 July 2017) was considered the most appropriate period to determine the base price given that during this period the shares traded at a relatively stable range.

Net premium assumption

The acquisition premium reflects that a market participant would expect to pay a premium above the quoted share price to acquire a long term strategic investment. The premium is determined by considering recent transaction data and the characteristics of the investment and is calculated relative to the base share price.

The amount attributed to the acquisition premium reflects that Beingmate is an established local participant in a growth market and has a number of brands registered under the new regulations effective 1 January 2018. The significant reduction in the acquisition premium from 31 July 2017 reflects the poor financial performance, reduction in market share, and the operational and governance challenges experienced by Beingmate during the year. As at 31 July 2018 the valuation assessment is not sensitive to a reasonable change in the acquisition premium.

Carrying value of the investment

The carrying value of the investment in Beingmate has reduced from the prior year primarily due to an impairment loss recognised in the 31 January 2018 interim financial statements. As at 31 July 2018 the carrying value of the investment is supported by the fair value assessment therefore no further impairment has been recorded. A reconciliation of the carrying amount of the investment is shown below.

	GROUP $ MILLION AS AT 31 JULY 2018 AUDITED	GROUP $ MILLION AS AT 31 JANUARY 2018 UNAUDITED	GROUP $ MILLION AS AT 31 JULY 2017 AUDITED
Opening balance	**617**	617	740
Share of losses	**(34)**	(28)	(41)
Impairment loss	**(405)**	(405)	(35)
Effect of movement in exchange rates	**26**	60	(47)
Closing balance	**204**	244	617

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

FINANCIAL RISK MANAGEMENT

8 FINANCIAL RISK MANAGEMENT

Overview

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

KEY FINANCIAL RISK MANAGEMENT ACTIVITIES

Market risks

The Group uses various derivative financial instruments to manage its exposure to changes in foreign currency exchange rates, interest rates and commodity prices.

Liquidity risk

The Group actively manages its minimum on-hand cash facilities, access to committed funds and lines of credit and the maturity profile of its financial obligations. For further detail refer to Note 5.

Capital management

The Group actively manages its capital structure through leverage and coverage ratios. The Fonterra Shareholders' Fund removes the redemption risk associated with Co-operative shares. For further detail refer to Note 3.

OTHER

9 TAXATION

Taxation – income statement

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

	GROUP $ MILLION	
	31 JULY 2018	31 JULY 2017
Current tax expense	81	97
Prior period adjustments to current tax	(5)	(25)
Deferred tax movements:		
– Origination and reversal of temporary differences	(34)	(52)
Tax expense	42	20

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

9 TAXATION 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 2018	31 JULY 2017
(Loss)/profit before tax	(154)	765
Prima facie tax expense at 28%	(43)	214
Add/(deduct) tax effect of:		
– Effect of tax rates in foreign jurisdictions	(27)	(33)
– Non-deductible expenses/additional assessable income	168	54
– Non-assessable income/additional deductible expenses	(24)	(30)
– Prior year under provision	(5)	(25)
Tax expense before distributions and deferred tax	69	180
Effective tax rate before distributions and deferred tax[1]	NA	23.5%
Tax effect of distributions to farmer shareholders	(27)	(163)
Tax expense before deferred tax	42	17
Effective tax rate before deferred tax[1]	NA	2.2%
Add/(deduct) tax effect of:		
– Origination and reversal of other temporary differences	(2)	2
– Losses of overseas Group entities not recognised	2	1
Tax expense	42	20
Effective tax rate[1]	NA	2.6%
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	54	52

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. For the year ended 31 July 2018 the Group has recorded a net loss before tax, as a result the calculation of an effective tax rate is not applicable.

Notes to the Summary Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

10 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 early August 2013, Fonterra publicly announced a potential food safety issue with three batches of Whey Protein Concentrate (WPC80) produced at the Hautapu manufacturing site and initiated a precautionary product recall.

In late August 2013, the New Zealand Government confirmed that the *Clostridium* samples found in WPC80 were not *Clostridium botulinum* and were not toxigenic, meaning the consumers of products containing the relevant batches of WPC80 were never in danger from *Clostridium botulinum*.

In January 2014, Danone formally initiated legal proceedings against Fonterra in the High Court of New Zealand and separate Singapore arbitration proceedings against Fonterra in relation to the WPC80 precautionary recall. The New Zealand High Court proceedings have been stayed pending completion of the Singapore arbitration.

On 1 December 2017, the Singapore arbitration panel issued its award (judgement), finding in favour of Danone and ordered Fonterra to pay €105 million ($183 million) in recall costs to Danone.

In addition to the recall costs, Fonterra was also required to pay Danone €29 million ($49 million) representing interest on the award amount and Danone's costs in connection with the arbitration proceedings. Fonterra paid the award amount in December 2017 and the interest and costs in March 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 2018 (31 July 2017: nil).

11 NET TANGIBLE ASSETS PER SECURITY

	GROUP	
	AS AT 31 JULY 2018	AS AT 31 JULY 2017
Net tangible assets per security[1]		
$ per listed debt security on issue	**5.18**	6.86
$ per equity instrument on issue	**1.94**	2.57
Listed debt securities on issue (million)	**603**	603
Equity instruments on issue (million)	**1,612**	1,607

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

The summary financial statements comprise:

- the statement of financial position as at 31 July 2018;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the summary financial statements.

OUR OPINION

The summary financial statements are derived from the audited financial statements of Fonterra Co-operative Group Limited (the Company), including its controlled entities (the Group) for the year ended 31 July 2018.

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with FRS-43: *Summary Financial Statements* issued by the New Zealand Accounting Standards Board.

SUMMARY FINANCIAL STATEMENTS

The summary financial statements do not contain all the disclosures required by New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon. The summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.

THE AUDITED FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the audited financial statements in our report dated 12 September 2018.

That report also includes the communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year.

RESPONSIBILITIES OF THE DIRECTORS FOR THE SUMMARY FINANCIAL STATEMENTS

The Directors are responsible, on behalf of the Company and Group, for the preparation of the summary financial statements in accordance with FRS-43: *Summary Financial Statements.*

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (New Zealand) 810 (Revised), *Engagements to Report on Summary Financial Statements.*

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 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, would act as Chair of the AFC for these matters and the Chair of the Board will join the AFC for deliberation. In addition, the engagement partner on the audit has direct access to the Chair of the Board to address any actual or perceived auditor independence threats.

Independent Auditor's Report CONTINUED

Brent Goldsack was appointed a 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 as Directors of the Company.

Our firm carries out assurance services for the Group to assess risks and controls in relation to the Group's food supply chain as well as other assurance and attestation services. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group.

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

WHO WE REPORT TO

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

PricewaterhouseCoopers

Chartered Accountants
Auckland
12 September 2018

Statutory Information
FOR THE YEAR ENDED 31 JULY 2018

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 stable. 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 ('Rules'). This means that where Capital Notes are quoted on NZX's Debt Market ('NZDX'), the Company is not required to comply with certain Rules which apply to an issuer of quoted equity securities.

The Company was issued with a waiver of Rule 11.1.1 to enable it to decline to accept or register transfers of Capital Notes (NZDX listed debt securities FCGHA) if such transfer would result in the transferor holding or continuing to hold Capital Notes with a face value or principal amount of less than $5,000 or if such transfer is for an amount of less than $1,000 or not a multiple thereof. The effect of this waiver is that the minimum holding amount in respect of the Capital Notes will, at all times, be $5,000 in aggregate and can only be transferred in multiples of $1,000.

Fonterra Co-operative Group Limited (Fonterra) was issued with a ruling in respect of Rule 1.7.1(d) of the Fonterra Shareholders' Market Rules on 27 June 2017 by NZX. 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 Rule 5.1.2(c) on 22 November 2016 by NZX. The effect of this ruling is that Fonterra's internal governance resolutions are considered to be matters that do not require the NZX to approve a notice of meeting under Rule 5.1.1.

Fonterra was issued with a waiver of Rule 3.2.1(c) on 31 August 2016 by the NZX, to the extent that such Rule requires Fonterra to have a minimum of two independent directors or, if Fonterra has eight or more directors, three or one-third of the total number of directors, whichever is greater. This waiver was granted in connection with the resignation of Mr John Waller and applied for a period ending on the earlier of the appointment of a new independent director or three months from the date of the waiver.

NZX TRADING HALTS

No trading halts were placed on Fonterra securities by NZX Regulation in the financial year ended 31 July 2018.

Non-GAAP Measures

Fonterra uses several non-GAAP measures when discussing financial performance. For further details and definitions of non-GAAP measures used by Fonterra, refer to the glossary on page 107. These are non-GAAP measures and are not prepared in accordance with NZ IFRS.

Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They may be used internally to evaluate the underlying performance of business units and to analyse trends. These measures are not uniformly defined or utilised by all companies. Accordingly, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS.

Reconciliations for the NZ IFRS measures to certain non-GAAP measures referred to by Fonterra are detailed below.

Reconciliation from the NZ IFRS measure of profit for the period to Fonterra's normalised EBITDA

	GROUP $ MILLION	
	31 JULY 2018	31 JULY 2017
(Loss)/profit for the period	**(196)**	745
Add: Depreciation	**446**	435
Add: Amortisation	**98**	91
Add: Net finance costs	**416**	355
Add: Taxation expense	**42**	20
Total EBITDA	**806**	1,646
Add/(Less): Time value of options	**5**	1
Add: Reduction in the carrying value of investment in Beingmate	**439**	76
Add: WPC80 recall costs	**196**	–
Less: Gain on sale of Darnum manufacturing plant	**–**	(42)
Total normalisation adjustments	**640**	35
Normalised EBITDA	**1,446**	1,681

Reconciliation from the NZ IFRS measure of profit for the period to Fonterra's normalised EBIT

	GROUP $ MILLION	
	31 JULY 2018	31 JULY 2017
(Loss)/profit for the period	**(196)**	745
Add: Net finance costs	**416**	355
Add: Taxation expense	**42**	20
Total EBIT	**262**	1,120
Add: Normalisation adjustments (as detailed above)	**640**	35
Total normalised EBIT	**902**	1,155

Reconciliation from the NZ IFRS measure of profit for the period to Fonterra's normalised earnings per share

	GROUP $ MILLION	
	31 JULY 2018	31 JULY 2017
(Loss)/Profit for the period	**(196)**	745
Add: Normalisation adjustments (as detailed above)	**640**	35
Add: Normalisation adjustment to net finance costs	26	–
(Less)/Add: Tax on normalisation adjustments	**(63)**	12
Total normalised earnings	**407**	792
Less: Share attributable to non-controlling interests	**(25)**	(11)
Net normalised earnings attributable to equity holders of the Parent	**382**	781
Weighted average number of shares (thousands of shares)	**1,610,005**	1,604,744
Normalised earnings per share ($)	**0.24**	0.49

Glossary

NON-GAAP MEASURES

Fonterra refers to non-GAAP financial measures throughout the Annual Review, and these measures are not prepared in accordance with NZ IFRS. The definitions below explain how Fonterra calculates the non-GAAP measures referred to throughout the Annual Review.

EBIT	means earnings before interest and tax and is calculated as profit for the period before net finance costs and tax.
EBITDA	means earnings before interest, tax, depreciation and amortisation and is calculated as profit for the period before net finance costs, tax, depreciation and amortisation.
Economic net interest bearing debt	means net interest-bearing debt including the effect of debt hedging.
Farmgate Milk Price	means the base price that Fonterra pays for milk supplied to it in New Zealand for a season. The season refers to the 12-month milk season of 1 June to 31 May.
Gearing ratio	is calculated as economic net interest-bearing debt divided by total capital. Total capital is equity excluding the hedge reserves, plus economic net interest-bearing debt.
Grade free	farmers who consistently exceed our highest milk quality standards.
Normalisation adjustments	means transactions that are unusual by nature and size. Excluding these transactions can assist users with forming a view of the underlying performance of the business. Unusual transactions by nature are the result of specific events or circumstances that are outside the control of the business, or relate to major acquisitions, disposals or divestments, or are not expected to occur frequently. It also includes fair value movements if they are non-cash and have no impact on profit over time. Unusual transactions by size are those that are unusually large in a particular accounting period.
Normalised EBIT	means profit for the period before net finance costs and tax, and after normalisation adjustments.
Normalised earnings per share (EPS)	means normalised profit after tax attributable to equity holders divided by the weighted average number of shares for the period.
Normalised profit after tax	means net profit after tax after normalisation adjustments, and the interest and tax impacts of those normalisation adjustments.
Normalised segment earnings	means segmental profit for the period before net finance costs and tax, and after normalisation adjustments.
Payout	means the total cash payment to farmer shareholders. It is the sum of the Farmgate Milk Price (kg/MS) and the dividend per share. Both of these components have established policies and procedures in place on how they are determined.
Retentions	means net profit after tax attributable to farmer shareholders divided by the number of shares at 31 May, less dividend per share.
Return on capital	is calculated as normalised EBIT less equity accounted investees' earnings divided by capital employed. Capital employed is calculated as the average for the period of: net assets excluding net interest-bearing debt, deferred tax balances and brands, goodwill and equity accounted investments.
Segment earnings	means segmental profit for the period before net finance costs and tax.
Working Capital	is calculated as current trade receivables plus inventories, less current trade payables and accruals. It excludes amounts owing to suppliers and employee entitlements.

Directory

FONTERRA BOARD OF DIRECTORS

John Monaghan
Clinton Dines
Brent Goldsack
Bruce Hassall
Simon Israel
Andrew Macfarlane
Nicola Shadbolt
Donna Smit
Scott St John
Ashley Waugh
John Wilson

FONTERRA MANAGEMENT TEAM

Miles Hurrell
Marc Rivers
Lukas Paravicini
Robert Spurway
Judith Swales
Kelvin Wickham
Mike Cronin
Mark Van Zon

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We are Fonterra — we are of the land.

We were born from a heritage of staunchly independent farmers who knew we had to stand together as one Co-operative for us all to be successful. We honour the legacy of past dairy men and women who went out and created markets in far flung places for our New Zealand milk.

We will be fiercely loyal to our roots and always remember that we exist to secure the prosperity of future generations of New Zealand farmers by bringing the goodness of dairy to the world.

From those seeds we now source milk from around the world and create new products and services. We can do this because we know milk better than anyone else and can unlock its natural goodness in ways that add real value to customers and consumers throughout their lives.

We will succeed through the generations because we are committed to sustainable dairying and to the communities where we live and work. This starts with our own people. Their richness of difference – countries, cultures, experiences – and the shared passion they bring make us successful.

We listen to our customers and partners, speak forthrightly and do what we say we'll do. We stand for naturalness, health and uncompromising standards of quality, safety and integrity.

We aim high, always work to deliver exceptional results and find ways to make it happen, even when the going gets tough. We will do things tomorrow that we can only dream of today.

We are Fonterra — we are Dairy for Life.

Fonterra
Dairy for life

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