

Interim Report 2020

FOR THE SIX MONTHS
ENDED 31 JANUARY 2020

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 70 for the reconciliation of the NZ IFRS measures to the non-GAAP measures and page 72 for definitions of the non-GAAP measures used by Fonterra.

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Good progress, with more work to do



We are making good progress on the Board's 2020 priorities: delivering the Milk Price, a return to respectable earnings, the continued implementation of our strategy, and governance succession and development. We are on-track with projects reviewing potential improvements to the way we pay for our farmers' milk, and our capital structure.

We have more work to do. However, in the context of the significant cultural and organisational change within our Co-op and the strong forecast Farmgate Milk Price range, we are pleased with our progress over the first half of the financial year.

A return to respectable earnings

With a historically high Farmgate Milk Price forecast of \$7.00 - \$7.60 per kgMS, it is encouraging to report a \$272 million year-on-year increase in Total Group Normalised Earnings Before Interest and Tax (EBIT) of \$584 million.

That number has been delivered by a combination of solid earnings and cost control across the units and products that are at the heart of our new strategy – ingredients, foodservice and consumer.

We have continued to reduce debt. Improved profits and funds from divestments, including the now completed sale of DFE Pharma, have helped to reduce net debt by \$1.6 billion from a year ago. We are confident in achieving our full year targets for both operating expenses and capital expenditure.

Dividend

We changed our Dividend Policy guidelines last year to better reflect the annual performance and financial strength of our Co-op.

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

We are satisfied with our earnings and performance over the first half of the financial year. However, after considering the current uncertainty of the impact COVID-19 could have on earnings in the second half of the year, the Board has elected to not pay an interim dividend.

We do not take COVID-19 lightly. It is now a global pandemic.

At the end of the financial year the Board will reassess the Co-op's financial position and review the decision to pay a dividend.

Improvements to the way we pay for our farmers' milk

We regularly review the way we pay for milk to ensure we are paying the highest sustainable returns in an increasingly competitive market. Offering a competitive pricing model is essential to retain milk supply.

Led by our Co-operative Relations Committee, the Board is looking at improvements to the way we pay for our farmers' milk in-line with our new strategy. Specifically, the Advance Rate and how we might get more money to our farmers earlier in the season, the Capacity Adjustment, and the potential for incentive payments linked to our Co-operative Difference programme. We plan to make a number of announcements in this area before the start of the 2020/21 season.

Capital structure

Throughout the introduction of our new strategy there has been a small team from the Board and Management considering our future capital structure requirements.

We are continuing to assess those requirements and, if changes are needed, what our alternative options are.

It's important that our capital structure best supports the delivery of our new strategy and, most importantly, protects the long-term financial sustainability of our Co-op.

These discussions are critical to the future of our Co-op and for that reason, we won't put a timeline on the process. Once a direction has been determined, we will discuss this with the Shareholders' Council and then farmers.

Governance succession and development

In November, Donna Smit and Andy Macfarlane started their second terms as Farmer Directors after being successfully re-elected by their farming peers.

That same month, Independent Director Simon Israel retired from the Board after six years. Internationally respected Directors of Simon's calibre aren't easy to come by and we are grateful for the significant contribution he made to our Co-op.

Good progress is being made on securing a suitable replacement for Simon.

In March, I confirmed that I would retire from the Board at this year's Annual Meeting in November.

After 11 years as a Director, and having seen through the introduction of our new strategy, operating model, and with our debt reduction efforts well progressed, the timing is right for me and for the Co-op.

The Board is committed to a planned Chair succession that provides Miles and his senior management team with the governance stability and confidence they need to maintain the Co-op's momentum. Our current plan is to announce a Chair-elect by no later than August this year. This will give transparency of leadership prior to this year's Director elections and allow for an appropriate period of handover before I retire from the Board.

Outlook for the financial year

Our farmers have faced difficult on-farm conditions across most of the country and we expect those to continue into the second half of the year. Prolonged dry conditions for most of the North Island have already impacted our milk collections and may limit the amount of winter feed available. As a result, we have revised our forecast milk collections for the 2020 season down to 1,515 million kgMS.

We have already contracted a high percentage of that 2020 milk supply and this is helping us manage the impact of COVID-19. The outbreak had an immediate impact on the GlobalDairyTrade prices of the products that determine our Milk Price. At this point, we remain confident that the final price will be within our range of \$7.00-\$7.60 per kgMS.

Our underlying earnings are tracking well at the half year. However, given the potential significant risks that could arise from the spread of COVID-19 and other geo-political risks in key markets such as Hong Kong and Latin America in the second half of the financial year, we have held our forecast earnings range at 15-25 cents per share.

We will continue to share regular updates if the outbreak or other events materially change this outlook.



John Monaghan
Chairman

Forecast Farmgate Milk Price range
for 2019/20 season

**\$7.00–
\$7.60** per
kgMS

New Zealand milk collection
for the 2019/20 season

1,515 million
kgMS

Share price

\$4.01¹  6.4%²

Interim dividend

0 No interim
dividend



¹ Fonterra Co-operative Group Limited share price as at 31 January 2020.

² For the period 1 August 2019 to 31 January 2020.

Resetting the business and improving performance



There's a fair amount to reflect on in this interim results update. Over the last six months, we have introduced a new strategy and a new customer-led operating model. We've right-sized and reorganised our business so it fits with our more targeted strategy and I'm pleased to see improved financial performance.

We're now a very different Co-op to this time last year – we're prioritising New Zealand milk and staying focused on what we know we're good at and what makes a difference to our farmer owners, unit holders, employees and communities.

I shared four priorities for the 2020 financial year as part of our new strategy announcement: hit our financial targets; reduce our environmental footprint; build a great team; and support regional New Zealand.

By achieving these, we will take strides towards our long-term goals of Healthy People, Healthy Environment and Healthy Business and I want to update you on the progress we've made so far this year.

Hit our financial targets

Our Total Group Normalised Earnings Before Interest and Tax (EBIT) have increased by \$272 million to \$584 million, compared to the same period last year. We've done this through driving stable underlying earnings from our Ingredients business, improving gross margins in Foodservice and reducing our operating expenses.

We continue the focus on reducing our debt and are targeting our debt to be no more than 3.75 times our earnings by the end of the year, and we're on track to achieve this. We completed the sale of DFE Pharma and foodspring® in the first half of the year with cash proceeds of \$624 million, which helped increase our free cash flow by \$1.2 billion and reduce net debt by \$1.6 billion or 22%, compared to this time last year. We have also achieved a total gain on sale from these asset sales of \$469 million.

Our strategy and focus on financial discipline have us continuously reviewing our asset portfolio. We've completed strategic reviews on China Farms and DPA Brazil and sales processes for both assets are well under way. Through these sales processes and strategic reviews, we have gained additional information and further insights and, as a result,

we have revised down the valuation of China Farms and DPA Brazil by a total of \$134 million.

We have also reduced the value of our China Farming joint venture by \$65 million and we continue to look for opportunities to improve the ongoing performance of the business.

We're carefully managing our costs and have reduced our operating expenditure by \$140 million on the same period last year, and our capital expenditure is on-track to be no more than \$500 million for the year. At the same time, we are not cutting costs in areas that are aligned to our strategy and will deliver additional long-term value from our farmer owners' milk.

Reduce our environmental footprint

We care about the environment and recognise the significance of the risks that climate change presents to communities, food systems and economic growth. We take our responsibility to play a role in mitigating these risks seriously and that's why we've put sustainability at the heart of our strategy.

The Co-operative Difference has now been in place since June 2019. It's our way of bringing together what our farmers need to know today, and what they need to prepare for in the future to be sustainable and resilient. The Co-operative Difference has helped a further 427 farms put in place a tailored Farm Environment Plan (FEP) so far this year, which means 28% of supplying farms now have an FEP. It's also enabling all our farmer owners to have a farm-specific greenhouse gas emissions report by the end of the year, providing the necessary information to assist farmers to make more informed decisions.

We've set aside capital investment to reduce our water usage at our manufacturing sites and help achieve our 2020 target of reducing manufacturing energy intensity (that's energy per tonne of production) by 20%. But the big sustainability news from the first half is our announcement that our Te Awamutu site will be coal free next season. By switching from coal to wood pellets, we will reduce our carbon emissions by the equivalent of taking around 32,000 cars off the road and reduce our total coal usage by 10%.

Build a great team

We now have a customer-led operating model up and running with three in-market businesses: Asia Pacific; Greater China; and Africa, Middle East, Europe, North Asia, Americas. We've made this change because our future is no longer about growing milk collections and sales volumes. Instead it is about prioritising New Zealand's unique milk and growing the value of that milk, which means we need to understand our customers in ways that we haven't in the past. We need to be making sure our farmer owners' milk is going to the customers who value New Zealand milk, innovation, sustainability and efficiency.

Our teams also need to be 100% clear about what is expected of them so they can achieve great outcomes for our Co-op. To help with this we have introduced 'Good Together' – two simple words that bring together our purpose, values and strategy.

Good Together prompts us to ask two important questions: How are we contributing to our purpose, living our values and delivering on our strategy and how are we achieving more through great team work? By all of us being clear on our answers, we can be confident that we're focused on the right things and we're building the culture we've always wanted.

Support regional New Zealand

With a forecast Farmgate Milk Price range of \$7.00 - \$7.60 per kgMS, we're on track to contribute over \$11.1 billion to the New Zealand economy. Farmers spend nearly half of every dollar they earn for their milk in their local communities, so the strong milk price is good for farmers and their local businesses and communities.

But let's not ignore the fact that it's been pretty tough on farm for a lot of farmers this season. There have been floods in Canterbury, Otago and Southland, and very dry conditions across much of the rest of the country. It's in times like these we need to support each other, and we've been doing our best to help farmers impacted by this challenging weather. Our tankers have also been delivering water to rural towns in need. It gives me pride to lead people who genuinely care and want to help in their communities.

Looking ahead

We remain confident in our forecast Farmgate Milk Price range of \$7.00-\$7.60 per kgMS and underlying forecast earnings guidance of 15-25 cents per share. We're building momentum and I'm really pleased to see our teams continuing to step up and work together as we reset the Co-op.

However, there is no doubt that we have a number of risks in the second half – in particular, the potential impact of COVID-19 on global demand, geo-political risks in key markets such as Hong Kong and Chile, and ongoing dry weather conditions here in New Zealand which could impact collections and potentially input costs.

We have already contracted a high percentage of this year's milk supply, but our teams know that we have to keep our foot on the pedal and navigate very carefully through the challenges we'll face in the second half.



Miles Hurrell
Chief Executive Officer

Total Group Normalised Earnings Before Interest and Tax

\$584_m

From \$312m

Normalised Net Profit After Tax

\$293_m

From \$72m

Net Debt reduced by

\$1.6_b



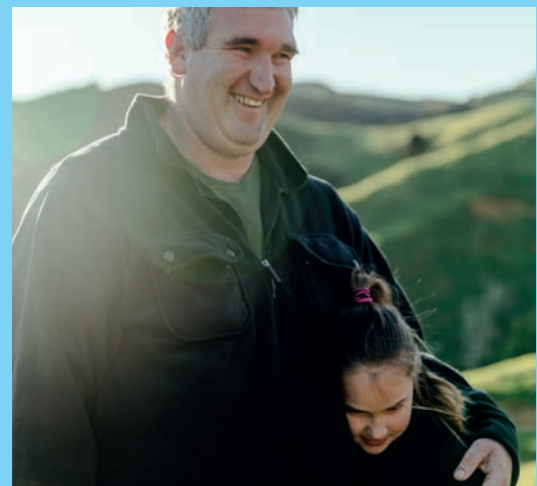
Our Te Awamutu site will be coal free next season



Customer-led operating model in place



Supporting each other through floods and drought



Good Together



Good Together

These two simple words bring together our purpose, values and strategy, which are the foundation of our Co-operative.

They describe who we are and what we do. They give us the lens through which all our behaviours, decisions and choices need to be made.

**We are good people,
doing good things.**



OUR PURPOSE

Our Co-operative,
Empowering people
To create goodness
for generations.

You, me, us together
Tātou, tātou



OUR VALUES

Do what's right

We act with care, empathy and respect, and we hold ourselves and others to high standards.

Challenge boundaries

We are progressive, open-minded and always eager to uncover new ways of working to benefit everyone in our Co-op.

Co-operative spirit

We pitch in and work as one connected team to create goodness together.

Make it happen

We deliver on our commitments and live all our values in everything we do.



OUR STRATEGY

Our strategy is about:

- Prioritising New Zealand milk
- Being globally competitive in Core Dairy (base and advanced ingredients)
- Growing our sales of Sports and Active, Medical and Aging and Paediatric ingredients
- Developing new Foodservice markets
- Only making consumer products where we have a right to win
- Differentiating ourselves through innovation, sustainability and efficiency
- Using milk components and non-dairy ingredients sourced from around the world
- Collaborating more based on intellectual property and skills
- Divesting non-core businesses
- Reducing debt

Healthy People

We're working together to care for people and make a positive impact on society



Fonterra chemist Dr Harvey Indyk, made an Officer of the New Zealand Order of Merit.
Photo Credit: Stuff/Waikato Times

\$11.1 billion

We're on track to contribute around \$11.1 billion to the New Zealand economy through our Farmgate Milk Price. With farmers spending nearly half of every dollar they earn for their milk in their local communities, this helps support local businesses and rural communities.



Farmers and employees making a difference

We are so proud of the farmers and employees who are being recognised for their expertise and contribution to regional New Zealand. Like dairy farmer Tony Wilding and scientist Dr Harvey Indyk who were both made Officers of the New Zealand Order of Merit in the 2020 New Year honours list.

Inia Te Wiata, a mechanical maintenance apprentice at our Hautapu site, was awarded the 2019 Stuart Tolhurst Memorial Award – the industry award that recognises high-performing engineering apprentices.



Farmer Tony Wilding, made an Officer of the New Zealand Order of Merit.



Fonterra mechanical maintenance apprentice Inia Te Wiata, recognised as national high-performing engineering apprentice.

10 years



10 years of providing valuable nutrition to Kiwi kids through **KickStart Breakfast**.

A helping hand

Being a Co-op means we're there for one another. That's why we helped out farmers during the floods in the South Island and the dry weather across the North Island. It's also why we helped out our local communities by delivering water to those towns in need.



40%



less sugar



30%



Healthier products

We've reduced the amount of added sugar by 40% in Fresh 'n Fruity yoghurt and 30% in our Anchor CalciYum. It gets us closer to our target of having 100% of our everyday and advanced products meet our independently-endorsed nutritional guidelines.

Healthy Environment

Working together to achieve a healthy environment for farming and society

- 1 Supporting our farmers underpins everything we do. In person, in digital, in partnership.
- 2 Well defined Terms of Supply to protect the Co-operative here and now.
- 3 Recognition for farmers who are moving beyond the Terms of Supply.
- 4 All on-farm activities aligned across five focus areas.
- 5 Clear guidance on future direction based on emerging customer and community trends.

The Co-operative Difference

Implemented at the start of the season, The Co-operative Difference makes it easier for farmers to know what is expected today and in the future, as well as recognising those who are taking steps to produce high-quality milk in a more sustainable way. Our on-farm support is a critical part of The Co-operative Difference.



100% by 2025

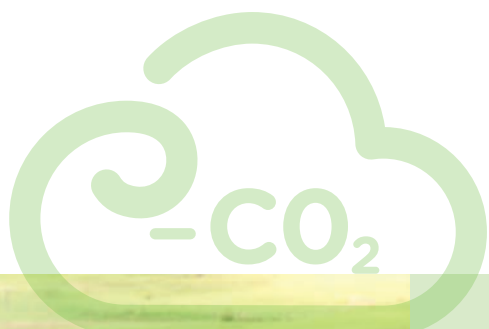
Our team of 28 Sustainable Dairying Advisors have worked with another 427 farms to develop Farm Environment Plans (FEPs), and we are on track with our target of 1,000 this year and for all farms to have one by 2025.

An FEP includes a GPS tracked digital farm map, photos of critical locations, opportunities for improvement, practical actions to address risks and timelines to complete work.



Zero waste to landfill

Knowing exactly where we are at is key to improving. Since July 2019, when we announced our new targets of zero waste to landfill and 100% recyclable, reusable or compostable packaging by 2025, we have completed an audit and found that approximately 60% of our packaging is in practice recyclable. We can now develop a plan to meet our targets.



Farm-specific greenhouse gas emissions reports

In a New Zealand first, we are on track to deliver farm-specific greenhouse gas emissions reports for all our farmer owners at the end of the year. More than 90% of participants in a pilot study said the reports improved their understanding of biological greenhouse gases.

90%

survival rate
of planted natives

Plant for Good

We launched Plant for Good, a partnership between Farm Source and Wildlands that reduces the cost of planting natives on-farm and guarantees a survival rate of at least 90% for the first 24 months. Planting around waterways helps improve water quality.



One-third of the global average but we know we can do better

While a new study published in the Journal of Dairy Science shows the carbon footprint of our milk supply is the lowest in the world (about one-third of the global average), we know that more is needed, and methane is our biggest challenge. That's why we are working with Massachusetts Institute of Technology in the US and companies like DSM in the Netherlands to investigate combining methane inhibitors with pasture-based farming.



Equivalent of 32,000 cars removed

We announced that switching from coal to wood pellets at our Te Awamutu site in Waikato next season will reduce our total coal use by 10% and our carbon emissions by the equivalent of taking around 32,000 cars off the road.

Reduce energy use

We're working hard to reduce our New Zealand manufacturing energy intensity (energy per tonne of production) by 20% this year from a 2003 financial year base line.

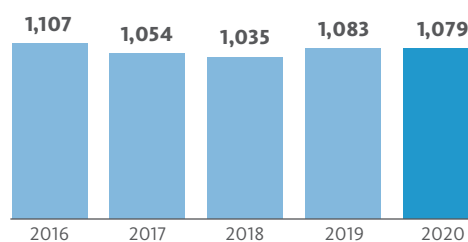
To help with this, over the last six months the team at our Whareroa site in Taranaki have reduced their energy intensity by 4.6% compared to last season. That's equivalent to the annual energy used by 3,100 homes.

Group Financial Metrics

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

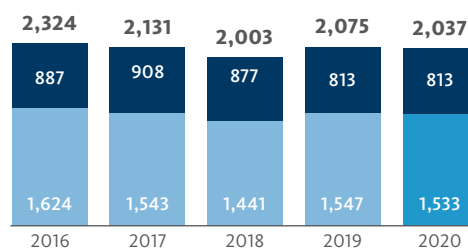
Milk Collection

kg/MS (millions)



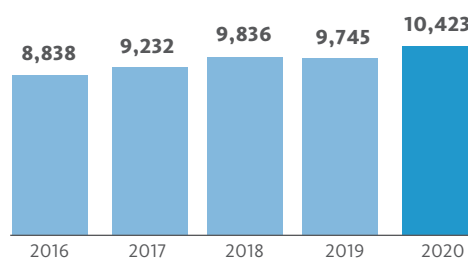
Normalised Sales Volume ('000s MT)^{1,2,3}

■ Ingredients ■ Consumer and Foodservice



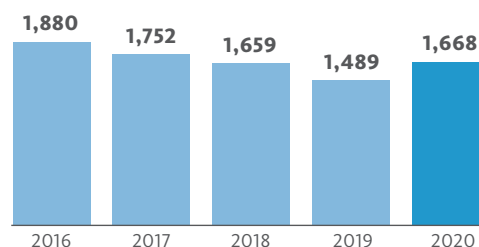
Normalised Revenue

\$ (millions)



Normalised Gross Margin

\$ (millions)

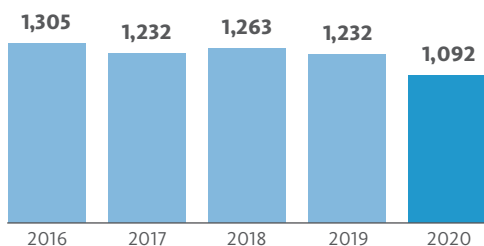


Note: FY19 performance is restated for the change in timing of recognising revenue from sales to a distributor in our Greater China Foodservice business. Refer to the Basis of Preparation section in the FY20 Interim Report for further detail.

- 1 Does not add to total due to inter-group eliminations.
- 2 From 2017 onwards, the basis for including China Farms was changed, and the net impact was to reduce overall sales volumes.

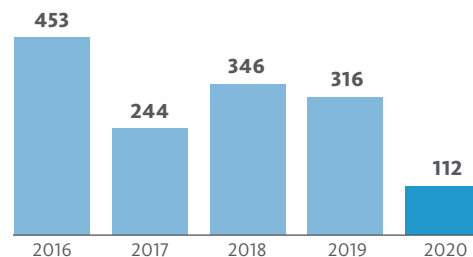
Normalised OPEX

\$ (millions)



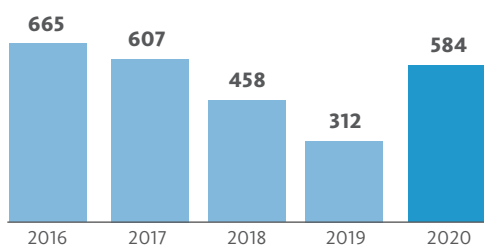
CAPEX⁵

\$ (millions)

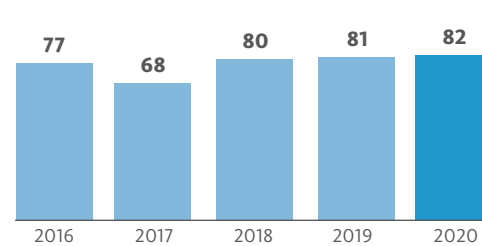


Normalised EBIT

\$ (millions)

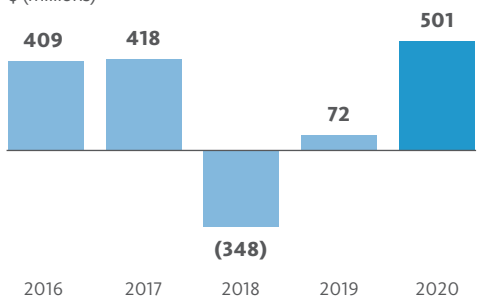


Working Capital Days



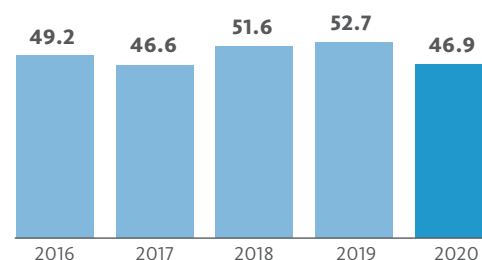
Reported NPAT⁴

\$ (millions)



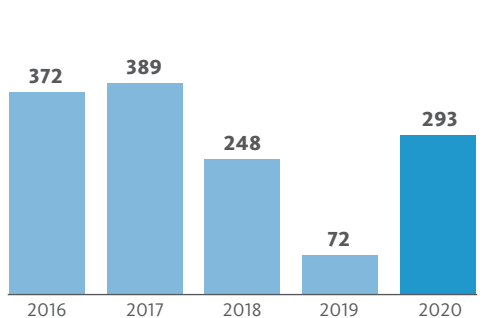
Gearing^{6,7}

%



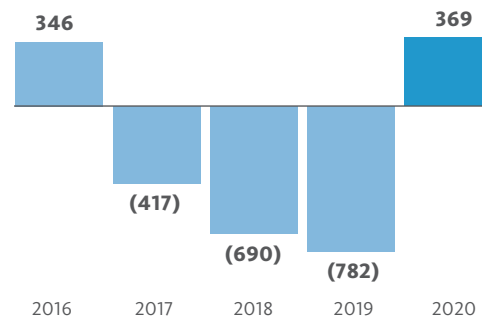
Normalised NPAT⁴

\$ (millions)



Free Cash Flow⁸

\$ (millions)



3 FY19 and FY20 Ingredients, Consumer and Foodservice segment volumes are reported on a Continuing Operations basis. They exclude China Farms and DPA Brazil, which are classified as Discontinued Operations. Refer to Note 2 to the Financial Statements in the FY20 Interim Report for further detail.

4 Includes non-controlling interests.

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

6 Gearing ratio is economic net interest bearing debt divided by total capital. Total capital is equity excluding the hedge reserves, plus economic net interest bearing debt. It excludes the borrowings attributable to Discontinued Operations.

7 DPA Brazil business and China Farms meet the requirements as 'disposal groups' held for sale. As a result of the classification as 'Held for sale', the assets of each business and their associated liabilities have been recognised in the Statement of Financial Position as 'Held for sale'.

8 Free cash flow is the total of net cash flows from operating activities and net cash flows from investing activities.

Group Overview

Our financial performance has improved – earnings have increased, cashflow has improved and leverage has reduced. Our reported Net Profit After Tax was \$501 million, up \$429 million over the comparable period last year.

Our Total Group Earnings Before Interest and Tax (EBIT)¹ were \$806 million for the first six months of the 2020 financial year, an increase of \$494 million compared to the same period last year. This included a net positive \$222 million from one-off items relating to the asset portfolio review and from other normalisations.

Our Total Group normalised EBIT was \$584 million, an increase of \$272 million compared to the same period last year. This excludes the one-off items in order to give a better comparative view of underlying earnings. We achieved this through stable underlying earnings from Ingredients and a significant improvement in both Foodservice and Consumer. Foodservice's normalised EBIT was up \$86 million to \$147 million, and Consumer's normalised EBIT was up \$49 million to \$116 million.

We have maintained our focus on strong financial discipline. We have reduced our Total Group operating expenses by 11% or \$140 million, and remain on-track for capital expenditure to be no more than \$500 million for the year.

We are continuing to make good progress implementing our portfolio review. In the first half of the 2020 financial year we completed the sale of DFE Pharma and foodspring® and received cash proceeds of \$624 million. These divestments, combined with improved business performance, have contributed to our free cash flow¹³ improving by \$1.2 billion and net debt reducing by 22% or \$1.6 billion. The divestments have also resulted in a gain on sale of \$469 million.

As part of our strategy and focus on financial discipline, we continuously review our asset portfolio. Sales processes for China Farms and DPA Brazil are well underway. Based on the additional information and further insights we have gained through the sales process and strategic reviews for China Farms and DPA Brazil, we have reduced the valuation of these two assets and the China Farming joint venture by a total of \$199 million.

Reconciliation to Total Group EBIT

Normalised Basis ³ NZD Million	31 JANUARY 2019 ²			31 JANUARY 2020		
	Continuing Operations ⁴	Discontinued Operations ⁵	Total Group ⁶	Continuing Operations ⁴	Discontinued Operations ⁵	Total Group ⁶
Volume ('000 MT)	1,971	104	2,075	1,928	109	2,037
Revenue	9,428	317	9,745	10,071	352	10,423
Cost of goods sold	(7,980)	(276)	(8,256)	(8,483)	(272)	(8,755)
Gross margin	1,448	41	1,489	1,588	80	1,668
Gross margin % ⁷	15.4%	12.9%	15.3%	15.8%	22.7%	16.0%
Operating expenses	(1,164)	(68)	(1,232)	(1,023)	(69)	(1,092)
Other income ⁸	51	4	55	(4)	12	8
Normalised EBIT	335	(23)	312	561	23	584
Normalisations	–	–	–	356	(134)	222
Reported EBIT	335	(23)	312	917	(111)	806

Our reported Net Profit After Tax (NPAT) was \$501 million, up \$429 million over the comparable period last year. After adjusting for minority interests, this represents an earnings per share of 32 cents. Our normalised NPAT was \$293 million, an increase of \$221 million over the same period last year and, after adjusting for minority interests, this represents normalised earnings of 18 cents per share.

Despite the improved earnings performance in the first half, we face a number of uncertainties in the second half. As a result, it is appropriate that any dividend decisions are made with a complete picture of our full year earnings performance and debt position.

Group Performance

	SIX MONTHS ENDED		
	31 JAN 2019	31 JAN 2020	CHANGE ⁷
Reported net profit after tax ⁹	72	501	
Normalised net profit after tax ^{9,10}	72	293	
Reported earnings per share (cents) ¹¹	0.04	0.32	663%
Normalised earnings per share (cents) ¹¹	0.04	0.18	315%
Gearing ratio ¹²	52.7%	46.9%	
Free cash flow (NZD Million) ¹³	(782)	369	147%
Capital expenditure (NZD Million) ¹⁴	(316)	(112)	65%

1 This includes Continuing Operations and Discontinued Operations. The basis of determining Discontinued Operations is set out in the Basis of Preparation in the Interim Report. The combination of Continuing and Discontinued Operations is set out in the Reconciliation to Total Group EBIT table.

2 FY19 performance is restated for the change in timing of recognising revenue from sales to a distributor in our Greater China Foodservice business. Refer to the Basis of Preparation section in the FY20 Interim Report for further detail.

3 Refer to Note 2 of the Notes to the Financial Statements in the FY20 Interim Report.

4 Continuing Operations are presented in the Income Statement and in Note 1 in the Interim Report.

5 The basis of determining Discontinued Operations is set out in the Basis of Preparation and presented in Note 2 in the FY20 Interim Report.

6 Represents Continuing and Discontinued Operations to reflect total Fonterra performance.

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

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

9 Includes amounts attributable to non-controlling interests.

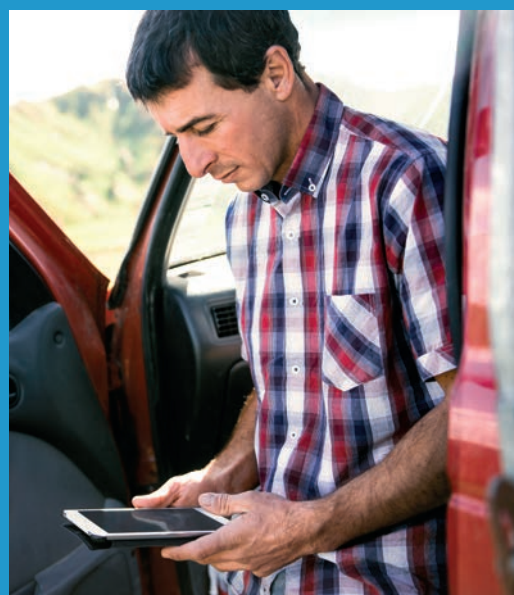
10 Defined in Non-GAPP measures in Financial Statements of FY20 Interim Report as 'Total normalised earnings'.

11 Normalised earnings per share attributable to equity holders of the Parent.

12 Gearing ratio is economic net interest bearing debt divided by total capital. Total capital is equity excluding the hedge reserves, plus economic net interest bearing debt. It excludes the borrowings attributed to Discontinued Operations.

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

14 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.



Normalised Net Profit After Tax

\$293_m  307%

Total Group Normalised EBIT

\$584_m  87%

Net Debt reduced by

\$1.6_b

Free Cash Flow increased by

\$1.2_b

Our Total Group sales volumes were down 2% to 2.04 million MT. This was mainly due to lower milk collections in Australia impacting sales volumes in our Ingredients business. Milk collections were also marginally down in New Zealand, but sales volumes from New Zealand sourced milk were up due to the product mix we produced and a faster sales rate, reflecting stronger demand.

Our Total Group sales revenue increased by 7% or \$678 million to \$10.4 billion, mainly due to improved pricing and the product mix we sold.

Our Total Group normalised gross margin percentage increased from 15.3% last year to 16.0%, predominantly due to a significant improvement in our Greater China Foodservice business' margins, which reflected a recovery in butter margins and sales volumes.

We have reviewed and changed when we recognise revenue arising from sales to our distributor in our Greater China Foodservice business. Previously, we accounted for the revenue arising from sales at the point that inventory physically transferred to the distributor. Given we retain control of the inventory until it is transferred to our customers, we are now recognising revenue from a sale at the point inventory is transferred to our customers. This does not change the profitability of the sales, but does change the time of the year that the revenue and profit is included in our financial statements. We see this impacting our half year financial statements. Using our previous method, Greater China Foodservice's gross margin percentage was 17.5% and 17.6% for FY19 and FY20 respectively, compared to 10.3% and 16.4% respectively under the new approach.

Our Total Group normalised gross margin increased by 12% or \$179 million to \$1,668 million, mainly due to improved gross margins in our Foodservice and Ingredients businesses. Our Foodservice normalised gross margins increased by \$90 million to \$260 million, mainly due to a recovery in butter sales in Greater China, and growing sales into bakery and beverage channels across both Greater China and Asia. Ingredients' normalised gross margin increased by \$17 million due to improved gross margins in Australia Ingredients, as well as a small increase in the gross margin of New Zealand Ingredients.

The businesses classified as Discontinued Operations, China Farms and DPA Brazil, had a total normalised gross margin improvement of \$39 million.

Our normalised gross margin for our Consumer business was down \$31 million to \$499 million, predominantly due to the sale of Tip Top and our Venezuelan business during the 2019 financial year. When we adjust for these divestments and take them out of our 2019 financial performance for comparative purposes, our Consumer gross margin decline reduced to \$2 million. While our Asia Consumer business' gross margin grew, total Consumer was offset by the ongoing disruption to sales from the civil unrest in Hong Kong and Chile.

Our Consumer business significantly reduced operating expenses, which were down \$91 million on the same period last year. These reduced costs have more than offset the decline in gross margin and helped increase normalised EBIT by \$49 million.

Our Total Group operating expenses have reduced by \$140 million. We have achieved this through the \$91 million reduction in Consumer's operating expenses, a further \$13 million reduction in Ingredients' operating expenses, and a \$38 million reduction in our unallocated costs held at Group.

As a result of our stable performance in Ingredients, increased gross margins in Foodservice, and reduced costs in the Consumer business, we have increased our Total Group normalised EBIT by \$272 million to \$584 million on the same period last year.

The proposed divestments of China Farms and DPA Brazil have impacted how the financial statements are presented. Specifically, these businesses are shown separately as



Discontinued Operations. This is because the sales processes for these businesses are at the point that they meet the accounting requirements to be classified as 'Held for sale', on the basis that a sale over the next 12 months is considered highly probable. Furthermore, because both businesses are considered to be major businesses in one of our segments and/or geographical regions, they are classified as 'Discontinued Operations'. As a result, our financial statements and the segment note within our financial statements exclude these businesses, and therefore reflect the Group's Continuing Operations only.

To provide a complete view of our performance during the first six months of the 2020 financial year, the group figures presented in this Group Overview section are inclusive of both Continuing and Discontinued Operations. The business segments in the following pages reflect only the continuing businesses. However, to provide a complete view we have included detail in our Latin America Consumer section on the performance of our DPA Brazil joint venture, and we have continued to provide the China Farms' performance on page 32.

We are continuing our focus on strong financial discipline. In the first half this resulted in improved cash flows and lower leverage. Our free cash flow, being the cash flow that is available to pay interest and dividends and to reduce debt, increased by \$1,151 million to \$369 million. We achieved this significant increase through improved earnings, lower working capital requirements, lower capital expenditure, the sale proceeds from divesting DFE Pharma and foodspring®, and reducing our Beingmate shareholding. Our capital expenditure of \$112 million in the first half of this year was lower than the same period last year. We are on-track for our capital expenditure to be no more than \$500 million for the year, with seasonally higher spend occurring in the second half year.

As at 31 January 2020, our economic net interest bearing debt was \$5.8 billion, down \$1.6 billion on the same period last year, and we have improved our gearing to 46.9%. This measure of debt included the capitalised amount of operating leases following changes to accounting policies, which increased our debt by \$581 million relative to the beginning of the financial year. However, this was partially offset by the transfer from borrowings to general liabilities of \$336 million of net debt for DPA Brazil and China Farms, as a result of being classified as 'Held for sale' and a 'Discontinued Operation'. We decreased our net finance costs from the prior year due to our lower average debt and our tax expense increased by \$102 million due to higher taxable profits.

Total Group Normalised Gross Margin

\$1,668m 12%

Total Group Normalised Operating Expenses

\$1,092m \$140m

Capital Expenditure

\$112m 65%



Ingredients

Our New Zealand Ingredients' gross margin was in line with last year, but normalised earnings were down following the divestment of DFE Pharma. Australia Ingredients' performance has improved relative to the prior year despite ongoing challenges. However, this was offset by reduced earnings in New Zealand Ingredients, resulting in our total Ingredients' normalised EBIT declining by 5% to \$441 million.

Our Ingredients' sales volumes declined by 1% to 1.53 million MT and this was mainly due to the decline in Australia Ingredients' milk collections. We increased our sales volumes from New Zealand sourced milk through a better product mix and a faster sales rate, reflecting stronger demand despite marginally lower milk collections in New Zealand. This also resulted in lower levels of inventory at the end of the first half relative to the prior year.

Overall, our Ingredients' normalised gross margin increased \$17 million to \$813 million, due to New Zealand Ingredients remaining steady and Australia Ingredients having an improved first half relative to the prior year.

Our Ingredients business reduced normalised operating expenses by 3% to \$374 million. This was mainly from improving cost efficiencies in Australia Ingredients.

Australia Ingredients increased EBIT by \$25 million on last year, reporting a first half normalised loss of \$3 million. This improved performance was offset by New Zealand Ingredients' normalised EBIT decreasing \$40 million, partly due to lower Other Operating Income after selling DFE Pharma, which contributed earnings of \$20 million in the first half of the 2019 financial year. As a result of our new operating model, our Fonterra-owned China Farms business now sells direct to our customers instead of through our New Zealand Ingredients business. In addition, due to the Fonterra-owned China Farms being classified as a Discontinued Operation, our China Farming joint venture performance is presented in our New Zealand Ingredients' performance. Our China Farming joint venture made a loss of \$13 million in the first six months of FY20, and as a result, our total Ingredients' normalised EBIT was down \$23 million to \$441 million. Removing DFE Pharma from our 2019 financial performance for comparative purposes, Ingredients business' normalised EBIT declines \$3 million.

Our New Zealand milk collection for the season to date, June 2019 to January 2020, was 1,079 million kgMS, which was 0.3% down on last season. Milk collections during the peak of October were impacted by colder and wetter

conditions than usual across most regions. Despite this, our sales volumes of New Zealand sourced milk were up slightly due to a faster sales rate and different product mix, with higher sales of butter and Consumer creams through our Foodservice channels. However, sales volumes from our New Zealand Ingredients Global Sourcing business were down mainly due to lower milk collections in Australia. Overall, our New Zealand Ingredients business' sales volumes were down 0.1% to 1.45 million MT.

Our New Zealand Ingredients' normalised gross margin increased 1% to \$736 million.

Our New Zealand Ingredients business manufactures five ingredient products that inform the Farmgate Milk Price range. These are referred to as reference products, while all other products are referred to as non-reference products. As the five reference products drive the cost of milk used to make non-reference products, the relative price differences and movements of the two sets of products is an important contributor to our EBIT performance.

Relative to the prior year, our margins per metric tonne on reference products were steady. However, our non-reference gross margins per metric tonne were adversely impacted by higher sales volumes of UHT cream, a relatively lower margin product for Ingredients, to support our growing Foodservice sales.

Additionally, our UHT cream and cheese both had lower margin rates relative to last year due to market pricing in response to increased capacity and supply globally. Our bulk liquid margins were unfavourable compared to last year, with positive margins generated in the 2019 financial year as a result of a declining milk cost relative to this year, where milk costs have risen during the first half.



Ingredients Performance

Normalised (NZD Million) ^{1,2}	SIX MONTHS ENDED		
	31 JAN 2019	31 JAN 2020	CHANGE ³
Volume ('000 MT)	1,547	1,533	(1)%
Sales revenue	7,851	8,576	9%
Gross margin	796	813	2%
• New Zealand Ingredients	728	736	1%
– Reference products	345	345	0%
– Non-reference products	324	296	(9)%
– Other gross margin	59	95	61%
• Australia Ingredients	6	21	228%
• Other gross margin	62	56	(9)%
EBIT	464	441	(5)%
Discontinued Operations EBIT ⁴	(3)	–	

New Zealand Ingredients gross margin (\$ per MT)

Reference products (\$ per MT)	373	374	0%
Non-reference products (\$ per MT)	915	762	(17)%

1 Refer to Note 2 of the Notes to the Financial Statements in the FY20 Interim Report for normalisation information.

2 Figures represent Continuing Operations.

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

4 Represents the net (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. China Farms is classified as a Discontinued Operation.

Normalised Sales Revenue

\$8,576m 9%

Normalised Gross Margin

\$813m 2%



We were able to offset the tightening margins on our non-reference products with favourable phasing of logistic costs, higher margins within our Global Sourcing business and improved manufacturing performance.

Our New Zealand Ingredient business' operating expenses were in line with last year.

Adjusting for the divestment of DFE Pharma, our New Zealand Ingredients' normalised EBIT decreased \$20 million to \$428 million. This was mainly due to now having to account for the China Farming joint venture in New Zealand Ingredients. The China Farming joint venture reported a loss of \$4 million in the first half of the 2019 financial year and a loss of \$13 million this year due to ongoing animal management costs.

Australia Ingredients' sales volumes declined 24% to 134,000 MT predominantly as a result of reduced milk supply. Milk collections continue to be impacted by challenging on-farm conditions, retirements and a highly competitive milk supply market which has seen us lose milk supply primarily to milk brokers. Our third-party collections are also down due to our decision to focus on a value-add product mix. Our Australian milk collections declined 16% to 69.7 million kgMS. Fortunately, no Fonterra Australia suppliers have been impacted directly by the bushfires in Australia.

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

New Zealand Ingredients Revenue and Volume^{1,2}

	SIX MONTHS ENDED		
	31 JAN 2019	31 JAN 2020	CHANGE
Production Volume ('000 MT)			
Reference products	1,346	1,311	(3)%
Non-reference products	485	508	5%
Sales Volume ('000 MT)			
Reference products	924	921	(0)%
Non-reference products	354	389	10%
Revenue Per MT (NZD)			
Reference products	4,658	5,167	(21)%
Non-reference products	5,294	5,688	7%

Despite the ongoing challenges in Australia, our Ingredients business has reduced its half year loss by \$25 million to a loss of \$3 million, through continued focus on managing mix, price realisation and cost leadership.

In December 2019, we purchased Fundación Isabel Aninat's 13.6% shareholding in Prolesur for \$29.3 million, which took our ownership of Prolesur to 99.9%. Like Soprole, Prolesur's recent performance has been impacted by challenging market conditions. The acquisition of the Fundación shareholding has enabled us to integrate our two Chilean businesses to generate operating efficiencies across the supply chain from milk collection, processing and administration. It also allows us greater flexibility as we focus on realising the best value for our Co-operative from our businesses in Chile in line with our new strategy.

1 Figures represent Fonterra sourced New Zealand milk only.

2 Excludes bulk liquid milk. Bulk liquid milk for the six months to 31 January 2020 was 37,000 MT (six months to 31 January 2019: 34,000 MT).



New Zealand Normalised
Gross Margin

\$736_m  1%

Australia Normalised
Gross Margin

\$21_m  228%

Foodservice

Our Foodservice business performance in the first half improved significantly compared to the previous year with continued growth in our bakery and beverage house channels in Greater China and Asia. Earnings from our Oceania and Latin America Foodservice businesses were stable.

Overall, our Foodservice sales volumes increased 15% to 262,000 MT partly due to the slow start in Greater China in the 2019 financial year. However, we also increased our sales volumes in the first half of the 2020 financial year as a result of strong demand for our products from bakery and beverage house customers in Greater China and Asia. Our improved butter sales volumes and margins combined with growth in higher margin products contributed to a significant increase in gross margin, relative to the previous year. Our gross margin percentage improved from 12.7% to 17.2% and normalised gross margin increased \$90 million to \$260 million. Our operating expenses were flat and normalised EBIT was up \$86 million to \$147 million.



Foodservice Performance

Normalised (NZD Million) ^{1,2,3}	SIX MONTHS ENDED		
	31 JAN 2019 ⁴	31 JAN 2020	CHANGE ⁵
Volume ('000 MT)	228	262	15%
Sales revenue	1,341	1,517	13%
Gross margin	170	260	53%
Gross margin (%)	12.7%	17.2%	
EBIT	61	147	141%
Discontinued Operations EBIT	–	–	–

Oceania

Our Oceania Foodservice sales volumes decreased 6% to 45,000 MT, predominantly due to reduced sales volumes of low margin bulk product following industry consolidation in New Zealand and lower butter sales in Australia. Australia increased gross margins through a focused revenue growth strategy, but this was offset by the lower sales volumes in New Zealand. However, overall Oceania Foodservice gross margin was stable at \$47 million.

New Zealand's operating efficiencies more than offset its reduced gross margin. Overall Oceania Foodservice EBIT grew \$4 million to \$17 million.

1 Refer to Note 2 of the Notes to the Financial Statements in the FY20 Interim Report for normalisation information.

2 Figures represent Continuing Operations.

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

4 FY19 performance is restated for the change in timing of recognising revenue from sales to a distributor in our Greater China Foodservice business. Refer to the Basis of Preparation section in the FY20 Interim Report for further detail.

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

Asia

Our sales volumes in Asia Foodservice increased 13% to 51,000 MT. The largest contributor to the volume growth was the Philippines, which won a number of new customers in their bakery and beverage channels.

Our gross margin increased \$20 million to \$55 million due to improved performance in the majority of our Foodservice businesses across Asia, with the Indonesia and the Philippines businesses the largest contributors. Indonesia has continued to grow its gross margin with a focus on high margin products and revenue growth management. The Philippines improved gross margin mainly through growing volumes as a result of winning new customers in the bakery and beverage channels. The improved performance across the majority of Asia resulted in the gross margin percentage increasing from 12.1% to 16.3%.

Operating expenses in Asia increased marginally due to increased logistic costs in the Philippines and a stronger local currency in Indonesia, which impacted in-market costs.

Our Asia Foodservice EBIT increased \$19 million to \$27 million due to the growth in gross margin and keeping costs relatively flat.



Oceania EBIT

\$17_m

31%

Asia EBIT

\$27_m

230%



Foodservice Regional Performance

SIX MONTHS ENDED	SALES VOLUME ('000 MT)			NORMALISED EBIT (\$M)		
	31 JAN 2019 ¹	31 JAN 2020	CHANGE ²	31 JAN 2019 ¹	31 JAN 2020	CHANGE ²
Foodservice³	228	262	15%	61	147	141%
Oceania	48	45	(6)%	13	17	31%
Asia	45	51	13%	8	27	230%
Greater China ¹	119	149	25%	37	100	169%
Latin America	16	17	10%	3	3	(2)%

Greater China

In Greater China, our Foodservice sales volumes increased 25% on last year to 149,000 MT. The strong increase was partly due to the first half of the prior year being impacted by high in-market inventory in Mainland China.

Furthermore, within Mainland China, additional volume growth has come from strong market demand for our Anchor Food Professionals™ UHT milk and Anchor Food Professionals™ UHT whipping cream. We have driven this demand through continuing to develop new product applications across an increasing range of Western and Chinese cuisines, and we have also expanded into new cities. We are now in 350 cities compared to 285 cities we were in at this point last year.

Our gross margin increased \$68 million to \$142 million, predominantly due to increased sales volumes and lower input costs. Gross margin percentage increased significantly from 10.3% to 16.4%, due to a recovery in butter margins as well as selling more higher gross margin products, such as Anchor Food Professionals™ UHT milk and Anchor Food Professionals™ UHT culinary cream.

Our operating expenses in Greater China increased marginally due to the ongoing expansion into new cities, and we increased our normalised EBIT by \$63 million to \$100 million.

Latin America

Our Foodservice business in Latin America is relatively small with \$3 million normalised EBIT in the first half of this year, which was in line with last year. Soprole is the largest contributor to our Latin America Foodservice business with dairy desserts being the main category. The profitability of this business has been impacted by the civil unrest relating to the increased cost of living, privatisation, and inequality. The civil unrest escalated to vandalism of city infrastructure, including supermarkets, and impacted sales.

Foodservice Normalised EBIT:
key performance drivers

NZD Million	SIX MONTHS ENDED	
	31 JAN 2019 ¹	31 JAN 2020
Normalised EBIT prior year	73	61
Volume	26	26
Price	11	(31)
Cost of goods sold	(69)	95
Operating expenses and other ⁴	20	(4)
Normalised EBIT	61	147

¹ FY19 performance is restated for the change in timing of recognising revenue from sales to a distributor in our Greater China Foodservice business. Refer to the Basis of Preparation section in the FY20 Interim Report for further detail.

² Percentages as shown in tables may not align to the calculation based on numbers in the tables due to rounding.

³ Summing of individual numbers from the regional and divisional breakdown may not add up to the totals in each category due to rounding.

⁴ Includes net other operating income, net foreign exchange gains/losses and share of profit/loss of equity accounted investees.



Greater China Gross Margin

\$142_m

91%

Greater China EBIT

\$100_m

169%

Consumer

All regions within our Consumer business improved EBIT during the first half of the 2020 financial year relative to the same period last year, except for Greater China where challenges in Hong Kong offset earnings growth in Mainland China and Taiwan.

Overall, Consumer sales volumes were down 6% on last year to 551,000 MT. This was mainly due to challenging trading conditions in Hong Kong and Chile as a result of the civil unrest, and the fact our figures for the first half of 2019 included Tip Top and our Venezuelan business which we have since sold. Removing the Tip Top and Venezuelan sales volume in FY19 for comparative purposes, reduces the year-on-year total consumer sales volume decline to 3%.

Soprole, our Chilean business, maintained its gross margin relative to the first half of last year despite the civil unrest in Chile. We were not able to do this in Hong Kong, which offset the gross margin increase in Asia. Total Consumer gross margin was 6% down on last year to \$499 million. For comparative purposes, when we removed the Tip Top and Venezuelan gross margins from our 2019 financial performance, the Consumer gross margin increased by 1% year on year and the adjusted normalised gross margin percentage was stable at 24.0%.

Our normalised operating expenses across all regions were down a total of \$91 million to \$377 million. Once again for comparative purposes, removing the Tip Top and Venezuelan operating expenses from our 2019 financial performance sees Consumer's reduction in operating expenses go from \$91 million to \$61 million.

Our total Consumer normalised EBIT increased 73% to \$116 million, due to the gross margin growth in Asia as well as the reduced operating expenses across all regions. Adjusting for Tip Top and the Venezuelan business, our Consumer EBIT improved 76%.

Oceania

Our Oceania Consumer sales volume increased 1% to 258,000 MT after adjusting the 2019 financial year for the sale of Tip Top. Our Australia business had a small improvement in sales volumes predominantly due to demand growth across our cheese brands. Our New Zealand Consumer business has chosen to operate a leaner product mix focusing on higher margin products. On a comparable basis this resulted in no change to its

sales volumes. Not adjusting for the sale of Tip Top, our sales volume declined 8,000 MT, or 3%.

Our Australian Consumer business improved its gross margin due to a focused revenue growth strategy in all categories, particularly in chilled spreads, where Western Star continues to lead the market in both volume and value share. Australia's improved performance was offset by our New Zealand Consumer business as it adjusts to a leaner business model focusing on our core brands and working with our customers to execute a more profitable range. After adjusting for the sale of Tip Top, our Oceania Consumer normalised gross margin decreased \$1 million to \$141 million. Not adjusting for Tip Top, our normalised gross margin decreased \$30 million.

Rationalising our operations within our New Zealand business, as part of managing a leaner product mix, resulted in operating expenses in our Oceania Consumer business decreasing.

Oceania Consumer normalised EBIT increased \$19 million to \$34 million after adjusting for Tip Top. The improved performance reflects growth in Australia gross margin as well as reduced operating expenses in New Zealand. Not adjusting the 2019 financial year for the sale of Tip Top, our Oceania Consumer normalised EBIT increased \$14 million.

Asia

We improved our gross margin in Sri Lanka and reduced operating expenses across the majority of the Asia Consumer business. This resulted in our Asia Consumer normalised EBIT increasing \$21 million to \$56 million.

Asia Consumer sales volumes decreased 6% to 98,000 MT, predominantly due to the timing of shipments to Sri Lanka and lower sales of consumer powders into East Africa.

Gross margin in Sri Lanka increased due to a recovery in pricing but was partially offset by lower gross margin in Indonesia and Malaysia due to lower sales volume of Annum™ and Anlene™. Overall Asia Consumer gross margin increased \$9 million to \$175 million.

Consumer Performance

Normalised basis (NZD Million) ^{1,2,3}	SIX MONTHS ENDED		
	31 JAN 2019	31 JAN 2020	CHANGE ⁴
Volume ('000 MT)	585	551	(6)%
Sales revenue	2,155	2,080	(3)%
Gross margin	530	499	(6)%
Gross margin (%)	24.6%	24.0%	
EBIT	67	116	73%
Discontinued Operations EBIT ⁵	(5)	14	–

The majority of business units within our Asia Consumer business reduced operating expenses, in particular Malaysia, due to the timing of planned product launches.

Greater China

Our Greater China Consumer performance continues to be impacted by the challenging trading conditions in Hong Kong. Sales volumes declined 9% to 41,000 MT, partly due to the challenges in Hong Kong but also due to lower sales in Mainland China as we changed distribution models in some channels to align with our new strategy.

Our gross margin decreased \$14 million to \$63 million. The majority of the decline is due to reduced sales of our high margin Anlene™ and Annum™ products in Hong Kong.

- 1 Refer to Note 2 of the Notes to the Financial Statements in the FY20 Interim Report for normalisation information.
- 2 Figures represent Continuing Operations.
- 3 Summing of individual numbers from the regional and divisional breakdown may not add up to the totals in each category due to rounding.
- 4 Percentages as shown in tables may not align to the calculation based on numbers in the tables due to rounding.
- 5 Represents DPA Brazil net profit/(loss). DPA Brazil is classified as a Discontinued Operation.



Oceania EBIT

\$34m

69%

Asia EBIT

\$56m

58%



Consumer Performance

SIX MONTHS ENDED	SALES VOLUME ('000 MT)			NORMALISED EBIT (\$M)		
	31 JAN 2019	31 JAN 2020	CHANGE ¹	31 JAN 2019	31 JAN 2020	CHANGE ¹
Consumer^{2,3}	585	551	(6)%	67	116	73%
Oceania	267	258	(3)%	20	34	69%
Asia	104	98	(6)%	35	56	58%
Greater China	45	41	(9)%	13	5	(62)%
Latin America ⁴	169	154	(9)%	(1)	22	3,494%

Operating expenses reduced mainly due to the lower sales volume in Mainland China and Hong Kong.

The disruption to the retail sector in Hong Kong has meant our Hong Kong Consumer business made a loss in the first half of the year. This loss was partially offset by the improved performance in Mainland China and reduced operating costs and volume growth in Taiwan, where there has been increased demand for our Fernleaf brand. Overall, our Greater China normalised EBIT declined \$8 million to \$5 million.

Latin America

Our Latin America Consumer performance continues to be impacted by the challenging trading conditions in Chile. In the last quarter of the 2019 financial year, Soprole, our Consumer business in Chile, showed signs of recovery from a 'buy local' marketing campaign, which impacted the sales and earnings of a number of foreign-owned companies. However, civil unrest and vandalism of supermarkets during the first half of this financial year has impacted Soprole's dessert, yoghurt and mature cheese sales volumes. Overall, Latin America sales volume compared to the prior year decreased 15,000 MT to 154,000 MT. Our sales volumes last year include those from our Venezuelan business, which we have since sold. Removing the Venezuelan volumes from our 2019 financial performance for comparative purposes, the year-on-year decline is 9,000 MT.

Our Latin America Consumer gross margin increased \$4 million to \$120 million mainly due to Soprole having lower milk input costs.

In the 2019 financial year, Soprole made a \$15 million payment to Prolesur, our Ingredients business in Chile. This related to a prior year one-off milk cost. At a group level this one-off payment between the two business units had minimal impact. This payment did not reoccur in this year, which was the main reason for reduced operating expenses in our Latin America Consumer business this year.

Latin America Consumer normalised EBIT increased \$23 million to \$22 million, predominantly due to the reduced operating expenses in Soprole. Adjusting 2019 financial performance for the Venezuelan business reduces the year-on-year increase to \$17 million.

The sale process for DPA Brazil, our Consumer joint venture in Brazil, is well underway, and it has advanced to the point that the business meets the requirements to be classified as 'Held for sale' in our financial statements. Furthermore, it meets the definition of a Discontinued Operation because it is a separate major geographical area of operation. As a result, the segment note within our financial statements has been prepared excluding our Brazil joint venture business.

In the first half of this year, the DPA Brazil business has had increased sales volumes off the back of the local economy improving and increasing its market share in both value and volume. DPA Brazil's market share value increased 1% to 17.5%. Its gross margin also increased, predominantly due to the volume growth but also through an improved pricing strategy. We also saw a small improvement in DPA Brazil's operating expenses, and combined with the improved sales performance, DPA Brazil increased its normalised EBIT by \$19 million to \$14 million.

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

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

³ Figures represent Continuing Operations.

⁴ Excludes DPA Brazil performance. DPA Brazil is classified as a Discontinued Operation.

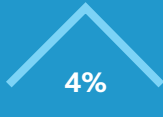
Consumer Normalised EBIT: key performance drivers¹

(NZD Million)	SIX MONTHS ENDED	
	31 JAN 2019	31 JAN 2020
Normalised EBIT prior year	127	67
Volume	6	(30)
Price	60	47
Cost of goods sold	(89)	(47)
Operating expenses and other ²	(37)	79
Normalised EBIT	67	116

Despite the improved performance, Brazil continues to remain a challenging market to operate in. In the 2019 financial year, we wrote down the value of the business by \$149 million and the divestment process has resulted in a further impairment of \$71 million before tax. The Brazil business is a joint venture and the loss is shared with our joint venture partner. Therefore, at the level of net profit attributable to Fonterra equity holders, the impact of the impairment is \$31 million.



Latin America Gross Margin

\$120_m  **4%**

Latin America EBIT

\$22_m  **up from \$(1)m**



- Figures represent Continuing Operations and excludes DPA Brazil performance. DPA Brazil is classified as a Discontinued Operation.
- Includes net other operating income, net foreign exchange gains/losses and share of profit/loss of equity accounted investees.

China Farms

The sale process for China Farms is well underway and it has advanced to the point that the business meets the requirement to be classified as 'Held for sale' in our financial statements. The divestment of the China Farms business also meets the definition of a Discontinued Operation because it is a separate line of business and a major geographical area of operation. As a result, the China Farms segment note in our financial statements is no longer presented.

To provide a complete view of our performance during the first six months of the 2020 financial year, we have continued to report China Farms' performance in this section.

Our sales volumes increased 15% to 10,000 MT due to last year's volumes being impacted by continuous rainstorms and flooding in Yutian. Improved feed management and increased productivity per cow has also helped increase sales volumes.

China Farms Financial Performance

	SIX MONTHS ENDED		
	31 JAN 2019	31 JAN 2020	CHANGE ¹
Volume ('000 MT)	9	10	15%
Sales revenue	110	135	23%
Normalised gross margin	(13)	11	187%
Normalised EBIT	(18)	9	150%

End-to-End China Farms Normalised EBIT

	SIX MONTHS ENDED	
	31 JAN 2019	31 JAN 2020
China Farms		
Fonterra-owned	(18)	9
New Zealand Ingredients ²	(4)	(16)
Consumer and Foodservice	1	3
Total	(21)	(4)

China Farms' gross margin improved \$24 million from a loss of \$13 million to a profit of \$11 million. This was driven by strong seasonal market demand and a focus on customer portfolio optimisation, enabling us to achieve higher external milk prices. In the first six months of the 2020 financial year, 72% of our milk volumes sold for more than RMB 4, versus 51% in the comparable period last year.

China Farms' EBIT increased \$27 million from a loss of \$18 million to a profit of \$9 million, predominantly due to the improved gross margin and a small improvement in operating expenses.

The China Farming joint venture is part of our Continuing Operations and is now reported in the Ingredients segment. It reported a loss of \$13 million, predominantly due to ongoing animal management costs, compared to a loss of \$4 million for the same period last year.

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

² Includes our China Farming joint venture and associated management fees.



Historical Financial Summary

Commodity Prices

	JAN 2016	JAN 2017	JAN 2018	JAN 2019	JAN 2020
Weighted Average Commodity Prices (\$ USD per MT FOB)					
Whole Milk Powder ¹	2,064	2,580	3,087	2,845	3,166
Skim Milk Powder ¹	1,758	2,135	2,000	2,050	2,640
Butter ¹	2,731	3,434	5,879	4,460	4,302
Cheese ²	3,088	3,554	3,897	3,522	3,883

Group Overview^{3,4,5}

	JAN 2016	JAN 2017	JAN 2018	JAN 2019	JAN 2020
Income					
Volume (000s MT)	2,324	2,131	2,003	2,075	2,037
Normalised sales revenue (\$ million)	8,838	9,232	9,836	9,745	10,423
Normalised EBITDA (\$ million) ⁶	951	896	733	596	907
Normalised EBIT (\$ million) ⁷	665	607	458	312	584
Normalised NPAT (\$ million) ⁸	367	384	242	68	283
Reported earnings per share	0.25	0.26	(0.22)	0.04	0.32
Normalised earnings per share	0.23	0.24	0.15	0.04	0.18
Revenue Margin Analysis					
EBITDA ⁹	10.8%	9.7%	7.4%	6.1%	8.7%
EBIT ¹⁰	7.5%	6.6%	4.7%	3.2%	5.6%
NPAT ¹¹	4.2%	4.2%	2.5%	0.7%	2.7%
Cash Flow (\$ million)					
Operating cash flow ¹²	924	(167)	(292)	(612)	(124)
Free cash flow ¹²	346	(417)	(690)	(782)	369
Net working capital ¹³	4,623	4,838	5,356	5,396	6,196
Capital Measures					
Equity excluding hedge reserve (\$ million)	7,137	7,005	6,624	6,607	6,506
Economic net interest-bearing debt (\$ million) ¹⁴	6,908	6,115	7,060	7,352	5,757
Gearing ratio ¹⁵	49.2%	46.6%	51.6%	52.7%	46.9%
Capital expenditure (\$ million) ¹⁶	453	244	346	316	112

Ingredients^{3,4,17}

	JAN 2017	JAN 2018	JAN 2019	JAN 2020
Sales Volume (000 MT)¹⁸				
Reference Products	973	900	924	921
Non-reference Products	338	277	354	389
Revenue (\$/MT)¹⁸				
Reference Products	3,873	4,783	4,658	5,167
Non-reference Products	5,201	5,726	5,294	5,688
Gross Margin (\$/MT)				
Reference Products	253	413	373	374
– Margin	6.5%	8.6%	8.0%	7.2%
Non-reference Products	1,178	1,309	915	762
– Margin	22.6%	22.9%	17.3%	13.4%
Ingredients				
Volume (000s MT) ¹⁹	1,543	1,441	1,547	1,533
Normalised sales revenue (\$ million)	7,219	7,903	7,851	8,576
Normalised gross margin (\$ million)	792	871	796	813
Normalised gross margin % ²⁰	11.0%	11.0%	10.1%	9.5%
Normalised earnings (\$ million)	510	558	464	441
Normalised earnings margin % ²¹	7.1%	7.1%	5.9%	5.1%

Divisional Breakdown – Ingredients^{3,4,22}

	JAN 2017	JAN 2018	JAN 2019	JAN 2020
New Zealand Ingredients¹⁷				
Volume (000s MT) ¹⁹	1,465	1,342	1,449	1,447
Revenue (\$ million)	6,607	7,006	6,973	7,785
Normalised gross margin (\$ million)	730	766	728	736
Normalised gross margin % ²⁰	11.0%	10.9%	10.4%	9.5%
Fonterra Ingredients Australia				
Volume (000s MT) ¹⁹	155	148	175	134
Revenue (\$ million)	727	855	919	774
Normalised gross margin (\$ million)	27	50	6	21
Normalised gross margin % ²⁰	3.7%	5.9%	0.7%	2.7%
Other and Eliminations				
Volume (000s MT) ¹⁹	(77)	(49)	(77)	(48)
Revenue (\$ million)	(115)	42	(41)	17
Normalised gross margin (\$ million)	35	55	62	56

Historical Group Summary CONTINUED

Regional Breakdown – Consumer and Foodservice^{3,4,22,23}

	JAN 2017	JAN 2018	JAN 2019	JAN 2020
Oceania				
Volume (000s MT) ¹⁹	335	309	315	303
Revenue (\$ million)	988	1,087	1,108	1,046
Normalised gross margin (\$ million)	243	208	218	188
Normalised gross margin % ²⁰	24.6%	19.2%	19.6%	18.0%
Normalised earnings (\$ million)	58	15	32	51
Normalised earnings margin % ²¹	5.9%	1.4%	2.9%	4.9%
Asia				
Volume (000s MT) ¹⁹	156	145	149	149
Revenue (\$ million)	933	905	933	981
Normalised gross margin (\$ million)	288	211	200	229
Normalised gross margin % ²⁰	30.9%	23.3%	21.5%	23.4%
Normalised earnings (\$ million)	124	56	44	82
Normalised earnings margin % ²¹	13.3%	6.2%	4.7%	8.4%
Greater China⁵				
Volume (000s MT) ¹⁹	112	129	164	190
Revenue (\$ million)	567	731	922	1,056
Normalised gross margin (\$ million)	198	182	152	205
Normalised gross margin % ²⁰	34.9%	24.9%	16.5%	19.4%
Normalised earnings (\$ million)	96	92	50	105
Normalised earnings margin % ²¹	16.9%	12.6%	5.4%	9.9%
Latin America²⁴				
Volume (000s MT) ¹⁹	305	294	185	171
Revenue (\$ million)	751	750	534	514
Normalised gross margin (\$ million)	234	220	131	137
Normalised gross margin % ²⁰	31.1%	23.6%	24.5%	26.6%
Normalised earnings (\$ million)	35	30	2	25
Normalised earnings margin % ²¹	4.7%	4.0%	0.4%	4.9%
Total Consumer and Foodservice^{5,24}				
Volume (000s MT) ¹⁹	908	877	813	813
Revenue (\$ million)	3,239	3,473	3,497	3,597
Normalised gross margin (\$ million)	963	821	701	759
Normalised gross margin % ²⁰	29.7%	23.9%	20.0%	21.1%
Normalised earnings (\$ million)	313	193	128	263
Normalised earnings margin % ²¹	9.7%	5.6%	3.7%	7.3%

Regional Breakdown – Foodservice^{3,4,22,23}

	JAN 2017	JAN 2018	JAN 2019	JAN 2020
Oceania				
Volume (000s MT) ¹⁹	51	49	48	45
Revenue (\$ million)	220	255	262	247
Normalised gross margin (\$ million)	44	41	47	47
Normalised gross margin % ²⁰	20.1%	16.1%	17.8%	19.1%
Asia				
Volume (000s MT) ¹⁹	45	49	45	51
Revenue (\$ million)	252	318	287	335
Normalised gross margin (\$ million)	61	40	35	55
Normalised gross margin % ²⁰	24.4%	12.6%	12.1%	16.3%
Greater China⁵				
Volume (000s MT) ¹⁹	84	89	119	149
Revenue (\$ million)	446	548	723	867
Normalised gross margin (\$ million)	137	108	74	142
Normalised gross margin % ²⁰	30.8%	19.7%	10.3%	16.4%
Latin America				
Volume (000s MT) ¹⁹	16	14	16	17
Revenue (\$ million)	59	57	69	67
Normalised gross margin (\$ million)	18	13	15	16
Normalised gross margin % ²⁰	30.1%	22.8%	21.4%	24.1%
Total Foodservice⁵				
Volume (000s MT) ¹⁹	197	201	228	262
Revenue (\$ million)	976	1,178	1,341	1,517
Normalised gross margin (\$ million)	261	202	170	260
Normalised gross margin % ²⁰	26.7%	17.1%	12.7%	17.2%

Historical Group Summary CONTINUED

Regional Breakdown – Consumer^{3,4,22,23}

	JAN 2017	JAN 2018	JAN 2019	JAN 2020
Oceania				
Volume (000s MT) ¹⁹	285	260	267	258
Revenue (\$ million)	768	832	846	799
Gross margin (\$ million)	199	168	171	141
Gross margin % ²⁰	25.9%	20.1%	20.2%	17.7%
Asia				
Volume (000s MT) ¹⁹	111	96	104	98
Revenue (\$ million)	682	587	646	646
Gross margin (\$ million)	227	171	166	175
Gross margin % ²⁰	33.3%	29.1%	25.7%	27.1%
Greater China				
Volume (000s MT) ¹⁹	28	40	45	41
Revenue (\$ million)	121	183	199	190
Gross margin (\$ million)	60	74	77	63
Gross margin % ²⁰	50.1%	40.6%	38.7%	33.4%
Latin America²⁴				
Volume (000s MT) ¹⁹	288	280	169	154
Revenue (\$ million)	693	693	465	446
Gross margin (\$ million)	216	207	116	120
Gross margin % ²⁰	31.2%	29.8%	25.0%	27.0%
Total Consumer²⁴				
Volume (000s MT) ¹⁹	712	676	585	551
Revenue (\$ million)	2,263	2,295	2,155	2,080
Gross margin (\$ million)	702	619	530	499
Gross margin % ²⁰	31.0%	27.0%	24.6%	24.0%

Discontinued Operations²⁵

	JAN 2017	JAN 2018	JAN 2019	JAN 2020
China Farms				
Volume (000s MT) ¹⁹	13	10	9	10
Revenue (\$ million)	122	123	110	135
Gross margin (\$ million)	(6)	(8)	(13)	11
Gross margin % ²⁰	(5.3)%	(6.1)%	(11.8)%	8.4%
Normalised earnings (\$ million)	(24)	(12)	(18)	9
DPA Brazil¹				
Volume (000s MT) ¹⁹	98	96	95	99
Revenue (\$ million)	233	222	207	217
Gross margin (\$ million)	66	66	54	69
Gross margin % ²⁰	28.1%	29.4%	26.2%	31.7%
Normalised earnings (\$ million)	(16)	(7)	(5)	14

Notes to the Historical Financial Summary

- 1 Source: Fonterra Farmgate Milk Price Statement representing the weighted-average United States Dollar contract prices of Reference Commodity Products.
- 2 Source: Oceania Export Series, Agricultural Marketing Service, US Department of Agriculture.
- 3 Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of reported figures.
- 4 Includes normalisation adjustments.
- 5 FY19 performance is restated for the change in timing of recognising revenue from sales to a distributor in our Greater China Foodservice business. Refer to the Basis of Preparation section in the FY20 Interim Report for further detail.
- 6 Normalised EBITDA is calculated as profit for the period before net finance costs, tax, depreciation and amortisation, adjusted for normalisations.
- 7 Represents earnings before unallocated finance income, finance costs and tax.
- 8 Normalised NPAT attributable to equity holders of the Parent.
- 9 Normalised EBITDA divided by normalised sales revenue.
- 10 Normalised EBIT divided by normalised sales revenue.
- 11 Normalised NPAT divided by normalised sales revenue.
- 12 Refer to Cash Flow Statement for detail on Operating cash flow. Free cash flow is the total of net cash flows from operating activities and net cash flows from investing activities.
- 13 Net working capital is calculated as total trade and other receivables plus inventories, less trade and other payables. It excludes amounts owing to suppliers and employee entitlements. Previously shown on an inclusive basis.
- 14 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.
- 15 Gearing ratio is economic net interest-bearing debt divided by total capital. Total capital is equity excluding the hedge reserves, plus economic net interest-bearing debt. It excludes the borrowings attributed to Discontinued Operations.
- 16 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.
- 17 Ingredients' performance is restated to include China Farming joint venture. FY19 has been restated to provide year-on-year comparative. China Farms business unit is classified as a Discontinued Operation, financials relating to sales of milk from China Farms have been removed from the Ingredients' segment for FY19.
- 18 Figures exclude bulk liquid milk. The bulk liquid milk volume for the six months ended 31 January 2020 was 37,000 MT of kgMS equivalent (six months to 31 January 2019 was 34,000 MT of kgMS equivalent).
- 19 Includes sales to other strategic platforms.
- 20 Normalised gross margin divided by normalised sales revenue.
- 21 Normalised earnings divided by normalised sales revenue.
- 22 Summing of individual numbers from the regional and divisional breakdown may not add up to the totals in each category due to rounding.
- 23 Regions include a share of Consumer and Foodservice overhead allocations, the total impact of which is \$44 million.
- 24 FY20 Latin America Consumer performance represents Continuing Operations and excludes DPA Brazil performance. DPA Brazil is classified as a Discontinued Operation. FY19 has been restated to provide a year-on-year comparative.
- 25 China Farms and DPA Brazil intend to be sold and the sales processes have advanced to the point that the businesses meet the accounting requirements to be classified as 'Held for sale'. Furthermore, because both businesses are considered to be major businesses in a segment and/or geographical region, they are classified as Discontinued Operations. As a result, the financial accounts and the segment within our accounts exclude these businesses and therefore reflect the Group's Continuing Operations only.

Interim Financial Results

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

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Directors' Statement

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

The Directors of Fonterra Co-operative Group Limited (Fonterra) present to Shareholders the financial statements for Fonterra and its subsidiaries (together the Group) and the Group's interest in its equity accounted investments for the six months ended 31 January 2020.

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

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

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

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

The Directors hereby approve and authorise for issue the financial statements for the six months ended 31 January 2020.

For and on behalf of the Board:



JOHN MONAGHAN

Chairman

17 March 2020



BRUCE HASSALL

Director

17 March 2020

FINANCIAL SUMMARY

Income Statement

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

	NOTES	GROUP \$ MILLION		
		SIX MONTHS ENDED		YEAR ENDED
		31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED ¹	31 JUL 2019 ¹
Continuing Operations				
Revenue from sale of goods	3	10,071	9,428	19,255
Cost of goods sold	4	(8,483)	(7,980)	(16,349)
Impact of Strategy Review		19	–	(32)
Gross profit		1,607	1,448	2,874
Other operating income		27	42	74
Selling and marketing expenses		(270)	(300)	(543)
Distribution expenses		(247)	(267)	(514)
Administrative expenses		(389)	(427)	(748)
Other operating expenses		(177)	(170)	(367)
Net foreign exchange losses		(29)	(11)	–
Share of (loss)/profit of equity accounted investees		(9)	20	25
<i>Impact of Strategy Review:</i>				
– Gain on sale of investment in DFE Pharma	2a)	401	–	–
– Gain on sale of investment in Goodminton	2b)	68	–	–
– Falcon China Farms joint venture impairment	2f)	(65)	–	–
– New Zealand consumer and foodservice business and Tip Top disposal		–	–	(237)
– Disposal of Venezuelan operations		–	–	(134)
– Other impact of strategic review		–	–	(80)
Profit before net finance costs and tax		917	335	350
Finance income		6	7	15
Finance costs		(167)	(201)	(407)
Net finance costs		(161)	(194)	(392)
Profit/(loss) before tax		756	141	(42)
Tax expense		(147)	(45)	(80)
Profit/(loss) after tax from continuing operations		609	96	(122)
Discontinued Operations				
Loss after tax from discontinued operations	2e)	(108)	(24)	(488)
Profit/(loss) after tax		501	72	(610)
Profit/(loss) after tax is attributable to:				
Equity holders of the Co-operative		521	68	(562)
Non-controlling interests		(20)	4	(48)
Profit/(loss) after tax		501	72	(610)

	GROUP \$		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED ¹	31 JUL 2019 ¹
Earnings per share:			
Basic and diluted earnings/(loss) per share from continuing operations	0.37	0.05	(0.09)
Basic and diluted loss per share from discontinued operations	(0.05)	(0.01)	(0.26)
Basic and diluted earnings/(loss) per share	0.32	0.04	(0.35)

¹ Income statements for the six months ended 31 January 2019 and 12 months ended 31 July 2019 include re-presentations and restatements. Please see the 'Basis of preparation' section and note 14 of these interim financial statements for further details.

Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

	GROUP \$ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED ¹	31 JUL 2019 ¹
Profit/(loss) after tax	501	72	(610)
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges and other costs of hedging, net of tax	38	204	(1)
Net investment hedges and translation of foreign operations, net of tax	(11)	(58)	(12)
Hyperinflation gains/(losses) attributable to equity holders	–	14	(10)
Foreign currency translation reserve losses transferred to the income statement	6	–	193
Hyperinflation reserve gains transferred to the income statement	–	–	(12)
Other reserve movements	(33)	2	–
Total items that may be reclassified subsequently to profit or loss	–	162	158
Items that will not be reclassified subsequently to profit or loss:			
Net fair value losses on investments in shares	–	–	(1)
Foreign currency translation (loss)/gain attributable to non-controlling interests	(1)	(1)	1
Hyperinflation movements attributable to non-controlling interests	–	9	–
Non-controlling interest other reserve movements	(16)	–	–
Total items that will not be reclassified subsequently to profit or loss	(17)	8	–
Total other comprehensive (expense)/income recognised directly in equity	(17)	170	158
Total comprehensive income/(expense)	484	242	(452)
Total comprehensive income/(expense) is attributable to:			
Equity holders of the Co-operative	520	230	(420)
Non-controlling interests	(36)	12	(32)
Total comprehensive income/(expense)	484	242	(452)
Total comprehensive income/(expense) arises from:			
Continuing operations	613	266	28
Discontinued operations	(129)	(24)	(480)
Total comprehensive income/(expense)	484	242	(452)

¹ The statement of comprehensive income for the six months ended 31 January 2019 and 12 months ended 31 July 2019 include re-presentations and restatements. Please see the 'Basis of preparation' section and note 14 of these interim financial statements for further details.

FINANCIAL SUMMARY

Statement of Financial Position

AS AT 31 JANUARY 2020

		GROUP \$ MILLION		
		AS AT		
	NOTES	31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED ¹	31 JUL 2019 ¹
ASSETS				
Current assets				
Cash and cash equivalents		460	348	550
Trade and other receivables		2,057	2,190	1,871
Inventories		5,852	5,269	3,165
Tax receivable		41	47	45
Derivative financial instruments		83	162	48
Assets of disposal groups held for sale	2e)	1,175	–	229
Other current assets		64	117	116
Total current assets		9,732	8,133	6,024
Non-current assets				
Property, plant and equipment	9	5,890	6,917	6,512
Right-of-use assets	13	571	–	–
Equity accounted investments		143	633	202
Livestock		7	278	295
Intangible assets		2,307	3,189	2,597
Deferred tax assets		491	518	605
Derivative financial instruments		535	261	440
Other non-current assets		467	372	604
Total non-current assets		10,411	12,168	11,255
Total assets		20,143	20,301	17,279
LIABILITIES				
Current liabilities				
Bank overdraft		52	57	34
Borrowings	8	1,032	618	1,175
Trade and other payables		1,953	2,317	2,107
Owing to suppliers		3,517	2,734	1,534
Tax payable		63	59	61
Derivative financial instruments		189	103	215
Provisions		51	16	63
Liabilities of disposal groups held for sale	2e)	716	–	–
Other current liabilities		52	77	71
Total current liabilities		7,625	5,981	5,260
Non-current liabilities				
Borrowings	8	5,635	7,136	5,361
Derivative financial instruments		468	471	537
Provisions		63	104	117
Deferred tax liabilities		19	9	99
Other non-current liabilities		42	56	57
Total non-current liabilities		6,227	7,776	6,171
Total liabilities		13,852	13,757	11,431
Net assets		6,291	6,544	5,848
EQUITY				
Subscribed equity		5,887	5,887	5,887
Retained earnings		789	977	327
Foreign currency translation reserve	7	(188)	(422)	(183)
Hedge reserves	7	(215)	(63)	(268)
Other reserves		(2)	42	8
Total equity attributable to equity holders of the Co-operative		6,271	6,421	5,771
Non-controlling interests		20	123	77
Total equity		6,291	6,544	5,848

¹ The statement of financial position as at 31 January 2019 and as at 31 July 2019 include a restatement. Please see the 'Basis of preparation' section and note 14 for further details.

Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

GROUP \$ MILLION	ATTRIBUTABLE TO EQUITY HOLDERS OF THE CO-OPERATIVE						NON-CONTROLLING INTERESTS	TOTAL EQUITY
	SUBSCRIBED EQUITY	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION RESERVE	HEDGE RESERVES	OTHER RESERVES	TOTAL		
As at 1 August 2019 (restated)	5,887	327	(183)	(268)	8	5,771	77	5,848
NZ IFRS 16 transition adjustment (Note 13)	–	(20)	–	–	–	(20)	–	(20)
As at 1 August 2019 adjusted (restated)	5,887	307	(183)	(268)	8	5,751	77	5,828
Profit after tax	–	521	–	–	–	521	(20)	501
Transfer between reserves	–	(15)	–	15	–	–	–	–
Other comprehensive (expense)/income	–	(24)	(5)	38	(10)	(1)	(16)	(17)
Total comprehensive (expense)/income	–	482	(5)	53	(10)	520	(36)	484
Transactions with equity holders in their capacity as equity holders:								
Dividend paid to non-controlling interests	–	–	–	–	–	–	(21)	(21)
As at 31 January 2020 (unaudited)	5,887	789	(188)	(215)	(2)	6,271	20	6,291
As at 1 August 2018	5,887	934	(364)	(267)	29	6,219	130	6,349
Prior period restatement ¹	–	(28)	–	–	–	(28)	–	(28)
As at 1 August 2018 adjusted (restated)	5,887	906	(364)	(267)	29	6,191	130	6,321
Profit after tax (restated) ¹	–	68	–	–	–	68	4	72
Other comprehensive income/(expense)	–	3	(58)	204	13	162	8	170
Total comprehensive income/(expense) (restated)	–	71	(58)	204	13	230	12	242
Transactions with equity holders in their capacity as equity holders:								
Acquisition of subsidiaries	–	–	–	–	–	–	1	1
Dividend paid to non-controlling interests	–	–	–	–	–	–	(20)	(20)
As at 31 January 2019 (unaudited, restated)	5,887	977	(422)	(63)	42	6,421	123	6,544
As at 1 August 2018	5,887	934	(364)	(267)	29	6,219	130	6,349
Prior period restatement ¹	–	(28)	–	–	–	(28)	–	(28)
As at 1 August 2018 adjusted (restated)	5,887	906	(364)	(267)	29	6,191	130	6,321
Loss after tax (restated) ¹	–	(562)	–	–	–	(562)	(48)	(610)
Other comprehensive (expense)/income	–	(17)	181	(1)	(21)	142	16	158
Total comprehensive (expense)/income (restated)	–	(579)	181	(1)	(21)	(420)	(32)	(452)
Transactions with equity holders in their capacity as equity holders:								
Equity instruments issued	–	–	–	–	–	–	1	1
Dividend paid to non-controlling interests	–	–	–	–	–	–	(22)	(22)
As at 31 July 2019 (restated)	5,887	327	(183)	(268)	8	5,771	77	5,848

1 For details on the impact of prior period restatements refer to 'Basis of preparation' section and note 14 of these interim financial statements.

FINANCIAL SUMMARY

Cash Flow Statement

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

	GROUP \$ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED ¹	31 JUL 2019 ¹
Cash flows from operating activities²			
Profit/(loss) before net finance costs and tax	806	312	(17)
Adjustments for:			
– Foreign exchange gains	(32)	(11)	(29)
– Depreciation and amortisation	323	284	561
– Gain on sale of investment in DFE Pharma	(401)	–	–
– Gain on sale of investment in Goodminton	(68)	–	–
– Falcon China Farms joint venture impairment	65	–	–
– China Farms impairment	63	–	203
– New Zealand consumer and foodservice business and Tip Top disposal	–	–	214
– Brazil consumer and foodservice business impairments (before tax)	71	–	149
– Disposal of Venezuelan operations	–	–	134
– Other	46	(46)	42
	67	227	1,274
(Increase)/decrease in working capital:			
Inventories	(2,749)	(1,931)	126
Trade and other receivables	(267)	(9)	341
Amounts owing to suppliers	1,982	978	(222)
Payables and accruals	82	(94)	(211)
Other movements	(10)	(61)	(112)
Total	(962)	(1,117)	(78)
Cash generated from operations	(89)	(578)	1,179
Taxes paid	(35)	(34)	(56)
Net cash flows from operating activities	(124)	(612)	1,123
Cash flows from investing activities²			
Cash was provided from:			
– Proceeds from sale of businesses	624	–	396
– Proceeds from disposal of property, plant and equipment	1	31	32
– Proceeds from sale of livestock	13	18	28
– Proceeds from sale of investments	46	8	7
– Co-operative support loan repayments	–	177	177
– Other cash inflows	–	2	25
Cash was applied to:			
– Acquisition of non-controlling interests	(29)	–	–
– Acquisition of property, plant and equipment	(113)	(320)	(541)
– Acquisition of livestock (including rearing costs)	(20)	(20)	(37)
– Acquisition of intangible assets	(20)	(38)	(82)
– Acquisition of investments	–	–	(10)
– Advances to and investments in equity accounted investees	(9)	(2)	(6)
– Other cash outflows	–	(26)	(17)
Net cash flows from investing activities	493	(170)	(28)
Cash flows from financing activities²			
Cash was provided from:			
– Proceeds from borrowings	1,373	2,905	3,746
– Interest received	7	7	14
– Other cash inflows	1	–	–
Cash was applied to:			
– Interest paid	(205)	(212)	(427)
– Repayment of borrowings	(1,595)	(1,874)	(4,149)
– Dividends paid to non-controlling interests	(21)	(20)	(22)
– Other cash outflows	–	(1)	(12)
Net cash flows from financing activities	(440)	805	(850)
Net (decrease)/increase in cash	(71)	23	245
Opening cash	516	285	285
Effect of exchange rate changes	(19)	(17)	(14)
Closing cash	426	291	516
Reconciliation of closing cash balances to the statement of financial position:			
Cash and cash equivalents	460	348	550
Bank overdraft	(52)	(57)	(34)
Cash balances transferred to held for sale	18	–	–
Closing cash	426	291	516

¹ Income statements for the six months ended 31 January 2019 and 12 months ended 31 July 2019 include re-presentations and restatements. Please see the 'Basis of preparation' section and note 14 of these interim financial statements for further details. The adjustments had no impact on net cash flows.

² The Cash flow statement presents total Group cash flows including continuing and discontinued operations.

Basis of Preparation

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

a) General information

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

These interim financial statements, as at and for the six months ended 31 January 2020, comprise Fonterra and its subsidiaries (together referred to as the Group) and the Group's interest in its equity accounted investees after adjustments to align to the accounting policies of the Group.

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

b) Basis of preparation

These interim financial statements have been prepared in accordance with International Accounting Standard 34: Interim Financial Reporting and New Zealand Equivalents to International Accounting Standard 34: Interim Financial Reporting. They have also been prepared in accordance with Generally Accepted Accounting Practice (GAAP) applicable to for-profit entities. These interim financial statements are unaudited and should be read in conjunction with the financial statements for the year ended 31 July 2019.

The Group's operations are seasonal due to the profile of milk production in New Zealand. Milk production, and therefore the Group's milk collections and production volumes are higher in the New Zealand Spring (October and November). Consequently, the amount owing to suppliers, inventory balances and borrowings are higher at the 31 January interim reporting dates compared to the 31 July year-end reporting dates. This reflects the higher cash outflows required to support the business operations in the first six months of the financial year. Additional comparative information has been presented in these interim financial statements to allow for the seasonality of the Group's operations.

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

Comparative period income statements and retained earnings for the periods, six months ended 31 January 2019 and 12 months ended 31 July 2019 have been re-presented and restated.

Re-presented

Re-presentations have been made to reflect the classification of China Farms and the Brazil consumer and foodservice businesses as discontinued operations.

In these interim financial statements the China Farms and Brazil consumer and foodservice businesses are classified as held for sale and presented as discontinued operations. This has the following impact on the presentation of these interim financial statements:

- Discontinued operations are presented in a single line item in the statement of financial performance in both the current and comparative reporting periods.
- In the statement of financial position, assets of disposal groups held for sale are presented in a single line item within current assets, and liabilities of disposal groups held for sale are presented in a single line item within current liabilities. The presentation of statement of financial position reported in the comparative reporting periods is unchanged.
- The statement of changes in equity and cash flow statement have not been adjusted to separately present discontinued operations.

Restatements

Fonterra adopted NZ IFRS 15 from 1 August 2018. On adoption of NZ IFRS 15, the Group had determined that it was the principal in relation to certain performance obligations for freight and insurance services provided on specific international sales. During the current reporting period, this conclusion was reconsidered and it was determined that the Group was an agent rather than the principal. This resulted in an adjustment to revenue to record the net agency fees for arranging certain freight and insurance services, rather than the gross revenue. This change does not impact gross margin or earnings. The adjustment to the Group's revenue and cost of sales is shown in note 14 (Agent Adjustment).

The Group has also reviewed its other major revenue recognition policies. This review identified that for a specific contract in China, the Group had determined that Fonterra ceased to control the goods when the goods were transferred to the distributor. During the current reporting period this conclusion was reconsidered and it was determined that the distributor was acting as an agent (for the purposes of NZ IFRS 15) for Fonterra and control of the goods did not pass until the inventory reached the customer. This now results in the deferral of revenue until the point in time that the control was transferred to the customer, rather than on transfer to the distributor. The impact of this change gave rise to an adjustment to the Group's opening balance sheet and profit or loss as shown in note 14 (Control Transfer).

The preparation of interim financial statements requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty include those applied to the financial statements for the year ended 31 July 2019. In addition, for the period ended 31 January 2020 the following significant judgements were made by management.

FINANCIAL SUMMARY

Basis of Preparation CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

Forecast Farmgate Milk Price

The Farmgate Milk Price is the average price paid by Fonterra in a season, which is the 12 months ending 31 May, for each kilogram of milk solids (kgMS) supplied by farmer shareholders under Fonterra's standard terms of supply. The Farmgate Milk Price for a season is finalised after the end of that milk season. Global dairy commodity prices that inform the Farmgate Milk Price revenue are the most significant driver of the level of each season's Farmgate Milk Price.

Within the forecast Farmgate Milk Price, the majority of the milk sourced up until 31 January 2020 is contracted for sale at hedged NZD/USD exchange rates. This means that the Farmgate Milk Price revenue that would be earned from the milk sourced during the six months ended 31 January 2020 is largely known.

The full season forecast Farmgate Milk Price remains uncertain. This is because the Farmgate Milk Price revenue that will be earned from milk supplied during the remainder of the milk season ending 31 May 2020 is impacted by future global dairy commodity prices. Future global dairy commodity prices in USD are uncertain as they are influenced by global supply and demand dynamics, and their conversion to NZD is uncertain because the conversion of these USD selling prices to NZD depends on the NZD/USD exchange rate and associated hedging.

Assets held for sale and discontinued operations (Note 2)

A number of the Group's investments have been included in the Group-wide strategy review. As the strategic reviews of the individual investments progress, management must apply judgement to determine whether the criterion for the investment to be classified as held for sale is met, and if so (or the investment has been sold), whether the investment meets the definition of a discontinued operation. The outcome of these assessments may result in a change in measurement and presentation of the net assets of the investment, and a change in the presentation of its financial performance.

An investment meets the criteria to be classified as held for sale if it is available for immediate sale in its present condition and its sale is highly probable. Judgement is required to determine if the sale of an investment is highly probable in the context of the strategic review and the progress of any potential sale process. An investment that meets the criterion to be classified as held for sale (or has been sold) is a discontinued operation if it represents, or is part of a single co-ordinated plan to dispose of, a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

c) Accounting policies

The same accounting policies are followed in these interim financial statements as were applied in the Group's financial statements for the year ended 31 July 2019 with the exception of the impact of adopting NZ IFRS 16 Leases and NZ IFRIC 23 Uncertainty over Income Tax Treatments.

Impact of adopting NZ IFRS 16 Leases

Transition to NZ IFRS 16

Fonterra adopted NZ IFRS 16 on 1 August 2019. NZ IFRS 16 requires a lease liability reflecting future lease payments, and a 'right-of-use asset', to be recognised for most lease contracts where Fonterra is a lessee. This includes many of the leases previously classified as operating leases for which no asset or liability was reflected on the statement of financial position under previous accounting rules.

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

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

The impact of transition to NZ IFRS 16 Leases is disclosed in Note 13.

Impact of adopting NZ IFRIC 23 Uncertainty over Income Tax Treatments

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

Fonterra adopted NZ IFRIC 23 from 1 August 2019 and has applied the interpretation retrospectively. In applying the interpretation there was no impact on the measurement of tax balances. However the presentation of the provision for taxes on the balance sheet changed from Provisions to Tax payable. The impact of this change is to reclassify the tax provision of \$24 million from Provisions to Tax payable as at 31 July 2019 (31 January 2019: \$24 million).

Accounting standards issued but not yet effective

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

Basis of Preparation CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

Coronavirus outbreak

The existence of novel coronavirus (COVID-19) was confirmed in mainland China in December 2019. The outbreak was declared a “Public Health Emergency of International Concern” by the World Health Organisation in January 2020. Since then, the outbreak has spread globally, causing disruption to businesses and economic activity.

Fonterra has a dedicated team in place to manage the impact of COVID-19. Since 31 January 2020, there was a slow-down in processing of containers at ports and we have managed our supply chain to avoid congestion. Currently, the Group's exports continue to be cleared by customs and quarantine officials. Some of the Group's global foodservice customers are being adversely impacted due to people movement restrictions and a slow-down in tourism. We are continuing to watch the impact of COVID-19 on global demand.

Fonterra considers this outbreak to be a non-adjusting post balance sheet event. The impact of this outbreak on the macroeconomic forecasts will be incorporated into the Group's estimates of credit loss provisions and impairment assessments for the financial year ending 31 July 2020.

FINANCIAL SUMMARY

Notes to the Financial Statements

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

PERFORMANCE

1 SEGMENT REPORTING

a) Operating segments

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

In September 2019, Fonterra announced a new strategy which included an updated operating model. Fonterra's financial reporting systems are being aligned to the updated operating model. Once those system changes are complete, the financial information provided to the FMT will be updated to reflect the updated operating model. The segment information will be aligned to the financial information provided to the FMT. As at 31 January 2020 the FMT continues to receive financial information on the basis which is set out in the note below.

The strategic reviews of the Group's China Farms and Brazilian consumer and foodservice businesses have advanced such that both businesses meet the requirements to be classified as held for sale at 31 January 2020 and are considered to be discontinued operations. As a result, the segment note has been restated to exclude these businesses and therefore reflect the Group's continuing operations only. Further details of the discontinued operations can be found in Note 2e).

The Group's investment in the Falcon China Farms joint venture (Falcon China Farms JV) has previously been included within the 'China Farms' segment. The Falcon China Farms JV is considered separately from the 'China Farms' but is not considered a 'discontinued operation'. The investment and the share of equity accounted losses it has generated have been included in the Ingredients segment on the basis that its customers are most closely aligned with other Ingredients customers. Comparative information in the segment note has been restated to reflect this change.

Transactions between segments are based on estimated market prices.

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 Falcon China Farms JV and the Australian and South American ingredients businesses.
Consumer and foodservice	
– Oceania	Represents the fast-moving consumer goods (FMCG) and foodservice businesses in New Zealand and Australia (including export to the Pacific Islands).
– Asia	Represents FMCG and foodservice businesses in Asia (excluding Greater China), Africa and the Middle East.
– Greater China	Represents FMCG and foodservice businesses in Greater China.
– Latin America	Represents FMCG and foodservice businesses in Chile and the Caribbean.

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

a) Operating segments CONTINUED

	GROUP \$ MILLION							
	31 JANUARY 2020 (UNAUDITED)							
	INGREDIENTS	CONSUMER AND FOODSERVICE				UNALLOCATED COSTS AND ELIMINATIONS	TOTAL	
		OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL		
Continuing Operations								
Normalised segment income statement								
External revenue	6,593	951	960	1,054	513	3,478	–	10,071
Inter-segment revenue	1,983	95	21	2	1	119	(2,102)	–
Revenue from sale of goods	8,576	1,046	981	1,056	514	3,597	(2,102)	10,071
Cost of goods sold	(7,763)	(858)	(752)	(851)	(377)	(2,838)	2,118	(8,483)
Segment gross profit	813	188	229	205	137	759	16	1,588
Operating expenses	(374)	(138)	(143)	(101)	(108)	(490)	(159)	(1,023)
Net other operating income	22	1	1	10	1	13	(1)	34
Net foreign exchange losses	(9)	–	(4)	(9)	(6)	(19)	(1)	(29)
Share of (loss)/profit of equity accounted investees	(11)	–	(1)	–	1	–	2	(9)
Normalised segment earnings before net finance costs and tax	441	51	82	105	25	263	(143)	561
Normalisation adjustments:								
Disposal of investment in DFE Pharma	427	–	–	–	–	–	–	427
Disposal of investment in Goodminton	62	–	–	–	–	–	6	68
Falcon China Farms JV impairment	(65)	–	–	–	–	–	–	(65)
Other costs	(27)	–	–	(7)	–	(7)	(11)	(45)
Beingmate	–	–	–	(29)	–	(29)	–	(29)
Segment earnings before net finance costs and tax	838	51	82	69	25	227	(148)	917
Finance income								6
Finance costs								(167)
Profit before tax								756
Tax expense								(147)
Profit after tax from continuing operations								609
Loss after tax from discontinued operations								(108)
Profit after tax								501
Other segment information:								
Volume ¹ (metric tonnes, thousand)	1,533	303	149	190	171	813	(418)	1,928
Depreciation and amortisation (\$ million)	(230)	(19)	(8)	(4)	(16)	(47)	(32)	(309)
Capital expenditure ² (\$ million)	76	5	–	–	6	11	12	99
Equity accounted investments (\$ million)	121	–	–	–	12	12	10	143

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

Reconciliation of reported to segment gross profit for the six months ended 31 January 2020:

GROUP \$ MILLION	FOR THE SIX MONTHS ENDED 31 JANUARY 2020
Segment gross profit	1,588
Normalisation adjustments	
– DFE Pharma dividend received	26
– Other impact of strategy review	(7)
Reported gross profit	1,607

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

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

FINANCIAL SUMMARY

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

a) Operating segments CONTINUED

	GROUP \$ MILLION							UNALLOCATED COSTS AND ELIMINATIONS	TOTAL
	31 JANUARY 2019 (UNAUDITED) ¹								
	INGREDIENTS	CONSUMER AND FOODSERVICE				TOTAL			
		OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA				
Continuing Operations									
Normalised segment income statement									
External revenue	6,031	1,033	912	920	532	3,397	–	9,428	
Inter-segment revenue	1,820	75	21	2	2	100	(1,920)	–	
Revenue from sale of goods	7,851	1,108	933	922	534	3,497	(1,920)	9,428	
Cost of goods sold	(7,055)	(890)	(733)	(770)	(403)	(2,796)	1,871	(7,980)	
Segment gross profit	796	218	200	152	131	701	(49)	1,448	
Operating expenses	(387)	(190)	(153)	(107)	(130)	(580)	(197)	(1,164)	
Net other operating income	37	4	2	5	3	14	(9)	42	
Net foreign exchange gains/(losses)	2	–	(5)	–	(4)	(9)	(4)	(11)	
Share of profit of equity accounted investees	16	–	–	–	2	2	2	20	
Normalised segment earnings before net finance costs and tax	464	32	44	50	2	128	(257)	335	
Finance income								7	
Finance costs								(201)	
Profit before tax								141	
Tax expense								(45)	
Profit after tax from continuing operations								96	
Loss after tax from discontinued operations								(24)	
Profit after tax								72	
Other segment information:									
Volume ² (metric tonnes, thousand)	1,547	315	149	164	185	813	(389)	1,971	
Depreciation and amortisation (\$ million)	(205)	(14)	(6)	(1)	(11)	(32)	(29)	(266)	
Capital expenditure ³ (\$ million)	251	22	3	–	7	32	19	302	
Equity accounted investments (\$ million)	399	–	–	214	10	224	10	633	

¹ The segmented income statement for the six months ended 31 January 2019 includes restatements. Please see the 'Basis of preparation' section and note 14 of these interim financial statements for further details.

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

³ Capital expenditure comprises purchases of property (less specific disposals where there is an obligation to repurchase), plant and equipment and intangible assets.

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

a) Operating segments CONTINUED

	GROUP \$ MILLION							
	31 JULY 2019 ¹							
	INGREDIENTS	CONSUMER AND FOODSERVICE					UNALLOCATED COSTS AND ELIMINATIONS	TOTAL
		OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL		
Continuing Operations								
Normalised segment income statement								
External revenue	12,584	1,989	1,814	1,785	1,083	6,671	–	19,255
Inter-segment revenue	3,707	170	48	2	5	225	(3,932)	–
Revenue from sale of goods	16,291	2,159	1,862	1,787	1,088	6,896	(3,932)	19,255
Cost of goods sold	(14,845)	(1,737)	(1,411)	(1,445)	(805)	(5,398)	3,894	(16,349)
Segment gross profit	1,446	422	451	342	283	1,498	(38)	2,906
Operating expenses	(735)	(333)	(284)	(190)	(242)	(1,049)	(388)	(2,172)
Net other operating income	67	3	1	4	4	12	(5)	74
Net foreign exchange gains/(losses)	16	–	(8)	(2)	(1)	(11)	(5)	–
Share of profit/(loss) of equity accounted investees	23	–	(2)	(1)	4	1	1	25
Normalised segment earnings before net finance costs and tax	817	92	158	153	48	451	(435)	833
Normalisation adjustments:								
New Zealand consumer and foodservice business	–	(204)	–	–	–	(204)	–	(204)
Disposal of Tip Top	–	(25)	–	–	–	(25)	(15)	(40)
Disposal of Venezuelan operations	(22)	–	–	–	(112)	(112)	–	(134)
Australia strategic reset	(68)	–	–	–	–	–	–	(68)
Other strategic reset costs	(6)	(2)	–	–	(5)	(7)	(12)	(25)
Beingmate	–	–	–	(12)	–	(12)	–	(12)
Segment earnings before net finance costs and tax	721	(139)	158	141	(69)	91	(462)	350
Finance income								15
Finance costs								(407)
Loss before tax								(42)
Tax expense								(80)
Loss after tax from continuing operations								(122)
Loss after tax from discontinued operations								(488)
Loss after tax								(610)
Other segment information:								
Volume ² (metric tonnes, thousand)	3,149	627	297	313	365	1,602	(813)	3,938
Depreciation and amortisation (\$ million)	(408)	(27)	(12)	(2)	(23)	(64)	(54)	(526)
Capital expenditure ³	446	43	10	1	17	71	49	566
Equity accounted investments	181	–	–	–	12	12	9	202

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

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

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

1 The segmented income statement for the 12 months ended 31 July 2019 includes restatements. Please see the 'Basis of preparation' section and note 14 of these interim financial statements for further details.

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

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

FINANCIAL SUMMARY

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

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:									
Six months ended 31 January 2020 (unaudited)	2,843	2,863	857	810	377	506	802	1,013	10,071
Six months ended 31 January 2019 (unaudited)	2,329	2,681	877	846	376	385	844	1,090	9,428
Year ended 31 July 2019	4,352	5,590	1,776	1,676	931	851	1,715	2,364	19,255

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

c) Non-current assets

	GROUP \$ MILLION							
	INGREDIENTS		OCEANIA		ASIA	GREATER CHINA	LATIN AMERICA	TOTAL GROUP
	NEW ZEALAND	REST OF WORLD	NEW ZEALAND	AUSTRALIA				
<i>Geographical segment non-current assets:</i>								
As at 31 January 2020 (unaudited)	5,738	331	841	1,014	861	251	349	9,385
As at 31 January 2019 (unaudited)	5,522	497	1,330	1,034	817	1,114	1,075	11,389
As at 31 July 2019	5,467	305	756	1,007	840	944	891	10,210

	GROUP \$ MILLION		
	AS AT		
	31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED	31 JUL 2019
Reconciliation of geographical segment's non-current assets to total non-current assets:			
Geographical segment non-current assets	9,385	11,389	10,210
Deferred tax assets	491	518	605
Derivative financial instruments	535	261	440
Total non-current assets	10,411	12,168	11,255

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

2 STRATEGY REVIEW UPDATE

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

Since 31 July 2019 progress of the strategy review includes completion of the sales processes relating to the Group's investments in Goodminton AG (Goodminton) and DMV Fonterra Excipients GmbH & Co.KG (DFE Pharma). The strategic reviews of the China Farms and Brazil consumer and foodservice businesses have advanced such that the investments meet the requirements to be classified as held for sale at 31 January 2020. Both the China Farms and Brazil consumer and foodservice businesses are considered to be discontinued operations.

Challenges with the operational performance of the Falcon China Farms JV have led to reassessing the carrying value of the investment as we continue to look for opportunities to improve the ongoing performance of the business.

The Group's investment in Beingmate continues to be held for trading with an active sales process in place.

The Group's financial statements for the year ended 31 July 2019 included note disclosures supporting the significant items and estimates and judgements applied to them. That comparative information has not been included in these interim financial statements. For further details of those items please refer to the Group's financial statements for the year ended 31 July 2019.

Key components of the strategy review and their impact on the Group's net profit after tax as presented in the Group's Income Statement for the six months ended 31 January 2020.

GROUP \$ MILLION	DFE PHARMA SALE (NOTE 2A)	GOODMINTON INVESTMENT SALE (NOTE 2B)	BEINGMATE (NOTE 2D)	CHINA FARMS (NOTE 2E)	BRAZIL CONSUMER & FOODSERVICE (NOTE 2E)	FALCON CHINA FARMS JV IMPAIRMENT (NOTE 2F)	TOTAL
Revenue	26	–	–	–	–	–	26
Gross profit	26	–	–	–	–	–	26
Other	401	68	(29)	–	–	(65)	375
Total net profit/(loss) before tax	427	68	(29)	–	–	(65)	401
Loss after tax from discontinued operations	–	–	–	(63)	(61)	–	(124)
Profit/(loss) after tax	427	68	(29)	(63)	(61)	(65)	277
Non-controlling interests	–	–	–	–	(30)	–	(30)
Profit/(loss) attributable to shareholders	427	68	(29)	(63)	(31)	(65)	307

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

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

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

Sale proceeds were received of \$620 million (€356 million) which was made up of cash of \$527 million (€301 million) and an interest-bearing loan of \$93 million (€55 million). The sale and purchase agreement also contains earnout clauses in relation to earnings before interest, tax, depreciation and amortisation of DFE Pharma for the 2020 financial year, and specifies completion adjustments, which are not included in the sales price of \$620 million.

The gain on sale is shown below:

	\$ MILLION
Sales proceeds received	527
Interest-bearing loan	93
Total sale proceeds received	620
Net assets disposed of	(193)
FCTR recycled as part of the net gain	(16)
Transaction costs	(10)
Gain on sale	401

DFE Pharma is presented in the Ingredients reportable segment.

In addition to the gain on sale of \$401 million, Fonterra received \$26 million of dividends from DFE Pharma in the period

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FOR THE SIX MONTHS ENDED 31 JANUARY 2020

from 1 August 2019 to 31 January 2020 which have been recognised as revenue.

b) Disposal of Goodminton AG (Goodminton)

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

The transaction resulted in a gain on sale of \$68 million. The gain on sale includes a credit balance of \$6 million relating to Goodminton that was recycled from the foreign currency translation reserve and recognised as part of the net gain on sale. Goodminton is presented in the Ingredients reportable segment.

c) New Zealand consumer and foodservice business

During the year ended 31 July 2019, an impairment charge of \$185 million was recognised in relation to the New Zealand consumer and foodservice business. This means that as at 31 July 2019 the carrying amount of the New Zealand consumer and foodservice business was equivalent to its recoverable amount. Therefore, adverse changes to the key assumptions used in determining the recoverable amount may result in a further impairment.

The assessment completed for the year ended 31 July 2019 was based on a value-in-use model using a five-year forecast period, with significant value attributed to performance improvement in the later years.

As at 31 January 2020, the business has been assessed for indicators of impairment. The business performance for the six months ended 31 January 2020 is, in aggregate, ahead of the year one assumptions used in the assessment of recoverable amount. As at 31 January 2020, there is no indication that these longer-term assumptions will not be attained, therefore there are no impairment indicators as at 31 January 2020.

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

Fonterra's investment in Beingmate continues to be classified as "Held for Trading" in accordance with NZ IFRS 9 with movements in fair value recognised in profit or loss.

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

	% SHARES	PRICE \$RMB	\$M NZD
As at 31 July 2019	18.82	5.54	234
Sales for the period	3.71	5.20 – 6.80	46
As at 31 January 2020	15.11	4.93	170

The normalisation adjustment of \$29 million relating to Beingmate includes realised and unrealised fair value and foreign exchange movements.

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

e) Discontinued operations

China Farms

As at 31 July 2019, the recoverable amount of the China Farm assets was equivalent to the carrying amount, which meant that any adverse change in the supporting assumptions would result in an impairment.

Progress has been made on the strategic review of the China Farms business. A sales process is underway which has advanced to the point that the business meets the requirements to be classified as held for sale as at 31 January 2020. The divestment of the China Farms business also meets the definition of a discontinued operation because it is a separate line of business and a major geographical area of operation. The Group expects to complete the sale within one year of the reporting date.

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

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

The foreign currency translation reserve balance attributable to the China Farms business will be recycled to profit or loss upon completion of the sale. At 31 January 2020 this amount is a credit balance of \$27 million.

Brazil consumer and foodservice business update

As at 31 July 2019, the recoverable amount of the Brazil consumer and foodservice assets was equivalent to the carrying amount, which meant that any adverse change in the supporting assumptions would result in an impairment.

Progress has been made on the strategic review of the Brazil consumer and foodservice business. A sales process is underway which has advanced to the point that the business meets the requirements to be classified as held for sale as at 31 January 2020. The divestment of the Brazil consumer and foodservice business also meets the definition of a discontinued operation because it is a separate major geographical area of operation. The Group expects to complete the sale within one year of the reporting date.

As a result of the classification of the business as held for sale, the net assets of the business are measured at the lower of carrying value or fair value less cost to sell. The fair value of the Brazil consumer and foodservice business has been assessed based on information received through the sales process. The fair value was lower than the carrying value of the net assets of the business, which has resulted in an impairment of \$61 million (after tax), of which Fonterra's 51% share is \$31 million.

The Brazil consumer and foodservice business was previously presented in the Latin America reportable segment.

The foreign currency translation reserve balance attributable to the Brazil consumer and foodservice business will be recycled to profit or loss upon completion of the sale. At 31 January 2020 this amount is a debit balance of \$68 million.

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Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

e) Discontinued operations CONTINUED

Financial performance of the discontinued operations

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

	\$ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED	31 JUL 2019
DISCONTINUED OPERATIONS			
Revenue from sale of goods	352	317	665
Cost of goods sold	(272)	(276)	(563)
China Farms impairment	(63)	–	(203)
Gross profit/(loss)	17	41	(101)
Net expenses and other items	(57)	(64)	(123)
Brazil consumer and foodservice impairment	(71)	–	(143)
Loss before interest and tax	(111)	(23)	(367)
Net finance costs	(12)	(11)	(26)
Loss before tax	(123)	(34)	(393)
Tax credit/(expense)	15	10	(95)
Loss after tax from discontinued operations	(108)	(24)	(488)
Non-controlling interests	31	5	68
Loss after tax attributable to equity holders	(77)	(19)	(420)
Basic and diluted impact on earnings per share from discontinued operations	(0.05)	(0.01)	(0.26)
Movement in exchange differences on translation of discontinued operations	3	–	8
Other reserve movements	(24)	–	–
Other comprehensive expense from discontinued operations	(129)	(24)	(480)
Net cash inflow/(outflow) from operating activities	11	(16)	(6)
Net cash inflow/(outflow) from investing activities	(11)	(16)	(34)
Net cash inflow/(outflow) from financing activities	(5)	(12)	(48)
Net decrease in cash generated by the discontinued operations	(5)	(44)	(88)

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

e) Discontinued operations CONTINUED

Assets and liabilities held for sale

The assets and liabilities of the China Farms and Brazil consumer and foodservice businesses are summarised below.

	\$ MILLION
ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE	AS AT 31 JANUARY 2020
Total current assets	233
Total non-current assets	942
Total assets of disposal group held for sale	1,175
Total current liabilities	470
Total non-current liabilities	246
Total liabilities of disposal group held for sale	716

These balances include:

- \$314 million of property, plant and equipment from China Farms and the Brazil consumer and foodservice business;
- \$295 million of livestock relating to China Farms;
- \$197 million of intangible assets related to the Brazil consumer and foodservice business;
- \$119 million of other non-current assets related to the Brazil consumer and foodservice business; and
- \$324 million of borrowings which are directly attributable to the Brazil consumer and foodservice business.

As at 31 July 2019, the assets held for sale amount of \$229 million related to the Group's investments in Goodminton and DFE Pharma. These investments were sold during the six months ended 31 January 2020. No assets met the requirements to be classified as held for sale as at 31 January 2019.

f) Falcon China Farms JV

Fonterra's share of the loss of the Falcon China Farms JV for the six months to 31 January 2020 was a loss of \$13 million. This loss, animal management costs and challenging farm conditions provide indicators of impairment. Using a value in use model the recoverable amount of the equity investment in the Falcon China Farms JV, after considering the value of the loan receivable, was \$5 million, resulting in an impairment of \$65 million. The Group is committed to providing future funding to the Falcon China Farms JV of up to US\$30 million (31 January 2019: US\$40 million, 31 July 2019: US\$40 million).

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

	\$ MILLION		
	AS AT		
	31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED	31 JUL 2019
Equity accounted investment	5	79	69
Loan receivable (included within Other non-current assets)	54	57	60

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Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

3 REVENUE FROM SALE OF GOODS

Revenue from the Ingredients business is disaggregated in the table below. Revenue earned by the consumer and foodservice businesses is disaggregated by geographical segment as disclosed in Note 1a) Operating segments.

	GROUP \$ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED	31 JUL 2019
Reference products ¹	4,759	4,304	8,833
Non-reference products ²	2,213	1,874	4,202
Other ³	813	795	1,615
Global Ingredients and Operations	7,785	6,973	14,650
Fonterra Ingredients Australia	774	919	1,760
Other Ingredients revenue	397	419	754
Intra-segment eliminations	(380)	(460)	(873)
Total Ingredients revenue⁴	8,576	7,851	16,291
Total Consumer and Foodservice revenue⁴	3,597	3,497	6,896
Less: inter-segment revenue	(2,102)	(1,920)	(3,932)
Total segment external revenue	10,071	9,428	19,255
Add: DFE Pharma dividend received and strategic review normalisation adjustments	22	–	–
Revenue from sale of goods	10,093	9,428	19,255

1 Revenue from all sales of the five ingredient products that inform the Farmgate Milk Price, and that are manufactured using New Zealand-sourced milk. Currently these five products are whole milk powder, skim milk powder, butter milk powder, butter and anhydrous milk fat (otherwise known as 'reference products').

2 Revenue from the sale of all ingredient products, except reference products, that are manufactured using New Zealand-sourced milk.

3 Primarily consists of Global Sourcing revenue, which is revenue from the sale of ingredient products manufactured using non-New Zealand-sourced milk.

4 Includes inter-segment sales.

4 COST OF GOODS SOLD

	GROUP \$ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED	31 JUL 2019
Opening inventory	3,165	2,917	2,917
Cost of milk:			
– New Zealand sourced	7,711	6,376	9,748
– Non-New Zealand sourced	587	599	966
Other costs ¹	2,875	3,357	5,915
Closing inventory	(5,852)	(5,269)	(3,165)
Total cost of goods sold	8,486	7,980	16,381
Normalisation adjustments	(3)	–	(32)
Normalised cost of goods sold (continuing operations)	8,483	7,980	16,349

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

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

DEBT AND EQUITY

5 SUBSCRIBED EQUITY INSTRUMENTS

Co-operative shares, including shares held within the Group

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

At 31 January 2020 there were 1,612,097,000 Co-operative shares on issue (31 January 2019: 1,611,992,000 shares, 31 July 2019: 1,611,992,000 shares).

During the six months ended 31 January 2020, the Company issued 105,000 shares under the Farm Source Rewards scheme (31 January 2019: 69,000 shares, 31 July 2019: 69,000 shares).

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

Units in the Fonterra Shareholders' Fund

The Custodian holds legal title of Co-operative shares of which the Economic Rights have been sold to the Fund on trust for the benefit of the Fund. At 31 January 2020 100,187,385 Co-operative shares (31 January 2019: 110,573,858; 31 July 2019: 102,934,582) were legally owned by the Custodian, on trust for the benefit of the Fund.

During the six months ended 31 January 2020, the Company issued 4,411,000 units (31 January 2019: 14,923,000 units, 31 July 2019: 17,769,000 units) and surrendered 7,158,000 units (31 January 2019: 15,773,000 units, 31 July 2019: 26,258,000 units).

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

6 DIVIDENDS PAID

No dividend was paid during the six months ended 31 January 2020 (31 January 2019: nil; 31 July 2019: nil).

7 EQUITY RESERVES

a) Hedge reserves

The hedge reserves predominately relate to cash flow hedges, which are used as part of the Group's risk management strategy to manage variability in cash flows due to changes in foreign currency and interest rates.

The Group uses cash flow hedges to manage its foreign currency exposure on forecast foreign currency sales transactions and borrowings denominated in foreign currencies.

A cash flow hedge provides certainty of cash flows. Gains or losses relating to the difference between the hedge rate and the current market rate are recognised in the hedge reserve. They are transferred to profit or loss when the forecast transaction occurs.

The foreign currency forward contracts, foreign currency options and interest rate swaps used to hedge the forecast cash flows are recognised on the balance sheet as Derivative financial instruments.

b) Foreign currency translation reserve ('FCTR')

The foreign currency translation reserve primarily relates to the translation of Fonterra's net investments in overseas businesses from their local currency to New Zealand dollars.

Foreign currency gains/losses on the translation of the overseas business are deferred in the foreign currency translation reserve. The accumulated amount attributed to an overseas business is transferred to profit or loss, as part of the gain or loss in sale, when the overseas business is sold.

Movements in the foreign currency translation reserve relate to changes in foreign currency exchange rates from the beginning of the period to the end of the period, and changes in the net assets of the overseas businesses.

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FOR THE SIX MONTHS ENDED 31 JANUARY 2020

8 BORROWINGS**Economic net interest-bearing debt**

Economic net interest-bearing debt reflects the effect of debt hedging in place at balance date. During the six months ended 31 January 2020, there were no issuances or redemption of listed debt securities.

	GROUP \$ MILLION		
	AS AT		
	31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED	31 JUL 2019
Net interest-bearing debt position			
Total borrowings	6,667	7,754	6,536
Cash and cash equivalents	(460)	(348)	(550)
Interest-bearing advances	(230)	(171)	(142)
Bank overdraft	52	57	34
Net interest-bearing debt	6,029	7,292	5,878
Value of derivatives used to manage changes in hedged risks on debt instruments	(272)	60	(148)
Economic net interest-bearing debt	5,757	7,352	5,730

Total borrowings in the table above are represented by:

	GROUP \$ MILLION		
	AS AT		
	31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED	31 JUL 2019
Commercial paper	169	354	259
Bank loans	168	1,947	619
Lease liabilities ¹	617	72	71
Capital notes ²	35	35	35
NZX-listed bonds	600	600	600
Medium-term notes	5,078	4,746	4,952
Total borrowings³	6,667	7,754	6,536
Included within the statement of financial position as follows:			
Total current borrowings	1,032	618	1,175
Total non-current borrowings	5,635	7,136	5,361
Total borrowings⁴	6,667	7,754	6,536

¹ From 1 August 2019 this amount includes all leases resulting from the adoption of NZ IFRS 16. For details on the impact of the change in the lease accounting refer to Note 13 Impact of transition to NZ IFRS 16 Leases.

² Capital notes are unsecured subordinated borrowings.

³ All borrowings other than lease liabilities and capital notes are unsecured and unsubordinated.

⁴ The 31 January 2020 balance excludes \$354 million of borrowings directly attributable to the China Farms and Brazil consumer and foodservice businesses. These borrowings are presented in Liabilities of disposal groups held for sale (refer Note 2e). The comparative balances as at 31 January 2019 and 31 July 2019 have not been restated. The borrowings directly attributable to the China Farms and Brazil consumer and foodservice businesses at those reporting dates

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

were \$339 million as at 31 January 2019 and \$339 million as at 31 July 2019.

LONG-TERM ASSETS

9 PROPERTY, PLANT AND EQUIPMENT

	GROUP \$ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED	31 JUL 2019
Additions	90	366	583
Disposals	(8)	(10)	(146)
Transfer to assets held for sale	(314)	–	–
Capital commitments	81	89	48

OTHER

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 January 2014, Danone initiated legal proceedings against Fonterra in the High Court of New Zealand and separate Singapore arbitration proceedings against Fonterra in relation to Fonterra's Whey Protein Concentrate 80 (WPC80) precautionary recall in August 2013. In December 2017, the Singapore arbitration panel issued its award (judgement), finding in favour of Danone. 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.

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 contingent liabilities as at 31 January 2020 (31 January 2019: nil; 31 July 2019: nil).

FINANCIAL SUMMARY

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

11 FAIR VALUE

Fair value hierarchy

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

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

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

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

	GROUP \$ MILLION								
	LEVEL 1			LEVEL 2			LEVEL 3		
	AS AT			AS AT			AS AT		
	31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED	31 JUL 2019	31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED	31 JUL 2019	31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED	31 JUL 2019
Derivative assets									
– Commodity derivatives	25	21	14	1	4	1	–	–	–
– Foreign exchange derivatives	–	–	–	78	186	40	–	–	–
– Interest rate derivatives ¹	–	–	–	514	212	433	–	–	–
Derivative liabilities									
– Commodity derivatives	(9)	(8)	(9)	(2)	(6)	(4)	–	–	–
– Foreign exchange derivatives	–	–	–	(185)	(90)	(200)	–	–	–
– Interest rate derivatives ¹	–	–	–	(461)	(470)	(539)	–	–	–
Investment in Beingmate ²	–	–	234	170	–	–	–	–	–
Investments in shares	11	6	8	17	16	15	12	14	16
Fair value	27	19	247	132	(148)	(254)	12	14	16

¹ Includes cross-currency interest rate swaps.

² As at 31 January 2020, the valuation of the investment in Beingmate has transferred from Level 1 to Level 2 because there was no market price available on 31 January 2020 as the Shenzhen Stock Exchange was on a trading halt from 23 January 2020 to 3 February 2020. The fair value of the investments has been calculated using the opening price on 3 February 2020.

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

	GROUP \$ MILLION								
	CARRYING VALUE AS AT			FAIR VALUE					
				LEVEL 1 AS AT			LEVEL 2 AS AT		
	31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED	31 JUL 2019	31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED	31 JUL 2019	31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED	31 JUL 2019
Financial assets									
Long-term advances	230	171	142	–	–	–	244	172	150
Financial liabilities									
Borrowings									
– NZX-listed bonds	(600)	(600)	(600)	(624)	(619)	(627)	–	–	–
– Capital notes	(35)	(35)	(35)	(34)	(32)	(35)	–	–	–
– Bank loans	(168)	(1,947)	(619)	–	–	–	(168)	(1,948)	(620)
– Medium-term notes	(5,078)	(4,746)	(4,952)	–	–	–	(5,317)	(4,960)	(5,208)
– Finance leases ¹	–	(72)	(71)	–	–	–	–	(78)	(75)

¹ From 1 August 2019 finance leases are included in the lease liabilities balance. This presentation change is a result of the adoption of NZ IFRS 16. For details on the impact of the change in lease accounting refer to Note 13 Impact of transition to NZ IFRS 16 Leases.

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

12 NET TANGIBLE ASSETS PER SECURITY

	GROUP		
	AS AT		
	31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED	31 JUL 2019
Net tangible assets per security¹			
\$ per listed debt security on issue	5.67	4.77	4.63
\$ per equity instrument on issue	2.47	2.08	2.02
Listed debt securities on issue (million)	703	703	703
Equity instruments on issue (million)	1,612	1,612	1,612

1 Net tangible assets represents total assets (including right-of-use assets) less total liabilities less intangible assets.

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13 IMPACT OF TRANSITION TO NZ IFRS 16 LEASES

Accounting policies effective from 1 August 2019

Right-of-use assets are initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

Lease liabilities are recognised at the commencement date of the lease as the present value of the lease payments over the lease term. The lease payments include the exercise price of a purchase option where the Group is reasonably certain to exercise the option, and payments of penalties for terminating a lease where the lease term reflects the Group exercising the option to terminate.

The lease payments are discounted using the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. As the Group operates a centralised Treasury function and has significant lines of credit available, the incremental borrowing rate used is based on the jurisdiction and weighted average lease term.

Once a lease has commenced, the Group will only reassess the lease term on the occurrence of a significant event or change in circumstance that is within its control and affects its ability to exercise, or not exercise, an option not previously included in the lease term.

The impact of adopting NZ IFRS 16 is summarised below:

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

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

The weighted-average incremental borrowing rate used to measure lease liabilities at transition was 3.56%.

For leases previously classified as operating leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate as at 1 August 2019. Right-of-use assets are measured at either:

- Their carrying amount as if NZ IFRS 16 had been applied since the commencement date, discounted using the incremental borrowing rate at 1 August 2019; or
- An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying NZ IFRS 16 to leases previously classified as operating leases:

- Applied the exemption not to recognise right-of-use assets and liabilities for low value leases and leases with less than 12 months of lease term remaining at 1 August 2019.
- Elected to apply a single discount rate to a portfolio of leases where they had similar characteristics.
- Excluded initial direct costs from the measurement of the right-of-use asset at 1 August 2019.

The related lease expense for exempt leases is recognised in profit before net finance costs and tax.

A number of leases were previously classified as finance leases. The carrying value of lease assets and lease liabilities for these leases as at 31 July 2019 was transferred to right-of-use asset and lease liability under NZ IFRS 16.

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

14 RECONCILIATION OF RE-PRESENTATION FOR DISCONTINUED OPERATIONS AND PRIOR PERIOD RESTATEMENTS

The tables below reconcile the impact on key line items in the Group's income statement and statement of financial position from the classification of China Farms and Brazil consumer and foodservice business as discontinued businesses, and the adjustments made for prior period restatements (Agent Adjustment and Control Transfer). See the Basis of preparation note (b) for further details. The prior period restatements have been made because their impact is considered material to the segment note, presented in note 1(a) of these interim financial statements.

STATEMENT OF FINANCIAL POSITION (EXTRACT)	AS AT 31 JUL 2018 (AUDITED)	INCREASE/(DECREASE) CONTROL TRANSFER	31 JUL 2018 (RESTATED)
Trade and other receivables	2,355	(75)	2,280
Inventories	2,917	360	3,277
Deferred tax asset	667	11	678
Trade and other payables	(2,116)	(324)	(2,440)
Net assets	6,349	(28)	6,321
Retained earnings	934	(28)	906
Total equity	6,349	(28)	6,321

INCOME STATEMENT (EXTRACT)	SIX MONTHS ENDED 31 JAN 2019	DISCONTINUED OPERATIONS	SIX MONTHS ENDED 31 JAN 2019 CONTINUING OPERATIONS	PROFIT INCREASE/ (DECREASE) AGENT ADJUSTMENT	INCREASE/ (DECREASE) CONTROL TRANSFER	SIX MONTHS ENDED 31 JAN 2019 (RESTATED)
Revenue	9,746	(317)	9,429	(235)	234	9,428
Cost of sales	(8,246)	276	(7,970)	235	(245)	(7,980)
Gross profit	1,500	(41)	1,459	-	(11)	1,448
Expenses and other items including finance costs	(1,382)	75	(1,307)	-	-	(1,307)
Profit/(loss) before income tax	118	34	152	-	(11)	141
Income tax	(38)	(10)	(48)	-	3	(45)
Profit/(loss) after tax from continuing operations	80	24	104	-	(8)	96
Loss from discontinued operations			(24)	-	-	(24)
Profit after tax			80	-	(8)	72

STATEMENT OF FINANCIAL POSITION (EXTRACT)	AS AT 31 JAN 2019	INCREASE/(DECREASE) CONTROL TRANSFER	31 JAN 2019 (RESTATED)
Trade and other receivables	2,237	(47)	2,190
Inventories	5,076	193	5,269
Deferred tax asset	504	14	518
Trade and other payables	(2,121)	(196)	(2,317)
Net assets	6,580	(36)	6,544
Retained earnings	1,013	(36)	977
Total equity	6,580	(36)	6,544

FINANCIAL SUMMARY

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

14 RECONCILIATION OF RE-PRESENTATION FOR DISCONTINUED OPERATIONS AND PRIOR PERIOD RESTATEMENTS

CONTINUED

INCOME STATEMENT (EXTRACT)	YEAR ENDED 31 JUL 2019 (AUDITED)	DISCONTINUED OPERATIONS	YEAR ENDED 31 JUL 2019 CONTINUING OPERATIONS	PROFIT INCREASE/ (DECREASE) AGENT ADJUSTMENT	INCREASE/ (DECREASE) CONTROL TRANSFER	YEAR ENDED 31 JUL 2019 (RESTATED)
Revenue	20,114	(665)	19,449	(498)	304	19,255
Cost of sales	(17,334)	766	(16,568)	498	(311)	(16,381)
Gross profit	2,780	101	2,881	-	(7)	2,874
Expenses and other items including finance costs	(3,208)	292	(2,916)	-	-	(2,916)
Profit/(loss) before income tax	(428)	393	(35)	-	(7)	(42)
Income tax	(177)	95	(82)	-	2	(80)
Loss after tax from continuing operations	(605)	488	(117)	-	(5)	(122)
Loss from discontinued operations			(488)	-	-	(488)
Loss after tax			(605)	-	(5)	(610)

STATEMENT OF FINANCIAL POSITION (EXTRACT)	AS AT 31 JUL 2019 (AUDITED)	INCREASE/(DECREASE) CONTROL TRANSFER	31 JUL 2019 (RESTATED)
Trade and other receivables	1,900	(29)	1,871
Inventories	2,944	221	3,165
Deferred tax asset	592	13	605
Trade and other payables	(1,869)	(238)	(2,107)
Net assets	5,881	(33)	5,848
Retained earnings	360	(33)	327
Total equity	5,881	(33)	5,848

Independent Review Report

TO THE SHAREHOLDERS OF FONTERRA CO-OPERATIVE GROUP LIMITED



REPORT ON THE INTERIM FINANCIAL STATEMENTS

CONCLUSION

We have completed a review of the accompanying interim financial statements of Fonterra Co-operative Group Limited (the 'Company') and its controlled entities (the 'Group') which comprise:

- the statement of financial position as at 31 January 2020;
- the income statement, statements of other comprehensive income and changes in equity, and the cash flow statement for the 6 month period then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements on pages 42 to 68 do not present fairly, in all material respects, the Group's financial position as at 31 January 2020 and its financial performance and cash flows for the 6 month period ended on that date in accordance with NZ IAS 34 Interim Financial Reporting (NZ IAS 34) and IAS 34 Interim Financial Reporting (IAS 34).

BASIS FOR CONCLUSION

A review of interim financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of Fonterra Co-operative Group Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Other than in our capacity as auditor we have no relationship with, or interests in, the Group.

OTHER MATTER

The financial statements of the Group for the year ended 31 July 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 25 September 2019. The previous auditor issued their unmodified audit opinion before the restatements described in the basis of preparation of the 31 January 2020 interim financial statements were made.

USE OF THIS INDEPENDENT REVIEW REPORT

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE INTERIM FINANCIAL STATEMENTS

The Directors, on behalf of the Company, are responsible for:

- the preparation and fair presentation of the interim financial statements in accordance with NZ IAS 34 and IAS 34;
- implementing necessary internal control to enable the preparation of interim financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE REVIEW OF THE INTERIM FINANCIAL STATEMENTS

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 and IAS 34.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly, we do not express an audit opinion on these interim financial statements.

This description forms part of our Independent Review Report.

KPMG

Auckland
17 March 2020

FINANCIAL SUMMARY

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 72. 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		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2020 UNAUDITED	31 JAN 2019 ¹ UNAUDITED	31 JUL 2019 ¹
Profit/(loss) for the period	501	72	(610)
Add: Depreciation	274	234	458
Add: Amortisation	49	50	103
Add: Net finance costs	173	205	418
Add: Taxation expense	132	35	175
Total EBITDA	1,129	596	544
Less: Disposal of investment in DFE Pharma	(427)	–	–
Less: Disposal of investment in Goodminton	(68)	–	–
Add: Falcon China Farms JV impairment	65	–	–
Add: New Zealand consumer and foodservice business	–	–	204
Add: Disposal of Tip Top	–	–	40
Add: China Farms impairment	63	–	203
Add: Brazil consumer and foodservice business impairments	71	–	149
Add: Disposal of Venezuelan operations	–	–	134
Add: Australia strategic reset	–	–	68
Add: Other strategic reset costs	45	–	19
Add: Beingmate	29	–	12
Total normalisation adjustments	(222)	–	829
Normalised EBITDA	907	596	1,373

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

	GROUP \$ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2020 UNAUDITED	31 JAN 2019 ¹ UNAUDITED	31 JUL 2019 ¹
Profit/(loss) for the period	501	72	(610)
Add: Net finance costs	173	205	418
Add: Taxation expense	132	35	175
Total EBIT	806	312	(17)
Add: Normalisation adjustments (as detailed above)	(222)	–	829
Total normalised EBIT	584	312	812

¹ Income statements for the six months ended 31 January 2019 and 12 months ended 31 July 2019 include re-presentations and restatements. Please see the 'Basis of preparation' section and note 14 of the interim financial statements for further details.

Non-GAAP Measures CONTINUED

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

	GROUP \$ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2020 UNAUDITED	31 JAN 2019 ¹ UNAUDITED	31 JUL 2019 ¹
Profit/(loss) for the period	501	72	(610)
(Less)/Add: Normalisation adjustments (as detailed above)	(222)	–	829
Add: Tax on normalisation adjustments	14	–	56
Total normalised earnings	293	72	275
Add/(Less): Share attributable to non-controlling interests	20	(4)	48
Less: Normalisation adjustments to non-controlling interests	(30)	–	(59)
Net normalised earnings attributable to equity holders of the Parent	283	68	264
Weighted average number of shares (thousands of shares)	1,612,055	1,611,969	1,611,980
Normalised earnings per share (\$)	0.18	0.04	0.16

¹ Income statements for the six months ended 31 January 2019 and 12 months ended 31 July 2019 include re-presentations and restatements. Please see the 'Basis of preparation' section and note 14 of the interim financial statements for further details.

Glossary

NON-GAAP MEASURES

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

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

DIRECTORY

Directory

FONTERRA BOARD OF DIRECTORS

John Monaghan
Clinton Dines
Brent Goldsack
Leonie Guiney
Bruce Hassall
Andrew Macfarlane
Peter McBride
John Nicholls
Donna Smit
Scott St John

FONTERRA MANAGEMENT TEAM

Miles Hurrell
Marc Rivers
Judith Swales
Kelvin Wickham
Mike Cronin
Teh-han Chow
Fraser Whineray (commencing April 2020)

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