Fonterra Financial Statements 2023

Fonterra Co-operative Group Limited – For the year ended 31 July 2023

Pūrongo pūtea Te Mātāpuna

Dairy for life

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Independent Auditor's Report

KPMG

To the shareholders of Fonterra Co-operative Group Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the consolidated financial statements of Fonterra Co-operative Group Limited (the 'company') and its subsidiaries (the 'Group') on pages 10 to 60 present fairly, in all material respects:

i. the Group's financial position as at 31 July 2023 and its financial performance and cash flows for the year ended on that date;

ii. in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards issued by the New Zealand Accounting Standards Board.

We have audited the accompanying consolidated financial statements which comprise:

– the consolidated statement of financial position as at 31 July 2023;
– the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended; and
– notes, including a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Our responsibilities under ISAs (NZ) are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

Our firm has also provided other services to the Group that are related to our role as the Group's auditor, such as assurance and agreed upon procedures services. This includes an engagement to provide a separate reasonable assurance report in connection with the Farmgate Milk Price. A copy of this assurance report is attached as an appendix to Fonterra's Farmgate Milk Price Statement. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $65 million determined with reference to a benchmark of the cost of New Zealand sourced milk. We chose the benchmark because, in our view, this is a key measure of the Group's performance.

Scoping

The scope of our audit is designed to ensure that we perform adequate work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the financial reporting systems, processes and controls, and the industry in which it operates.

In establishing the overall approach to our audit, we considered the centralised nature of the Group's operations, the risk profile of countries where the Group operates, and changes taking place within the business. We also considered the financial significance of each business unit together with any local statutory audit requirements.

The Group financial statements are a consolidation of over 100 individual subsidiaries and equity accounted investees. We scoped in 7 subsidiaries in New Zealand and Australia to be subject to audit due to their financial significance and risk profile. We undertook audits of these subsidiaries ourselves. In addition, we performed specific risk-focused audit procedures on certain transactions and balances in respect of a further 7 subsidiaries in Japan, the Netherlands, the USA, New Zealand and Singapore, as well as 1 subsidiary accounted as held for sale during the year in Brazil. We also identified 3 additional subsidiaries in Malaysia, New Zealand and Sri Lanka to include in our scoping to provide additional coverage over the Group's revenue and assets.

Taken together, the subsidiaries in scope for the Group audit accounted for 93% of the Group's revenue and 89% of the Group's total assets. For the remaining subsidiaries, we performed analysis at an aggregated Group level to confirm our assessment that there were no significant risks of material misstatement associated with them.

We assigned materiality levels to in scope subsidiaries for performance of audits and specified audit procedures. These were lower than the materiality level for the Group as a whole, ranging from $10 million to $40 million, and determined with reference to the size and risk profile of the subsidiary.

We visited subsidiary locations in New Zealand, Australia, Japan, the USA, Singapore, Malaysia, Sri Lanka, China and Hong Kong. We held meetings with management responsible for the financial information of all in scope subsidiaries.

We audited the Group consolidation, financial statement disclosures and a number of complex items centrally in New Zealand. These included general IT controls, controls operated through Fonterra's shared service centre environment, revenue recognition, the cost of New Zealand sourced milk, impairment of goodwill and brands, useful lives of property, plant and equipment, accounting for divestments and assets held for sale and financial instruments.

Independent Auditor's Report CONTINUED

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
Revenue Recognition	
Refer to Note 1 to the financial statements. We considered the recognition of revenue from contracts with key customers and distributors to be a key audit matter due to: – the significance of the Group's $24.6 billion of revenue to the financial statements as a whole; – the level of judgement involved in establishing the timing and amount of revenue recognised for certain customers and distributors, in particular judgement related to agent versus principal considerations; and – the extent of audit effort required to examine the Group's contracts with customers in the context of the size and complexity of this area, and the requirement under auditing standards for us to consider fraud risk associated with revenue recognition.	The procedures we performed to evaluate whether revenue had been recognised appropriately included: – identifying and testing relevant controls over revenue recognition, and using data analytics routines to evaluate 100% of sales transactions undertaken through the Group's two core ERP systems (representing 92% of Group revenue); – assessing the Group's revenue recognition accounting policies, and evaluating the application of these policies to actual contracts with customers as noted below; – evaluating contractual arrangements with key customers and distributors through discussion with management and inspection of the underlying documentation, as well as sample testing other sales arrangements; and – performing other audit procedures specifically designed to address the risk of management override of controls including journal entry testing, applying particular focus to the timing of revenue transactions. We completed these procedures and have no matters to report.

Independent Auditor's Report CONTINUED

KPMG

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

Goodwill and Brands

Refer to Note 3 to the financial statements.

We considered the Group's annual impairment testing of goodwill and brands to be a key audit matter due to the significance of the balance of $1.5 billion to the financial statements as a whole and the level of judgement involved in determining the methodology and assumptions used in the testing.

$0.7 billion of goodwill and brands is included within two cash generating units ('CGUs'):

- Fonterra Brands New Zealand ('FBNZ') ($390 million of goodwill and brands) tested using the earnings multiple method (a change from the discounted cash flow method used in previous years); and
- Fonterra Australia ($283 million of goodwill and brands) tested using the discounted cash flow method.

The Group's consumer & foodservice brands are tested using the relief from royalty valuation method. We focused our testing on two consumer brands with a heightened risk of impairment:

- Anmum ($68 million of brand value); and
- Anlene ($159 million of brand value).

We focused on the significant forward-looking assumptions the Group applied in their impairment testing, including:

- the estimate of FBNZ's future maintainable earnings, and the earnings multiple;
- forecast cash flows, taking into account the Group's growth plans for Fonterra Australia;
- local currency sales forecasts and market royalty rates appropriate to each brand; and
- terminal growth rates and discount rates, as the Group's discounted cash flow models are highly sensitive to small changes in these assumptions.

In addition to the above, the carrying amount of the Group's net assets at 31 July 2023 was $8.0 billion whilst the market capitalisation of Fonterra Co-operative Group Limited was $5.1 billion. This is an indicator of impairment and required additional analysis and interpretation.

The procedures we performed to evaluate the impairment assessments included:

- assessing whether the methodology adopted was consistent with accepted valuation approaches of IAS 36 Impairment of Assets;
- evaluating the significant assumptions by comparing to historical trends, approved budgets, business plans and external market data;
- comparing the earnings multiple to observed trading multiples using KPMG valuation specialists;
- comparing discount rates and terminal growth rates applied to the estimated future cash flows to relevant benchmarks using KPMG valuation specialists;
- challenging the above assumptions and judgements by performing sensitivity analysis, considering a range of likely outcomes based on various scenarios;
- evaluating the estimate of the recoverable amount of the Group as a whole, including evaluating the work performed by the Group's external valuation specialists; and
- considering the appropriateness of the disclosures in the financial statements.

The Group recognised an impairment of goodwill of $121 million in respect of FBNZ, of which $92 million was recognised at half-year. No impairment of goodwill was recognised in respect of Fonterra Australia.

The Group recognised an impairment of $96m in respect of the Anmum and Anlene brands, of which $68 million was recognised at half-year.

We found the impairment testing methodologies to be consistent with IAS 36. We found the earnings multiple, discount rate and terminal growth rate assumptions were in an acceptable range, and that the other significant assumptions were largely supported by comparison to the sources we considered.

For FBNZ, Anmum and Anlene, our scenario analysis indicated that the impairments recognised were appropriate. As there is no headroom over the carrying value of these assets, any adverse movement in key assumptions would result in further impairments.

For Fonterra Australia our scenario analysis indicated that the recoverable amount exceeded its carrying value.

The estimate of the recoverable amount for the Group as a whole exceeded the carrying amount of the Group's net assets. The evidence we obtained in respect of valuation ranges for the Group as a whole did not indicate that further impairment of goodwill and brands was necessary.

We consider the impairment disclosures to be a fair reflection of the underlying impairment tests.

Independent Auditor's Report CONTINUED

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
The cost of New Zealand sourced milk	
Refer to Notes 4 and 11 to the financial statements. The cost of New Zealand sourced milk supplied by farmer shareholders amounted to $12.3 billion and comprises the volume of milk solids supplied at the Farmgate Milk Price as determined by the Board of Directors for the relevant season. In making that determination, the Board takes into account the Farmgate Milk Price calculated in accordance with the Farmgate Milk Price Manual. We considered the cost of New Zealand sourced milk to be a key audit matter due to: – its significance to the financial statements as a whole. The cost of New Zealand sourced milk is a key component of the Group's cost of goods sold of $20.4 billion and the carrying value of the Group's inventory of $4.3 billion; and – the extent of audit effort required to examine the cost of New Zealand sourced milk due to the complexity of applying the Board approved milk price to cost of goods sold and inventory.	The procedures we performed to evaluate the impact of the Farmgate Milk Price calculation on the cost of New Zealand sourced milk included: – examining minutes of Milk Price Panel meetings and confirming with the Company Secretary that the Board considered the recommended Farmgate Milk Price from the Milk Price Panel and approved the payment of $8.22 per kgMS for New Zealand sourced milk for the season ended 31 May 2023; and – examining the application of the Board approved Farmgate Milk Price to cost of goods sold and inventory. This involved understanding and evaluating relevant controls to ensure that the latest milk price forecast series has been applied to cost of goods sold and inventory. At season end, we checked that the cost of New Zealand sourced milk reflected the Board approved Farmgate Milk Price for the season, particularly where there has been a dynamic monthly milk price and how that should be correctly applied to the month of collection. We completed these procedures and have no matters to report. The Farmgate Milk Price calculation prepared by the Milk Price Group amounted to $8.22 per kgMS (which equates to $12.2 billion in total) and we confirmed with the Company Secretary that the Board of Directors approved a payment of $8.22 per kgMS for New Zealand sourced milk for the season ended 31 May 2023 at their meeting on 20 September 2023.

Independent Auditor's Report CONTINUED

Other information

The Directors, on behalf of the company, are responsible for the other information included in the entity's Annual Review and supporting reports. Other information includes:

- the Annual Review;
- the Corporate Governance Statement and Statutory Information; and
- the Business Performance Report.

Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

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

Use of this independent auditor's report

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

Responsibilities of the Directors for the consolidated financial statements

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

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards issued by the New Zealand Accounting Standards Board;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

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

For and on behalf of

KPMG

KPMG
Auckland

20 September 2023

Group Financial Statements 2023

David, Southland

Statement of Financial Position

AS AT 31 JULY

($ MILLION)

	NOTES	2023	2022
ASSETS			
Current assets			
Cash and cash equivalents		**1,822**	288
Trade and other receivables	21,18b	**2,473**	2,482
Inventories	10	**4,346**	5,148
Derivative financial instruments		**190**	230
Other assets	14	**149**	171
Assets held for sale	2b	**515**	473
Total current assets		**9,495**	8,792
Non-current assets			
Property, plant and equipment	12	**6,343**	6,465
Intangible assets	3,13	**1,824**	2,153
Deferred tax assets	17b	**182**	551
Derivative financial instruments		**379**	434
Other assets	14	**378**	386
Total non-current assets		**9,106**	9,989
Total assets		**18,601**	18,781

The Board approved and authorised for issue these Financial Statements on 20 September 2023.

For and on behalf of the Board:

Peter McBride
Chairman

Bruce Hassall
Director

	NOTES	2023	2022
LIABILITIES			
Current liabilities			
Bank overdraft		**102**	31
Borrowings	7	**785**	356
Trade and other payables	11,18b	**4,370**	4,522
Derivative financial instruments		**415**	733
Capital return payable	5	**804**	–
Other liabilities	15	**249**	248
Liabilities held for sale	2b	**536**	628
Total current liabilities		**7,261**	6,518
Non-current liabilities			
Borrowings	7	**3,156**	4,900
Derivative financial instruments		**106**	313
Other liabilities	15	**110**	144
Total non-current liabilities		**3,372**	5,357
Total liabilities		**10,633**	11,875
Net assets		**7,968**	6,906
EQUITY			
Subscribed equity	5	**5,073**	5,891
Retained earnings		**2,774**	1,611
Reserves	22a	**59**	(569)
Non-controlling interests		**62**	(27)
Total equity		**7,968**	6,906

Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 JULY

($ MILLION)

	NOTES	2023	2022
Revenue from sale of goods	1	**24,580**	21,901
Cost of goods sold			
New Zealand sourced cost of milk		***(12,306)***	*(13,722)*
Non-New Zealand sourced cost of milk		***(1,109)***	*(843)*
Other collection and manufacturing costs		***(6,182)***	*(5,712)*
(Decrease)/increase in inventories		***(802)***	*1,285*
Total cost of goods sold[1]	4a	**(20,399)**	(18,992)
Gross profit		**4,181**	2,909
Other operating income		**78**	151
Operating expenses	4a	**(2,504)**	(2,114)
Net finance costs	8	**(211)**	(194)
Profit before tax from continuing operations		**1,544**	752
Tax expense	17	**(303)**	(131)
Profit after tax from continuing operations		**1,241**	621
Profit/(loss) after tax from discontinued operations	2c	**336**	(38)
Profit after tax		**1,577**	583
Cash flow hedges and other costs of hedging, net of tax	22a	**389**	(320)
Net investment hedges and translation of foreign operations, net of tax	22a	**66**	103
Foreign currency translation reserve losses/(gains) transferred to profit or loss	22a	**194**	(1)
Other movements in reserves		**5**	4
Total items that may be reclassified subsequently to profit or loss		**654**	(214)
Total items that will not be reclassified subsequently to profit or loss		**(4)**	24
Total other comprehensive income/(expense)		**650**	(190)
Total comprehensive income		**2,227**	393
Earnings per share attributed to equity holders of the Co-operative			
Basic and diluted earnings per share from continuing operations ($)		**0.75**	0.36
Basic and diluted earnings per share from discontinued operations ($)		**0.20**	–
Total basic and diluted earnings per share ($)		**0.95**	0.36
Weighted average number of shares (thousands of shares)		**1,610,507**	1,613,353

1 This Statement is presented on a functional basis. The shaded information provides an additional breakdown of Cost of goods sold by nature of expense.

Statement of Cash Flows

FOR THE YEAR ENDED 31 JULY

($ MILLION)

	NOTES	2023	2022
Cash flows from operating activities			
Profit after tax		**1,577**	583
Adjustments for:			
Net finance costs		**261**	231
Tax expense		**380**	162
Depreciation and amortisation		**662**	635
Impairments	3	**252**	109
Gain on sale of businesses	2a	**(341)**	(42)
Foreign exchange (gains)/losses		**(137)**	309
Other		**66**	(59)
Total adjustments		**1,143**	1,345
Decrease/(increase) in working capital and other operating activities	16	**871**	(1,598)
Interest paid		**(336)**	(297)
Net taxes paid		**(73)**	(137)
Net cash flows from operating activities		**3,182**	(104)
Cash flows from investing activities			
Proceeds relating to divestments	2	**1,084**	26
Other cash inflows		**44**	19
Acquisition of property, plant and equipment		**(598)**	(480)
Hedging activities relating to the Chilean Soprole divestment	2	**(148)**	–
Taxes paid relating to divestments	2	**(118)**	–
Acquisition of intangible assets		**(72)**	(72)
Acquisition of investments		**(44)**	–
Other cash outflows		**(16)**	(10)
Net cash flows from investing activities		**132**	(517)

	NOTES	2023	2022
Cash flows from financing activities			
Proceeds from borrowings		**2,698**	3,919
Other cash inflows		**101**	15
Repayment of borrowings		**(4,214)**	(3,634)
Dividends paid		**(430)**	(355)
Share buyback		**(11)**	(1)
Net cash flows from financing activities		**(1,856)**	(56)
Net increase/(decrease) in cash		**1,458**	(677)
Opening cash		**281**	982
Effect of exchange rate changes		**11**	(24)
Closing cash		**1,750**	281
Reconciliation of closing cash to the Statement of Financial Position			
Cash and cash equivalents		**1,822**	288
Bank overdraft		**(102)**	(31)
Cash balances included in assets and liabilities held for sale	2b	**30**	24
Closing cash		**1,750**	281

Statement of Changes in Equity

FOR THE YEAR ENDED 31 JULY

($ MILLION)

	NOTES	ATTRIBUTABLE TO EQUITY HOLDERS OF THE CO-OPERATIVE: SUBSCRIBED EQUITY	RETAINED EARNINGS	RESERVES	NON-CONTROLLING INTERESTS	TOTAL EQUITY
As at 1 August 2022		**5,891**	**1,611**	**(569)**	**(27)**	**6,906**
Profit after tax		**–**	**1,537**	**–**	**40**	**1,577**
Transfer between reserves		**–**	**29**	**(29)**	**–**	**–**
Other comprehensive income/(expense)		**–**	**–**	**657**	**(7)**	**650**
Total comprehensive income		**–**	**1,566**	**628**	**33**	**2,227**
Transactions with equity holders:						
Dividends paid	6	**–**	**(403)**	**–**	**(27)**	**(430)**
Dairy Partners Americas Brasil Limitada capital contributions received	2b	**–**	**–**	**–**	**83**	**83**
Capital return	5	**(804)**	**–**	**–**	**–**	**(804)**
Share buyback	5	**(14)**	**–**	**–**	**–**	**(14)**
As at 31 July 2023		**5,073**	**2,774**	**59**	**62**	**7,968**
As at 1 August 2021		5,892	1,350	(379)	6	6,869
Profit/(loss) after tax		–	584	–	(1)	583
Other comprehensive expense		–	–	(190)	–	(190)
Total comprehensive income/(expense)		–	584	(190)	(1)	393
Transactions with equity holders:						
Dividends paid	6	–	(323)	–	(32)	(355)
Share buyback	5	(1)	–	–	–	(1)
As at 31 July 2022		5,891	1,611	(569)	(27)	6,906

Basis of Preparation

FOR THE YEAR ENDED 31 JULY 2023

At a glance

The basis of preparation describes the significant accounting policies, judgements and estimates that are relevant to the Group's Financial Statements as a whole. Where a policy, judgement or estimate is specific to a particular Note, it is included in the Note to which it relates.

a) About Fonterra

Fonterra Co-operative Group Limited (Fonterra, the Company or the Co-operative) is a multinational dairy co-operative. Fonterra is primarily involved in the collection, manufacture and sale of milk and milk-derived products through its Ingredients, Consumer and Foodservice channels.

Fonterra is 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 (DIRA).

b) Basis of preparation

These Financial Statements comprise Fonterra and its subsidiaries (together referred to as the Group) and the Group's interests in its equity accounted investments.

These Financial Statements:

- comply with International Financial Reporting Standards (IFRS);
- comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS);
- have been prepared in accordance with Generally Accepted Accounting Practice (GAAP) applicable to for-profit entities;
- have been prepared on a historical cost basis except where otherwise stated. Assets and liabilities measured at fair value are summarised in Note 19 *Fair value measurement*; and
- are presented in New Zealand Dollars ($ or NZD), which is Fonterra's functional currency, and rounded to the nearest million, except where otherwise stated.

Re-presentations

Simplification of Financial Statements

To improve disclosure effectiveness and focus on the most relevant and material information, the Group has made a number of simplifications to the Financial Statements in the current year, and expanded disclosure for areas of interest.

The previously separate Income Statement and Statement of Comprehensive Income have been combined into the Statement of Profit or Loss and Other Comprehensive Income.

The Statement of Cash Flows has been re-presented to start with Net profit after tax instead of Profit before net finance costs and tax, and to classify interest paid as an operating activity rather than a financing activity. The re-presentations have changed the subtotals of Total adjustments, Net cash flows from operating activities and Net cash flows from financing activities.

The simplification has also resulted in a number of aggregations and amendments where line items are not material, and affected comparatives have been re-presented for consistency. These re-presentations have not had an impact on the Profit after tax or Total comprehensive income in the Statement of Profit or Loss and Other Comprehensive Income, Net assets in the Statement of Financial Position, or the Net increase/(decrease) in cash presented in the Statement of Cash Flows.

Discontinued operations

During the period the Chilean Soprole business was classified as a disposal group held for sale and considered to be a discontinued operation. The business was sold in March 2023.

- Discontinued operations are presented in a single line item in the Statement of Profit or Loss and Other Comprehensive Income in the current and comparative reporting periods. Comparative period information has been re-presented to reflect the classification of the Chilean Soprole business as a discontinued operation. Refer to Note 2 *Divestments* and Note 20 *Re-presentations* for further information.
- As the Chilean Soprole business was classified as a disposal group held for sale and sold during the current reporting period, associated amounts are not presented in the Assets held for sale and Liabilities held for sale line items in the Statement of Financial Position, and no amounts have been re-presented.

c) Basis of consolidation

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

Translation of the Financial Statements into NZD

The assets and liabilities of Group companies whose functional currency is not NZD are translated into NZD at the year-end exchange rate. The revenue and expenses of these companies are translated into NZD at rates approximating those at the dates of the transactions. Exchange differences arising on this translation that are attributable to equity holders of the Co-operative are recognised in the foreign currency translation reserve. On disposal or partial disposal of an entity, the related exchange differences that were recorded in equity are recognised in the Statement of Profit or Loss and Other Comprehensive Income as part of the gain or loss on disposal.

Basis of Preparation CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

d) Material accounting policies

Accounting policies which are considered material to an understanding of the Financial Statements are provided throughout the notes in green shading.

Changes in accounting policies

The Group has changed its accounting policy in relation to emissions units held for compliance purposes in the Statement of Financial Position, and now presents these as inventory (previously intangible assets) as this better reflects the nature and use of these units. This has not resulted in a change to the measurement of these assets. There has been no impact to the Statement of Profit or Loss and Other Comprehensive Income or the Statement of Cash Flows. Comparative information has been re-presented for consistency with the current period (31 July 2022: current intangible assets of $78 million and non-current intangible assets of $63 million have been reclassified to inventory).

The Group has also changed its accounting policy in relation to the classification of interest paid in the Statement of Cash Flows, and now presents interest paid as an operating activity rather than a financing activity. This change has been made on the basis that Net cash flows from operating activities, inclusive of interest paid to support operations, better reflects the underlying available operating cash flows of the business. This has not resulted in a change to the amount presented. There has been no impact to the Statement of Financial Position or the Statement of Profit or Loss and Other Comprehensive Income. Comparative information has been re-presented for consistency with the current period (31 July 2022: $297 million presented as a cash flow from financing activities).

New and amended New Zealand Equivalents to International Financial Reporting Standards

No new or amended standards and interpretations that became effective for the year ended 31 July 2023 have had a material impact to the Group.

Accounting standards issued but not yet effective

NZ IFRS 17 *Insurance Contracts* (effective 1 August 2023) replaces the current guidance NZ IFRS 4 *Insurance Contracts*. The new standard provides a comprehensive accounting model, which applies to all types of insurance contracts regardless of the type of entity that issues them. The Group has assessed the effect of applying NZ IFRS 17 and no material impact to the Group's Financial Statements is expected.

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

e) Significant judgements and estimates

In the preparation of these Financial Statements, a number of judgements and estimates have been made. Accordingly, actual outcomes may differ to these estimates.

Information about judgements, estimates and assumptions which are considered material to an understanding of the Financial Statements are provided in the following notes in grey shading.

NOTE		ITEM INVOLVING SIGNIFICANT JUDGEMENT OR ESTIMATION
Note 1	*Segment reporting and revenue*	Revenue recognition for transactions involving distributors
Note 2	*Divestments*	Determining if a disposal group is held for sale, and fair value measurement of assets and liabilities held for sale
Notes 3 and 13	*Impairments* and *Intangible assets*	Assumptions used in the impairment tests
Note 12	*Property, plant and equipment*	Determining residual values and useful lives

Basis of Preparation CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

f) Climate risk

At a glance

This section provides information on climate-related risks, and how the impact has been considered in these Financial Statements.

Climate change, Fonterra's response, and how farmer shareholders, customers, regulators and others also respond may have significant impacts on the recognised amounts of assets and liabilities.

The Group has committed to exiting coal by 2037, and in July 2023 the Group announced its target of reducing global absolute Scope 1 and 2 greenhouse gas emissions by 50% by 2030 (from a 2018 base year).

While the effects of climate change are a continuing source of uncertainty, climate-related risks have been assessed as not having a material impact on the Financial Statements for the year ended 31 July 2023.

Judgements and estimates

The Group has specifically considered the following areas of uncertainty:

Estimated useful lives of property, plant and equipment

The Group revisits the appropriateness of useful life estimates annually and as described in Note 12 *Property, plant and equipment*.

The Group's property, plant and equipment useful lives have recently been shortened to a maximum of 35 years (which did not result in a material depreciation adjustment). In addition, the useful lives of vehicles are aligned to the staged fleet electrification, and assets that will no longer be used following decarbonisation are expected to be fully depreciated by 2037.

Recoverable amounts of assets - impairment assumptions

The Group performs impairment reviews as described in Note 3 *Impairments*, and although there have been impairments recognised in the current year, these are not explicitly related to climate change and are attributed to the estimates and assumptions for each cash generating unit as described in Note 3 *Impairments*.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2023

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

Performance

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

1 Segment reporting and revenue

At a glance

This note provides information on the Group's organisational structure and segment performance, from continuing operations, together with information on the Group's external revenue. The Group's reportable segments are Global Markets, Greater China, and Core Operations.

Segment information provided in this note reflects the Group's performance from continuing operations only. The Chilean Soprole business, China Farms and Brazil consumer and foodservice businesses are considered discontinued operations and have been excluded from the disclosures in this note. Please see Note 2 *Divestments* for further information about the Group's discontinued operations.

a) Reportable segments

Operating segments reflect the way financial information is regularly reviewed by the Fonterra Management Team (FMT). The FMT is considered to be the Chief Operating Decision Maker (CODM). The FMT consists of the Group's Chief Executive Officer (CEO), Chief Financial Officer, Chief Operating Officer, the CEO Global Markets, the CEO Greater China, the Chief Innovation and Brand Officer, the Managing Director Strategy and Optimisation, the Managing Director People and Culture and the Managing Director Co-operative Affairs.

During the year the measure of profit or loss used by the FMT to evaluate the underlying performance of operating segments was earnings before interest and tax (EBIT), excluding corporate costs. In July 2023 this transitioned to Profit or loss after tax attributable to equity holders, inclusive of corporate costs, updating the way information is now presented to the FMT.

In June 2022 Fonterra announced changes to its organisational structure to better align with the long-term aspirations of the Co-operative, following its strategy refresh announced in September 2021. Two new FMT roles were created effective 1 August 2022, the Chief Innovation and Brand Officer and the Managing Director Strategy and Optimisation. In addition to this, effective from 1 October 2022 the Group's Asia Pacific and Africa, Middle East, Europe, North Asia and Americas (AMENA) business units were merged into a combined Global Markets business unit.

The Group's operating model and the way financial information is presented to the FMT has been updated to align to this new organisational structure. This is now based around the two customer-facing regional business units, Global Markets and Greater China, and Core Operations which comprises:

- Chief Operating Office (COO) which includes New Zealand milk collection and processing operations, supply chain, Group IT, Safety and Food Safety;
- Strategy and Optimisation (S&O), which includes optimising the New Zealand milk pool, product pricing support for the regions, managing Fonterra's dairy and non-dairy price risk and providing price risk management tools to both our customers and farmer shareholders; and
- Fonterra Farm Source™ retail stores.

During the year corporate costs were not included within the operating segment EBIT presented to the FMT. From July 2023, corporate costs, including Co-operative Affairs and other Group Functions, are included within Global Markets, Greater China and Core Operations, updating the way financial information is presented to the FMT. Following the organisational structure change, Innovation and Brand was also reported to the FMT within the operating segments.

The operating model forms the basis for the Group's operating segments.

The Group has identified its reportable segments based on a number of factors, including how the CODM makes decisions about resource allocations and assesses performance. The Group has determined that its reportable segments are Global Markets, Greater China and Core Operations. Comparative information within this note has been restated to reflect the change in the Group's reportable segments.

REPORTABLE SEGMENTS	DESCRIPTION
Global Markets	Represents the global Ingredients, Foodservice and Consumer channels outside of Greater China.
Greater China	Represents the Ingredients, Foodservice and Consumer channels in Greater China.
Group Operations	Represents COO, S&O and Fonterra Farm Source™ retail stores.

The performance of large multinational customers are reported within the reportable segment that they are managed by. This can differ from the geographical region of the destination of goods sold.

The performance of the Group's reporting segments includes transactions between the regional business units and Core Operations for the purchase and sale of goods, which are eliminated at the total Group level. Transactions between Core Operations and the other reportable segments are based on transfer pricing that is indexed where possible to observable market pricing (such as Global Dairy Trade prices). For products with specifications that vary from those with observable market pricing, incremental manufacturing and services costs are included in the transfer price.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023

($ MILLION)

1 Segment reporting and revenue CONTINUED

a) Reportable segments CONTINUED

	GLOBAL MARKETS		GREATER CHINA		CORE OPERATIONS		ELIMINATIONS		TOTAL	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
CONTINUING OPERATIONS		RESTATED		RESTATED		RESTATED		RESTATED		RESTATED
Revenue from sale of goods	**18,401**	15,374	**7,072**	6,869	**19,142**	16,987	**(20,035)**	(17,329)	**24,580**	21,901
Cost of goods sold	**(16,565)**	(13,832)	**(6,356)**	(6,238)	**(17,513)**	(16,251)	**20,035**	17,329	**(20,399)**	(18,992)
Gross profit	**1,836**	1,542	**716**	631	**1,629**	736	**–**	–	**4,181**	2,909
Operating expenses	**(1,310)**	(1,081)	**(346)**	(293)	**(840)**	(691)	**–**	–	**(2,496)**	(2,065)
Other[1]	**53**	(15)	**–**	7	**17**	110	**–**	–	**70**	102
EBIT	**579**	446	**370**	345	**806**	155	**–**	–	**1,755**	946
Profit after tax	**385**	308	**284**	273	**572**	40	**–**	–	**1,241**	621
Profit after tax attributable to equity holders of the Co-operative	**369**	297	**262**	250	**571**	39	**–**	–	**1,202**	586
Other segment information:										
– Inter-segment revenue	**299**	246	**43**	2	**19,693**	17,081	**(20,035)**	(17,329)	**–**	–
– External revenue[2]:										
Ingredients channel revenue	**13,291**	10,940	**4,440**	4,648	**(315)**	(53)	**–**	–	**17,416**	15,535
Foodservice channel revenue	**1,792**	1,515	**2,212**	1,850	**(139)**	(63)	**–**	–	**3,865**	3,302
Consumer channel revenue	**3,019**	2,673	**377**	369	**(97)**	22	**–**	–	**3,299**	3,064
Total external revenue	**18,102**	15,128	**7,029**	6,867	**(551)**	(94)	**–**	–	**24,580**	21,901
– Depreciation and amortisation	**(156)**	(143)	**(13)**	(15)	**(485)**	(444)	**–**	–	**(654)**	(602)
– Share of profit of equity accounted investees	**7**	8	**–**	–	**10**	2	**–**	–	**17**	10

1 Comprises other operating income, net foreign exchange gains/(losses) and share of profit of equity accounted investees.

2 External revenue is determined in accordance with the accounting policy, estimates and judgements set out below. Core Operations includes external revenue together with adjustments to reflect that it acts as an agent for other segments, and the volatility associated with the Group's sales hedging activities.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

1 Segment reporting and revenue CONTINUED

b) Revenue

The Group recognises revenue from the sale of products when control of the products transfers to the customer. The transfer of control of products typically occurs at the following times:

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

The amount of revenue recognised reflects the consideration that the Group expects to be entitled to for providing the products to the customer. Revenue is measured as the sales price specified in the contract adjusted for pricing adjustments, trade spend and rebates. Pricing adjustments, trade spend and rebates are recognised as deductions from revenue at the time that the related sale is recognised. The estimated amount of the deduction from revenue is based on historical experience and the specific terms of the contracts with customers so that it is highly probable that a significant reversal of revenue recognised will not occur.

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

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

The Group sells products either directly to customers or through distributors. For transactions involving distributors, judgement is required to assess whether:

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

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

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

Sales to distributors where significant judgement is involved in determining the timing of revenue recognition are primarily in the Foodservice channel.

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

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

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

1 Segment reporting and revenue CONTINUED

b) Revenue CONTINUED

In addition to the segment and channel revenue set out above, revenue is also presented by geography on the basis of the destination of the goods sold. Geographical groupings in the following table are not aligned with the Group's reportable segments.

GEOGRAPHICAL EXTERNAL REVENUE	ASIA (EXCLUDING CHINA)	CHINA	NEW ZEALAND	AMERICAS	AUSTRALIA	REST OF WORLD	TOTAL
Year ended 31 July 2023	**9,012**	**6,192**	**2,518**	**2,495**	**2,239**	**2,124**	**24,580**
Year ended 31 July 2022	8,016	6,244	2,140	1,998	1,726	1,777	21,901

c) Geographical analysis of non-current assets

Geographical groupings in the following table are not aligned with the Group's reportable segments.

GEOGRAPHICAL NON-CURRENT ASSETS	ASIA (EXCLUDING CHINA)	CHINA	NEW ZEALAND	AMERICAS	AUSTRALIA	REST OF WORLD	TOTAL
As at 31 July 2023	**751**	**23**	**6,519**	**81**	**962**	**209**	**8,545**
As at 31 July 2022	799	20	6,542	378	1,026	239	9,004

RECONCILIATION OF GEOGRAPHICAL NON-CURRENT ASSETS TO TOTAL NON-CURRENT ASSETS	2023	2022
Geographical non-current assets	**8,545**	9,004
Deferred tax assets	**182**	551
Derivative financial instruments	**379**	434
Total non-current assets	**9,106**	9,989

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

2 Divestments

At a glance

This note provides information on components of the Group that have been divested or are held for sale, and discontinued operations.

At 31 July 2023, the Brazil consumer and foodservice business continued to meet the definition of held for sale and a discontinued operation.

The Group completed the sale of the Chilean Soprole business and the Hangu China farm during the year ended 31 July 2023.

a) Divestments

An asset, investment or group of assets and liabilities (e.g. a business) are derecognised when the Group loses control in a sale transaction. A gain or loss on sale is recognised as the difference between the total sales proceeds and the carrying amount of the assets and liabilities at the date of sale, less transaction and other disposal costs.

Foreign currency translation reserves (and cash flow hedge reserves) recorded in equity and reclassified to the Statement of Profit or Loss and Other Comprehensive Income at sale also form part of the gain or loss on sale.

Sale of the Chilean Soprole business

In November 2022, the Group announced the sale of its Chilean Soprole business. The Chilean Soprole business is considered a discontinued operation and its performance has not been included in a reportable segment.

The divestment was completed in March 2023, and is comprised of two transactions. The Group sold its equity interest in the Chilean Soprole business, and sales proceeds amounted to CLP197 billion ($392 million) after adjustments for net debt and working capital. The purchaser assumed a debenture liability of $684 million as part of the equity sale, and this was subsequently repaid.

In relation to the sale of Group's equity interest, a gain of $260 million has been recognised in profit after tax from discontinued operations in the Statement of Profit or Loss and Other Comprehensive Income, comprised of the following:

	2023
Sales proceeds received in cash	392
Add: Net liabilities disposed of (including the debenture liability)	274
Add: Non-controlling interests	1
Less: Hedging losses and costs[1]	(152)
Less: Transaction costs	(13)
Less: Reclassification of other foreign currency translation reserve	(153)
Gain before tax	**349**
Tax expense	(89)
Gain after tax	**260**

1 Includes economic hedging, together with the reclassification of foreign currency translation reserves in respect of net investment hedges ($33 million), and cash flow hedges ($22 million).

A breakdown of net liabilities disposed of is presented in the following table.

	2023
Cash and cash equivalents	10
Trade receivables	174
Inventory	245
Property, plant and equipment	174
Intangible assets	128
Other assets	136
Borrowings (including the debenture liability)	(714)
Trade and other payables	(382)
Other liabilities	(45)
Net liabilities disposed	**(274)**

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

2 Divestments CONTINUED

b) Disposal groups held for sale

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

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

Once classified as held for sale, assets are no longer depreciated or amortised and equity accounted investments are no longer equity accounted.

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

Judgement is involved in determining whether a disposal group is held for sale at balance date.

Uncertainty is involved in estimating fair value less costs to sell. The fair value less costs to sell for assets and liabilities held for sale has been estimated based on information received through the sales process, including agreed purchase price(s) where an agreement has been reached.

The major classes of assets and liabilities held for sale are presented in the following table.

ASSETS AND LIABILITIES HELD FOR SALE	2023	2022
Cash and cash equivalents	**30**	24
Trade receivables	**70**	58
Inventory	**37**	32
Property, plant and equipment	**90**	79
Intangible assets	**124**	111
Other assets	**164**	169
Total assets held for sale	**515**	473
Borrowings	**199**	333
Trade and other payables	**239**	209
Other liabilities	**98**	86
Total liabilities held for sale	**536**	628
Net liabilities held for sale	**(21)**	(155)

Brazil consumer and foodservice business

As at 31 July 2023 the Brazil consumer and foodservice business continued to meet the requirements to be classified as held for sale (31 July 2022: held for sale).

During the year the equity holders each contributed their proportionate share of $169 million to repay borrowings of the business, which reduced the net liabilities held for sale.

The Group reassessed the fair value less costs to sell at 31 July 2023, and no adjustment has been recognised (31 July 2022: a write-down of $57 million ($50 million after tax)).

On 13 December 2022 the Group announced the sale of the Brazil consumer and foodservice business, subject to a number of conditions including receipt of regulatory approvals from competition authorities. The Brazilian competition regulator released its first report on the proposed sale late July 2023. The parties are engaging with authorities to understand and to address the competition concerns raised in relation to limited parts of the business, and expects the sale to be completed within one year of balance date.

The foreign currency translation reserve at 31 July 2023 attributable to the Brazil consumer and foodservice business was a debit balance of $68 million (31 July 2022: debit balance of $67 million).

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

2 Divestments CONTINUED

c) Discontinued operations

A disposal group that meets the criteria 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.

Profit/(loss) after tax from discontinued operations is presented in a single line item in the Statement of Profit or Loss and Other Comprehensive Income for both the current and comparative year.

The summarised financial performance of the Hangu China farm, Brazil consumer and foodservice business, and Chilean Soprole business recognised in profit after tax from discontinued operations, total comprehensive income/(expense) from discontinued operations, and net cash generated by the discontinued operations, is presented in the following table.

DISCONTINUED OPERATIONS	2023	2022
Revenue	1,466	1,524
Cost of goods sold	(1,048)	(1,093)
Gross profit	418	431
Other operating income	349	–
Operating expenses	(304)	(401)
Net finance costs	(50)	(37)
Profit/(loss) before tax from discontinued operations	413	(7)
Tax expense	(77)	(31)
Profit/(loss) after tax from discontinued operations	336	(38)
Share of (profit)/loss attributable to non-controlling interests	(1)	36
Profit/(loss) after tax attributable to equity holders of the Co-operative	335	(2)
Movement in exchange differences on translation of discontinued operations	17	(55)
Foreign currency translation reserve losses/(gains) transferred to the Statement of Profit or Loss and Other Comprehensive Income	188	(1)
Other reserve movements	(4)	9
Total comprehensive income/(expense) from discontinued operations	537	(85)

DISCONTINUED OPERATIONS	2023	2022
Net cash inflow/(outflow) from operating activities	63	(12)
Net cash inflow/(outflow) from investing activities	769	(24)
Net cash (outflow)/inflow from financing activities	(82)	24
Net increase/(decrease) in cash generated by the discontinued operations	750	(12)

At 31 July 2023, the Brazil consumer and foodservice business continues to meet the definition of a discontinued operation.

During the year ended 31 July 2023, the financial performance of the Hangu China farm business and Chilean Soprole business was recognised in profit after tax from discontinued operations up until the date of their respective sales.

Within Cash flows from investing activities presented in the Statement of Cash Flows, Proceeds relating to divestments includes the following.

	2023	2022
Chilean Soprole business		
Sale of equity interest	392	–
Debenture repayment	684	–
Proceeds received	1,076	–
Less: Cash and cash equivalents disposed of	(10)	–
Total Chilean Soprole business proceeds relating to divestments[1]	1,066	–
Other divestments	18	26
Total proceeds relating to divestments	1,084	26

1 When including dividends of $198 million received during the year (prior to settlement), aggregate proceeds were $1,264 million (before tax).

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

3 Impairments

At a glance

This note provides information on the Group's assessment of impairment for continuing operations. An impairment is recognised when the carrying amount of an asset or cash-generating unit (CGU) is greater than its recoverable value.

Impairment testing

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

Uncertainty is involved in estimating value in use and fair value less costs of disposal.

Value in use is determined as the present value of the future cash flows expected to be derived from the CGU. Judgement is involved in estimating future cash flows, discount rates and terminal growth rates. Cash flows are based on approved forecasts which are consistent with the Board approved strategy. Cash flows do not exceed five years, and discount rates are based on external data where possible.

Where the Group has applied the relief from royalty method for valuing its brands, judgement is involved in estimating royalty rates.

Fair value less costs of disposal reflects the price that would be received to sell the CGU in an orderly transaction between market participants at the measurement date, less the costs of disposal. Fair value has been determined using a market approach, with judgement involved in the estimate of future maintainable earnings and the earnings multiple applied.

Impairments from continuing operations recognised in the Statement of Profit or Loss and Other Comprehensive Income are presented in the following table.

	2023	2022
New Zealand consumer and foodservice business goodwill impairment	**121**	–
Asia brands impairment	**101**	34
Other impairments	**26**	18
Total	**248**	52

The Group has performed impairment tests for CGUs with goodwill or intangible assets with indefinite useful lives. Annual impairment tests are performed at 31 March, with CGUs and assets assessed for indicators of impairment at 31 July. Apart from the Group's market capitalisation (refer to Note 5 *Subscribed equity instruments* for further information), no indicators of impairment were identified at the reporting date.

Impairment of $222 million for goodwill and brands has been recognised within operating expenses in the Statement of Profit or Loss and Other Comprehensive Income (31 July 2022: $34 million). Goodwill and intangible assets are set out in Note 13 *Intangible assets*.

The allocation of goodwill and brands is presented in the following table. All brands presented have indefinite lives.

	2023			2022		
	BRANDS	GOODWILL	TOTAL	BRANDS	GOODWILL	TOTAL
New Zealand consumer and foodservice CGU	**282**	**108**	**390**	282	229	511
Australia CGU	**148**	**135**	**283**	148	140	288
Asia brands	**611**	**–**	**611**	678	–	678
NZMP brand	**120**	**–**	**120**	120	–	120
Chile CGU	**–**	**–**	**–**	20	90	110
Other CGUs	**–**	**73**	**73**	–	74	74
Total	**1,161**	**316**	**1,477**	1,248	533	1,781

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

3 Impairments CONTINUED

a) Impaired CGUs and indefinite life brands

Further information for those CGUs with goodwill or indefinite life brands where an impairment has been recognised is provided below.

New Zealand consumer and foodservice CGU

This CGU represents a business which sells dairy products in the consumer and foodservice channels in New Zealand and selected export markets.

At 31 July 2022, the recoverable amount of the business was determined on a value in use basis using a discounted cash flow methodology, with the recoverable amount exceeding its carrying amount by $66 million. As presented in the Group's Financial Statements for the year ended 31 July 2022, it was determined a reasonably possible change in certain key assumptions (including volume and margin growth) used to determine the value in use would result in an impairment.

The business has experienced challenging market conditions, including higher input costs and inflationary pressures. The New Zealand domestic dairy market is highly competitive, and this has impacted the sales team's ability to fully recover the higher input costs through product price increases. During the year margin and volume were lower than forecast and costs higher than forecast, which combined with an increase in the discount rate resulted in the value in use being below the carrying value of the business.

The fair value less costs of disposal of the business was determined under a market approach. The valuation uses a sustainable earnings before interest, tax, depreciation and amortisation (EBITDA) based on expected future maintainable earnings, and an appropriate earnings multiple based on benchmarking against peers, performed by an external expert. This valuation uses unobservable inputs, which would be categorised under Level 3 of the fair value hierarchy.

The fair value less costs of disposal is higher than the value in use at 31 July 2023 and has been used to determine the recoverable amount of the business.

The recoverable amount of the business was assessed to be $645 million. This was lower than the carrying value of the business, resulting in an impairment of goodwill of $121 million (31 July 2022: nil) recognised in the Group's Global Markets reportable segment.

Following the impairment of goodwill the carrying value of the CGU has been reduced to its recoverable amount. As such, if a change in market conditions adversely impacts the earnings multiple applied, a deterioration in sustainable EBITDA occurs, or the value of the CGUs net assets significantly increases, a further impairment may be possible.

Asia brands

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

The relief from royalty method is used to calculate the recoverable amounts of the brands. The relief from royalty methodology is a value in use calculation which determines the recoverable amount by calculating the present value of what a licensee would theoretically pay as a royalty to use the brands.

The key assumption used in the relief from royalty method is forecast sales growth. The value attributed to the assumption is based on five-year revenue forecasts using the three-year business plans approved by the Board. Revenues for years four and five have been prepared based on growth expectations for the brand. A range of other possible scenarios were also considered, and a probability weighting applied to determine the recoverable amount.

The royalty rates applied in the calculation are determined based on comparable market data, and range from 3% to 7% (31 July 2022: 3% to 7%).

The carrying amount for the Anchor™, Anlene™ and Anmum™ brands and revenue forecasts for each region are in local currency and converted to NZD. The carrying amount for the Chesdale™ brand is in NZD and revenue forecasts for each region are in local currency and converted to NZD.

The total impairment recognised across the Asia brands is $101 million (31 July 2022: $34 million). Of this impairment, $55 million is attributed to the Global Markets reportable segment and $46 million to the Greater China reportable segment (31 July 2022: $33 million Global Markets, $1 million Greater China). Refer below for further information specific to each brand.

Anchor™ brand

No impairment has been recognised for the Anchor™ brand, and no reasonably possible change in key assumptions would cause the carrying amount of the brand to exceed its recoverable amount.

As the brand is sold across a number of markets, all with different characteristics, the range of post-tax discount rates applied was 9.2% to 32.3% (31 July 2022: 7.7% to 26.3%). The range of pre-tax discount rates was 10.7% to 45.7% (31 July 2022: 9.6% to 33.7%).

The long-term growth rates applied range from 1.5% to 5.1% (31 July 2022: 1.6% to 7.4%).

Anlene™ brand

The recoverable amount of the Anlene™ brand was assessed to be $158 million. This was lower than the carrying value of the brand, resulting in an impairment of $45 million (31 July 2022: $22 million).

The impairment recognised is primarily due to a reduction in forecast sales growth, with the current inflationary environment and challenging market conditions impacting the outlook for the brand. Increases in discount rates and changes in foreign exchange rates have also contributed to the impairment recognised.

As the brand is sold across a number of markets, all with different characteristics, the range of post-tax discount rates applied was 9.2% to 32.3% (31 July 2022: 9.2% to 31.5%). The range of pre-tax discount rates was 10.7% to 45.7% (31 July 2022: 11.1% to 41.4%).

The long-term growth rates applied range from 1.5% to 5.1% (31 July 2022: 1.6% to 7.4%).

Following this impairment, the carrying value of the brand has been reduced to the recoverable value. An adverse change in a key assumption could result in a further reduction in the recoverable amount, in which case a further impairment may be possible.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

3 Impairments CONTINUED

a) Impaired CGUs and indefinite life brands CONTINUED

Anmum™ brand

The recoverable amount of the Anmum™ brand was assessed to be $67 million. This was lower than the carrying value of the brand, resulting in an impairment of $51 million (31 July 2022: $11 million).

The impairment recognised is primarily due to a reduction in forecast sales growth, with the current inflationary environment and challenging market conditions impacting the outlook for the brand. Increases in discount rates and changes in foreign exchange rates have also contributed to the impairment recognised.

As the brand is sold across a number of markets, all with different characteristics, the range of post-tax discount rates applied was 9.2% to 16.4% (31 July 2022: 9.2% to 15.8%). The range of pre-tax discount rates was 10.7% to 19.8% (31 July 2022: 11.1% to 19.8%).

The long-term growth rates applied range from 1.5% to 3.7% (31 July 2022: 1.6% to 3.8%).

Following this impairment, the carrying value of the brand has been reduced to the recoverable value. An adverse change in a key assumption could result in a further reduction in the recoverable amount, in which case a further impairment may be possible.

Chesdale™ brand

The recoverable amount of the Chesdale™ brand was assessed to be $22 million. This was lower than the carrying value of the brand, resulting in an impairment of $5 million (31 July 2022: $1 million).

The impairment recognised is primarily due to a reduction in forecast sales growth for the brand, with increases in discount rates and changes in foreign exchange rates also contributing to the impairment recognised.

As the brand is sold across a number of markets, all with different characteristics, the range of post-tax discount rates applied was 9.2% to 32.3% (31 July 2022: 8.8% to 31.5%). The range of pre-tax discount rates was 10.7% to 45.7% (31 July 2022: 11.1% to 41.4%).

The long-term growth rates applied range from 1.5% to 3.8% (31 July 2022: 1.6% to 3.8%).

Following this impairment, the carrying value of the brand has been reduced to the recoverable value. An adverse change in a key assumption could result in a further reduction in the recoverable amount, in which case a further impairment may be possible.

b) CGUs with significant goodwill and indefinite life brands not impaired

Further information for those CGUs with significant goodwill or indefinite life brands that have not been impaired during the year is provided below.

Australia CGU

The recoverable amount of the business was determined on a value in use basis using a discounted cash flow methodology.

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

A key driver for the business to achieve its performance targets is growth in forecast milk supply (inclusive of solids sourced from New Zealand, if required), a key assumption included in the impairment model, which is expected to support sales volume growth. In determining this key assumption, the Group has leveraged from past experience, adjusted where appropriate for future expectations around forecast milk supply.

The long-term growth rate applied to the future cash flows after year five of the forecast was 2.5% (31 July 2022: 2.5%). This reflects the expected long-term economic growth rate for Australia.

The post-tax discount rate was 7.0% (31 July 2022: 7.0%). The pre-tax discount rate was 9.3% (31 July 2022: 9.3%).

The recoverable amount of the business exceeded its carrying amount by $197 million. The Group has identified that a reasonably possible change in several key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these assumptions would need to change individually for the carrying amount to exceed estimated recoverable amount.

KEY ASSUMPTIONS	VALUE ATTRIBUTED	CHANGE REQUIRED FOR THE CARRYING AMOUNT TO EXCEED THE RECOVERABLE AMOUNT
Growth in milk supply	4.0% per annum	A decrease in growth of 2.8%
Discount rate (post-tax)	7.0%	An increase in the discount rate of 0.6%
Long-term growth rate	2.5%	A decrease in the long-term growth rate of 0.7%

While not considered an indicator of impairment, the post-tax discount rate has increased to 7.2% (pre-tax discount rate 9.5%) at 31 July 2023, which would reduce the recoverable amount.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

4 Profit before tax from continuing operations

At a glance

This note provides information on expenses and cost of goods sold by function that have been included in profit before tax from continuing operations, together with additional information on expenses by nature.

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

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

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

Other collection and manufacturing costs include changes in inventory levels together with purchases of other products, raw materials, packaging, direct labour costs, depreciation and other costs directly incurred to bring inventory to its final point of sale location.

a) Expenses by function

	2023	2022
Cost of goods sold	**20,399**	18,992
Administrative expenses	**928**	784
Selling and marketing expenses	**542**	532
Distribution expenses	**433**	404
Other operating expenses	**601**	394
Operating expenses	**2,504**	2,114

b) Expenses by nature

COST OF GOODS SOLD	2023	2022
Cost of milk:		
– New Zealand sourced	**12,306**	13,722
– Non-New Zealand sourced	**1,109**	843
Other ingredient purchases and manufacturing costs	**2,813**	2,760
Employee benefits expense	**1,267**	1,174
Energy costs	**632**	569
Packaging	**519**	459
Storage and distribution	**477**	321
Depreciation and amortisation	**474**	429
Total other collection and manufacturing costs	**6,182**	5,712
Decrease/(increase) in inventories	**802**	(1,285)
Total cost of goods sold	**20,399**	18,992

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

4 Profit before tax from continuing operations CONTINUED

b) Expenses by nature CONTINUED

OPERATING EXPENSES	2023	2022
Employee benefits expense	**963**	860
Storage and distribution	**263**	241
Advertising and promotion	**219**	227
Information technology	**205**	191
Professional and management fees	**167**	149
Depreciation and amortisation	**180**	173
Impairments	**248**	44
Other	**259**	229
Total operating expenses	**2,504**	2,114

The table below presents further information on expenses recognised in the Statement of Profit or Loss and Other Comprehensive Income within both Cost of goods sold and Operating expenses from continuing operations.

	2023	2022
Total employee benefits expense	**2,230**	2,034
Total depreciation and amortisation expense	**654**	602
Total research and development costs	**116**	96

c) Fees paid to the auditor and network firms

KPMG has been appointed the Group's external auditor for four consecutive years. The lead audit partner has served for four consecutive years. The Board has overseen compliance with the Group's Audit Independence Policy. KPMG has not provided any services during the year other than audit, review and audit-related services.

A breakdown of fees paid to the auditor and network firms which are included in the Statement of Profit or Loss and Other Comprehensive Income is presented in the following table. Fees are inclusive of any disbursements.

	$ THOUSANDS	
	2023	2022
Audit and review of the Financial Statements of the Group and its subsidiaries:		
– New Zealand	**6,627**	6,017
– Network firms of the auditor	**2,000**	1,700
Total fees for the audit and review of the Financial Statements	**8,627**	7,717
Audit and review related services:		
Assurance engagements		
– Farmgate Milk Price statement	**89**	80
– Shareholder continuity report	**13**	13
Agreed upon procedures engagements		
– AGM vote scrutineering	**4**	4
– Compliance with banking arrangements	**12**	11
– Annual update of debt issuance prospectus	**68**	67
– Government grant compliance	**–**	16
– Distribution of Dairy Industry Support Funds	**–**	12
Total fees for audit and review related services	**186**	203
Total fees paid to auditor	**8,813**	7,920

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

Debt and Equity

This section outlines the Group's capital structure and the related financing costs. It also provides information on how the funds that finance current and future activities are raised and how the Group manages capital.

5 Subscribed equity instruments

At a glance

This note provides information on the Group's capital structure, including shares of the Co-operative and Units of the Fonterra Shareholders' Fund.

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

Fonterra transitioned to a new Flexible Shareholding capital structure (Flexible Shareholding) on 28 March 2023. Farmer share compliance obligations (which were on hold during the pre-implementation phase of Flexible Shareholding) are no longer on hold and farmer shareholders are required to hold their "minimum holding" and no more than their "maximum holding" of shares in accordance with Fonterra's Constitution for the 2023/2024 season by the Compliance Date of 1 December 2023. The current cap on the Fund remains, so Co-operative shares are not able to be exchanged into units in the Fund on a day-to-day basis. A capped Fund is a feature of Flexible Shareholding.

Information about the Group's capital structure is available in the 'Investors/Capital Structure' section of Fonterra's website.

On 26 July 2023, shareholders voted to pass the resolution to approve the scheme of arrangement for the Co-operative's return of approximately $800m of capital to shareholders (the Scheme). Final Court orders sanctioning the Scheme were made on 9 August 2023 and the Scheme was implemented on 17 August 2023, with payment to Shareholders being made on 18 August 2023. Shares held by Fonterra Farmer Custodian Limited (as Custodian of the Fund) were also subject to the Scheme. The payment due to the Custodian was paid directly to unit holders on the same date.

At 31 July 2023, the approved capital return was recognised as a reduction in subscribed equity and a liability, $750 million relating to Co-operative shareholders and $54 million relating to unit holders. Under the Scheme Fonterra repurchased and cancelled one in every six shares held by each shareholder and, at the same time, one share held by each shareholder which was not repurchased was subdivided into such number of ordinary shares as were repurchased from that shareholder, plus one. As a result, each shareholder continued to hold the same total number of shares as they held before the capital return.

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

Co-operative shares can be traded between eligible shareholders on the Fonterra Shareholders' Market (a private market operated by NZX Limited). Following the transition to Flexible Shareholding Co-operative shares may only be held by:

- a shareholder supplying milk to Fonterra (farmer shareholder);
- former farmer shareholders and/or their "permitted transferee(s)" (being a relative of, or someone with a sufficient ownership or control relationship with, a former farmer shareholder) who must dispose of their shares within a specified period after cessation of supply. This "exit period" is determined by when the former farmer shareholder became a farmer shareholder;
- sharemilkers, contract milkers and lessors who are associated with a farm that supplies milk to Fonterra; and
- Fonterra Farmer Custodian Limited (the Custodian).

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

A reconciliation of movements in shares of the Co-operative is presented in the following table.

	SHARES		$ MILLION	
	2023	2022	**2023**	2022
Co-operative shares on issue at beginning of period	**1,612,825,585**	1,613,357,879	**5,891**	5,892
Shares acquired (and cancelled) under buyback programmes	**(3,580,916)**	(532,294)	**(9)**	(1)
Capital return payable	**–**	–	**(804)**	–
Co-operative shares on issue at end of period	**1,609,244,669**	1,612,825,585	**5,078**	5,891
Treasury shares[1]	**(2,000,000)**	–	**(5)**	–
Co-operative shares on issue, excluding treasury shares	**1,607,244,669**	1,612,825,585	**5,073**	5,891

1 The treasury shares relate to shares acquired by the Market Makers with the legal title held by Fonterra Farmer Custodian Limited, but which are treated as treasury shares for accounting purposes.

On 27 July 2023, Fonterra announced that it would allocate up to $50 million to an on-market share buyback programme, as part of Fonterra's ongoing capital management programme. This programme commenced on 18 August 2023 and is expected to continue until 13 August 2024.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

5 Subscribed equity instruments CONTINUED

b) Units in the Fonterra Shareholders' Fund (the 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. Units in the Fund are traded on the New Zealand Stock Exchange (NZX) and Australian Securities Exchange (ASX).

The overall limit on the Fund size (as a percentage of total Co-operative shares) has reduced from 20% to 10%. The current cap on the Fund remains, so Co-operative shares are not able to be exchanged into units in the Fund on a day-to-day basis. The Fonterra share buyback programmes have not had a material impact on the Fund size as a percentage of the total number of Co-operative shares on issue.

The rights attaching to units are set out in the Fonterra Shareholders' Fund 2023 Annual Report, available in the 'Investors/Fonterra Shareholders' Fund' section of Fonterra's website.

A reconciliation of movements in units of the Fund is presented in the following table.

	UNITS	
	2023	2022
Units on issue at beginning of period	**107,417,322**	107,420,162
Units redeemed	**(6,338)**	(2,840)
Units on issue at end of period	**107,410,984**	107,417,322

c) Market capitalisation

The Group's market capitalisation has been below the carrying amount of net assets since Fonterra's capital review announcement in May 2021, and the gap has been increasing over time. At 31 July 2023, the Group's market capitalisation was $5.1 billion (31 July 2022: $4.4 billion) and the carrying amount of net assets was $8.0 billion (31 July 2022: $6.9 billion).

The share price is not considered an accurate reflection of the fair value of the Group's net assets for a number of reasons, including the nature of the Co-operative and its unique capital structure. For example, shares traded in a restricted market (i.e. Co-operative shares) are generally expected to trade at a discount compared to unrestricted markets, there is reduced liquidity in the market, supply and demand dynamics are impacted, and there is limited or no ability for investors to take a significant ownership interest or controlling interest.

However, accounting standards consider market capitalisation below the value of net assets to be an indicator of impairment and an impairment test has been performed. An external valuation was obtained to support the recoverable amount of the Group's net assets, using a multiples based approach on a fair value less costs of disposal basis. The valuation used key estimates including maintainable EBIT, earnings multiples of between 13.0x to 14.0x and seasonally adjusted net debt (includes the capital return payable). This implied an equity valuation of between $10.3 billion and $11.5 billion which exceeds the net assets of the Group. As such, no impairment has been recognised.

6 Dividends

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

Dividends are recognised as a liability in the Group's Financial Statements in the period in which they are declared by the Board. The Group's Dividend Policy can be found in the 'Investors/Results & Reporting/Dividends & Reinvestment Plan' section of Fonterra's website.

	2023	2022
2023 Interim dividend – 10 cents per share	**161**	–
2022 Final dividend – 15 cents per share	**242**	–
2022 Interim dividend – 5 cents per share	**–**	81
2021 Final dividend – 15 cents per share	**–**	242

Dividend declared after balance date

On 20 September 2023, the Board declared a final dividend of 40 cents per share, to be paid on 13 October 2023 to all holders of Co-operative shares on issue at 28 September 2023.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

7 Borrowings

At a glance

This note provides information on the Group's borrowings, including movements during the year.

Borrowings (excluding lease liabilities) are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method, with the hedged risks on certain debt instruments measured at fair value.

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

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

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

	2023	2022
Total current borrowings	**785**	356
Total non-current borrowings	**3,156**	4,900
Total borrowings[1]	**3,941**	5,256
Commercial paper	**–**	98
Bank loans	**50**	999
Lease liabilities	**392**	438
Capital notes[2]	**–**	35
NZX-listed bonds	**100**	250
Medium-term notes	**3,399**	3,436
Total borrowings[1,3]	**3,941**	5,256

1 Borrowings of $199 million attributable to disposal groups held for sale are not included in the table above (31 July 2022: $333 million).
2 Capital notes (redeemed on 10 July 2023) were unsecured subordinated borrowings.
3 All borrowings other than lease liabilities and capital notes are both unsecured and unsubordinated.

A breakdown of movements in total borrowings is presented in the following table.

	2023	2022
Opening balance	**5,256**	5,072
Proceeds	**2,493**	3,894
New lease liabilities	**81**	41
Repayments	**(3,828)**	(3,634)
Foreign exchange movements	**98**	168
Changes in fair values	**(132)**	(270)
Other	**(27)**	(15)
Closing balance	**3,941**	5,256

During the year ended 31 July 2023 total cash payments for leases (including lease liability repayments above, and also short-term and low value leases) were $130 million (31 July 2022: $145 million).

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

8 Net finance costs

Interest income and expense is recognised on an accrual basis in the Statement of Profit or Loss and Other Comprehensive Income, using the effective interest method.

Finance costs also include the changes in fair value relating to derivatives used to manage interest rate risk, and the associated changes in fair value of the borrowings designated in a hedge relationship attributable to the hedged risk. Information about the Group's hedge accounting policies are included in Note 22 *Hedge accounting*.

	2023	2022
Finance income	**23**	10
Interest expense[1]	**(256)**	(259)
Changes in fair value relating to:		
– Borrowings designated in a hedge relationship	**132**	270
– Derivatives designated in a hedge relationship	**(110)**	(225)
– Derivatives where hedge accounting has not been applied	**–**	10
Total interest income from fair value movements	**22**	55
Finance costs	**(234)**	(204)
Net finance costs	**(211)**	(194)

1 Includes interest expense of $13 million (31 July 2022: $13 million) relating to lease liabilities.

9 Capital management

At a glance

This note provides information on measures the Board uses to monitor the Group's capital.

The Group's objectives when managing capital are to maintain an appropriate balance between debt and equity to finance the Group's activities, assets and growth. The Group is not subject to substantive debt covenants or any other externally imposed capital requirements. The Board closely monitors the following non-GAAP measures: debt to EBITDA ratio, gearing ratio and return on capital.

a) Adjusted net debt, gearing and debt to EBITDA

Adjusted net debt, the gearing ratio and the debt to EBITDA ratio are monitored by the Board and Management and provide useful information aligned with how certain rating agencies calculate these ratios when considering and determining the Group's credit rating.

The Board approved Gearing Policy establishes a maximum adjusted net debt gearing ratio of 45%, with a long-term target range of 30% to 40%, and the Board approved Debt Policy establishes a maximum debt to EBITDA ratio of 3.75x, with a long-term target range of 2.5 to 3.0x.

The Adjusted net debt gearing ratio and Debt to EBITDA ratio are presented in the following tables.

	2023	2022
Total borrowings	**3,941**	5,256
Add: Bank overdraft	**102**	31
Less: Cash and cash equivalents	**(1,822)**	(288)
Add: Capital return payable	**804**	–
Add: Borrowings attributable to disposal groups held for sale	**199**	333
Less: Cash and cash equivalents attributable to disposal groups held for sale	**(30)**	(24)
Add: Cash adjustment of 25% for cash held by subsidiaries (including cash and cash equivalents attributable to disposal groups held for sale)	**50**	77
Less: Derivatives used to manage changes in hedged risks on debt instruments	**(37)**	(46)
Adjusted net debt	**3,207**	5,339
Equity excluding hedge reserves	**7,925**	7,252
Total capital	**11,132**	12,591
Adjusted net debt gearing ratio	**28.8%**	42.4%

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

9 Capital management CONTINUED

a) Adjusted net debt, gearing and debt to EBITDA CONTINUED

	2023	2022
Adjusted net debt	**3,207**	5,339
Profit after tax	**1,577**	583
Add: Net finance costs from continuing operations	**211**	194
Add: Net finance costs from discontinued operations	**50**	37
Add: Tax expense from continuing operations	**303**	131
Add: Tax expense from discontinued operations	**77**	31
Total Group EBIT	**2,218**	976
Add: Depreciation and amortisation from continuing operations	**654**	602
Add: Depreciation and amortisation from discontinued operations	**8**	33
Less: EBITDA relating to divestments	**(78)**	–
(Less)/add: Normalisation adjustments[1]	**(337)**	15
Less: Share of profit of equity accounted investees	**(17)**	(10)
Add: Net foreign exchange losses from continuing operations	**8**	49
Add: Net foreign exchange gains/losses from discontinued operations	**1**	11
Total Group normalised EBITDA excluding share of profit of equity accounted investees and net foreign exchange gains/losses	**2,457**	1,676
Debt to EBITDA ratio	**1.3x**	3.2x

1 Comprised of a gain on sale of the Chilean Soprole business of $349 million less Hangu China farm loss of $12 million (31 July 2022: Gain on sale of Global Dairy Trade of $42 million less Brazil consumer and foodservice business impairment of $57 million).

b) Average capital employed and return on capital

Return on capital is calculated as total Group normalised earnings before interest and tax (total Group normalised EBIT) including finance income on long-term advances less a notional tax charge, divided by average capital employed.

The return on capital ratio is reported regularly to key management personnel, and compared against budget and prior years return on capital.

	2023	2022
Adjusted net debt	**3,207**	5,339
Less: Cash adjustment	**(50)**	(77)
Add: Cash and cash equivalents held by subsidiaries for operational purposes	**185**	166
Add: Equity excluding hedge reserves	**7,925**	7,252
Less: Net deferred tax assets	**(146)**	(501)
Capital employed (at 31 July)	**11,121**	12,179
Impact of seasonal variation in capital employed	**1,653**	177
Average capital employed (13 month rolling average)	**12,774**	12,356
Total Group EBIT	**2,218**	976
(Less)/add: Normalisation adjustments[1]	**(337)**	15
Total Group normalised EBIT	**1,881**	991
Add: Finance income on long-term advances	**11**	7
Less: Notional tax charge	**(305)**	(161)
Total Group normalised EBIT including finance income on long-term advances less notional tax charge	**1,587**	837
Return on capital	**12.4%**	6.8%

1 Comprised of a gain on sale of the Chilean Soprole business of $349 million less Hangu China farm loss of $12 million (31 July 2022: Gain on sale of Global Dairy Trade of $42 million less Brazil consumer and foodservice business impairment of $57 million).

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

Assets and Liabilities

This section provides information about certain elements of the Group's assets and liabilities. This includes:

– Short-term operating assets and liabilities generated by the Group. Movements in these items have a direct impact on the net cash flows generated from operating activities.
– Long-term assets to operate the business and generate returns to equity holders. These assets include physical assets such as land and buildings, and non-physical assets such as right-of-use assets, brands and goodwill.

10 Inventories

Raw materials and finished goods

Raw materials and finished goods are measured at the lower of cost or net realisable value on a first-in-first-out basis.

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

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

Emissions units

Emissions units are held primarily for compliance purposes, which are measured at the lower of cost or net realisable value on a weighted average cost basis. The Group's obligation to surrender emissions units is included in other current liabilities. Emissions units are derecognised as they are surrendered to settle the Group's emissions obligation.

	2023	2022
Raw materials	**692**	802
Finished goods	**3,596**	4,261
Less: Provision for impairment of raw materials and finished goods	**(117)**	(95)
Emissions units	**175**	180
Total inventories	**4,346**	5,148

11 Trade and other payables

Trade and other payables are recognised at the amount invoiced by the vendor and employee entitlements are recognised on an accrual basis. Due to their short-term nature, they are not discounted. Amounts owing to farmer shareholders and New Zealand contract milk suppliers are recognised in owing to suppliers.

Amounts owing to suppliers are amounts the Group owes to farmer shareholders and New Zealand contract milk suppliers for the collection of milk, which includes end of season adjustments, offset by amounts owing from farmer shareholders for goods and services provided to them by the Group. These amounts are recognised at the net amount due to the supplier for the milk provided.

	2023	2022
Owing to suppliers	**1,997**	2,119
Trade payables	**1,909**	1,863
Employee entitlements	**344**	368
Other	**120**	172
Total trade and other payables	**4,370**	4,522

The Board uses its discretion in establishing the rate at which the Group will pay suppliers for the milk supplied over the season. This is referred to as the advance rate. For the 2023 season, amounts advanced during the financial year as a percentage of the Farmgate Milk Price (per kgMS) were 85% (31 July 2022: 85%). The Fonterra Farmgate Milk Price Statement sets out information about the Farmgate Milk Price as calculated in accordance with the Farmgate Milk Price Manual. It can be found in the 'Investors/Farmgate Milk Prices/Milk Price Methodology' section of Fonterra's website.

Notes to the Financial Statements CONTINUED

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12 Property, plant and equipment

At a glance

This note provides information on owned and leased assets including movements during the year, and capital commitments at the reporting date.

Property, plant and equipment are comprised of owned and leased assets.

	2023	2022
Property, plant and equipment – owned	**5,982**	6,067
Right-of-use assets – leased	**361**	398
Total	**6,343**	6,465

a) Owned assets

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

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

Depreciation

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

– Land	Indefinite
– Buildings and leasehold improvements	2 to 35 years (31 July 2022: 2 to 55 years)
– Plant, vehicles and equipment	2 to 35 years (31 July 2022: 2 to 50 years)

Judgement is involved in determining the assets' residual values and useful lives, which are reviewed and adjusted each financial year, based on the Group's ten year outlook.

The estimates of useful lives may be impacted by climate-related risks in future and changes in expectations, for example the following events may shorten estimated useful lives of existing assets and result in an acceleration of depreciation:

- Milk supply and demand: In the event milk supply and demand reduce faster than expected, a plant closure may become necessary before the end of an existing asset's useful life; and
- Capital expenditure: In the event regulatory change or other factors require larger or earlier future investments, existing assets may need to be replaced before the end of their useful lives.

The Group's New Zealand ingredients manufacturing sites are utilised as a single network for processing raw milk supply. In estimating useful lives and residual values of its New Zealand ingredients manufacturing assets, the Group has considered the impact of:

- Possible flat or declining milk supply scenarios (together with individual plant peak milk processing requirements);
- Regulatory or environmental matters (such as the New Zealand Government's Emissions Reduction Plan);
- The Group's investment in sustainability, including its decarbonisation plan to exit coal by 2037 and electrification of the vehicle fleet;
- Technological advancements; and
- Changing consumer preferences and market competition.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

12 Property, plant and equipment CONTINUED

a) Owned assets CONTINUED

A breakdown of total owned property, plant and equipment is presented in the following table.

	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	PLANT, VEHICLES AND EQUIPMENT	CAPITAL WORK IN PROGRESS	TOTAL
Net book value					
As at 1 August 2022	**368**	**1,517**	**3,674**	**508**	**6,067**
Additions	**14**	**1**	**3**	**571**	**589**
Transferred from capital work in progress	**–**	**70**	**469**	**(539)**	**–**
Depreciation charge	**–**	**(106)**	**(372)**	**–**	**(478)**
Transferred to assets held for sale	**(4)**	**(50)**	**(110)**	**(24)**	**(188)**
Other	**–**	**–**	**(13)**	**5**	**(8)**
As at 31 July 2023	**378**	**1,432**	**3,651**	**521**	**5,982**
Represented by:					
Cost	**378**	**2,641**	**8,294**	**521**	**11,834**
Accumulated depreciation and impairment	**–**	**(1,209)**	**(4,643)**	**–**	**(5,852)**
Net book value					
As at 1 August 2021	350	1,552	3,706	371	5,979
Additions	22	16	5	490	533
Transferred from capital work in progress	–	35	309	(344)	–
Depreciation charge	–	(87)	(352)	–	(439)
Other	(4)	1	6	(9)	(6)
As at 31 July 2022	368	1,517	3,674	508	6,067
Represented by:					
Cost	368	2,706	8,356	508	11,938
Accumulated depreciation and impairment	–	(1,189)	(4,682)	–	(5,871)

Capital commitments

As at 31 July 2023 the Group was committed to spend $98 million (31 July 2022: $225 million), primarily related to plant, vehicles and equipment.

b) Leased assets

The Group is a lessee of various types of assets, including buildings, plant, vehicles and equipment. Right-of-use assets reflect the Group's right to use leased assets. Corresponding lease liabilities reflect the present value of the related future lease payments.

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

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

The Group enters into lease arrangements for land and buildings with options for renewal that typically run for a period of 3 to 10 years, however some property leases can run up to a period of 35 years. Lease payment changes are renegotiated at periods specified in the lease contracts and are usually based on local price indices or market rental rates.

Leases for plant, vehicles and equipment typically run for a period of 2 to 5 years.

Information about right-of-use assets from leases for which the Group is a lessee is presented in the following table.

	NET BOOK VALUE		DEPRECIATION CHARGE	
	2023	2022	**2023**	2022
Land	**24**	22	**2**	1
Buildings	**240**	275	**59**	64
Plant, vehicles and equipment	**97**	101	**29**	39
Total	**361**	398	**90**	104

Refer to Note 7 *Borrowings* for information about lease liabilities.

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13 Intangible assets

At a glance

This note provides information on the Group's intangible assets which include goodwill, brands and software assets. Movements during the year are also summarised within this note.

The results of impairment testing of goodwill and indefinite life brands is set out in Note 3 *Impairments*.

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

Goodwill

Goodwill represents the premium paid by the Group over the fair value of the Group's share of the net identifiable assets of an acquired business at the date of acquisition. Goodwill is initially recognised at cost and subsequently measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually and is not amortised.

Brands

Brands that are purchased by the Group are initially recognised at cost, or at their fair value if acquired as part of a business combination, and subsequently measured at cost less any impairment losses. A brand is determined to have an indefinite life where there is an intention to maintain and support the brand for an indefinite period.

Indefinite life brands are tested for impairment annually and are not amortised.

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

Software assets

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

Software assets are amortised on a straight-line basis over their estimated useful lives (31 July 2023: 3 to 10 years, 31 July 2022: 2 to 13 years). Software assets are tested for impairment when an indicator of impairment exists.

A breakdown of total intangible assets is presented in the following table.

	BRANDS	GOODWILL	SOFTWARE	SOFTWARE WIP	OTHER	TOTAL INTANGIBLES
Net book value						
As at 1 August 2022	**1,248**	**533**	**283**	**74**	**15**	**2,153**
Additions	**–**	**–**	**–**	**79**	**–**	**79**
Transferred from work in progress	**–**	**–**	**71**	**(71)**	**–**	**–**
Amortisation	**–**	**–**	**(92)**	**–**	**(2)**	**(94)**
Impairment (refer to Note 3 *Impairments*)	**(101)**	**(121)**	**–**	**–**	**–**	**(222)**
Transferred to assets held for sale	**(20)**	**(95)**	**(1)**	**–**	**–**	**(116)**
Other	**34**	**(1)**	**(9)**	**–**	**–**	**24**
As at 31 July 2023	**1,161**	**316**	**252**	**82**	**13**	**1,824**
Represented by:						
Cost	**1,437**	**653**	**1,498**	**82**	**34**	**3,704**
Accumulated amortisation and impairment	**(276)**	**(337)**	**(1,246)**	**–**	**(21)**	**(1,880)**
Net book value						
As at 1 August 2021	1,224	529	302	80	107	2,242
Reclassification to inventories	–	–	–	–	(97)	(97)
As at 1 August 2021	1,224	529	302	80	10	2,145
Additions	–	–	–	63	8	71
Transferred from work in progress	–	–	69	(69)	–	–
Amortisation	–	–	(89)	–	(3)	(92)
Impairment (refer to Note 3 *Impairments*)	(34)	–	–	–	–	(34)
Other	58	4	1	–	–	63
As at 31 July 2022	1,248	533	283	74	15	2,153
Represented by:						
Cost	1,419	749	1,497	74	36	3,775
Accumulated amortisation and impairment	(171)	(216)	(1,214)	–	(21)	(1,622)

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
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14 Other assets

At a glance

This note provides a summary of other asset balances aggregated in the Statement of Financial Position.

A breakdown of other assets is presented in the following table.

	2023	2022
Current		
Tax receivable	**49**	64
Other	**100**	107
Total other current assets	**149**	171
Non-current		
Equity accounted investments	**116**	113
Long-term advances	**155**	154
Other	**107**	119
Total other non-current assets	**378**	386

15 Other liabilities

At a glance

This note provides a summary of other liability balances aggregated in the Statement of Financial Position.

A breakdown of other liabilities is presented in the following table.

	2023	2022
Current		
Tax payable	**118**	107
Provisions	**55**	70
Other	**76**	71
Total other current liabilities	**249**	248
Non-current		
Provisions	**63**	79
Deferred tax liabilities (refer to Note 17 *Taxation*)	**36**	50
Other	**11**	15
Total other non-current liabilities	**110**	144

a) Provisions and contingent liabilities

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

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

In the normal course of business, the Group is exposed to claims and legal proceedings that may in some cases result in costs.

Provisions relate to employee benefits (defined benefit scheme obligations, other obligations that fall due on termination of employment, and long-term employee benefits), and other provisions (customs and duties, legal matters, product quality claims and other claims arising in the normal course of business). The timing and amount of settlement is uncertain as it depends on the outcome of judicial proceedings or commercial negotiations relating to each individual claim. A breakdown of provisions is presented in the following table.

	2023
As at 1 August 2022	**149**
Additional provisions	**69**
Unused amounts reversed	**(19)**
Utilised during the year	**(58)**
Other	**(23)**
As at 31 July 2023	**118**

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
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Other

This section contains notes and disclosures that aid in understanding the Group's position and performance, and outlines the key risk management activities undertaken to manage the Group's exposure to financial risk.

16 Net movement in working capital and other operating activities

A breakdown of the decrease/(increase) in working capital and other operating activities from the Statement of Cash Flows is presented in the following table.

	2023	2022
Trade and other receivables	**(31)**	(821)
Inventories	**663**	(1,222)
Trade and other payables	**302**	494
Other movements	**(63)**	(49)
Total decrease/(increase) in working capital and other operating activities	**871**	(1,598)

17 Taxation

At a glance

This note provides information on income tax that has been recognised in the Statement of Profit or Loss and Other Comprehensive Income and the effective tax rate, together with information on the deferred tax asset and liability in the Statement of Financial Position and movements during the year.

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

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

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

Deferred tax is not recognised on the following temporary differences:

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

In determining the probability of reversal, consideration is taken of whether the related assets are held for sale, future expectations of exiting, and if applicable, the impact any exit would have on the crystallisation of the deferred tax.

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

a) Taxation – Statement of Profit or Loss and Other Comprehensive Income

The total tax expense in the Statement of Profit or Loss and Other Comprehensive Income is summarised in the following table.

	2023	2022
Current tax expense	**98**	80
Prior period adjustments to current tax	**(3)**	(9)
Deferred tax movements: Origination and reversal of temporary differences	**208**	60
Tax expense	**303**	131

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
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17 Taxation CONTINUED

a) Taxation – Statement of Profit or Loss and Other Comprehensive Income CONTINUED

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

	2023	2022
Profit before tax from continuing operations	**1,544**	752
Prima facie tax expense at 28%	**432**	211
Tax effect of distributions to farmer shareholders	**(189)**	(79)
Add/(less): Tax effect of other items	**60**	(1)
Tax expense from continuing operations	**303**	131
Effective tax rate	**19.6%**	17.4%

The Group does not have significant operations in foreign jurisdictions with tax rates below 15%, and does not expect to be significantly impacted by Pillar II tax reforms and the move towards global minimum tax rates of 15%.

b) Taxation – Statement of Financial Position

The deferred tax assets and deferred tax liabilities in the Statement of Financial Position, along with the net deferred tax, are presented in the following table.

	2023			2022		
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	NET DEFERRED TAX	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	NET DEFERRED TAX
Property, plant and equipment	**1,678**	**(1,744)**	**(66)**	1,730	(1,767)	(37)
Intangible assets	**–**	**(358)**	**(358)**	–	(380)	(380)
Derivative financial instruments	**–**	**(18)**	**(18)**	131	–	131
Inventories	**175**	**–**	**175**	79	–	79
New Zealand tax losses	**33**	**–**	**33**	348	–	348
Offshore tax losses	**192**	**–**	**192**	187	–	187
Other	**188**	**–**	**188**	194	(21)	173
Total before offsetting	**2,266**	**(2,120)**	**146**	2,669	(2,168)	501
Offset adjustment	**(2,084)**	**2,084**	**–**	(2,118)	2,118	–
Total	**182**	**(36)**	**146**	551	(50)	501

	2023	2022
Movements for the year		
Opening balance	**501**	435
Recognised in profit after tax	**(208)**	(60)
Recognised in other comprehensive income	**(147)**	124
Foreign currency translation	**–**	2
Closing balance	**146**	501

Deferred tax liabilities

Earnings made by foreign subsidiaries could be subject to withholding and other taxes on remittance. Deferred tax liabilities are not recognised in respect of unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries.

As at 31 July 2023, unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries amount to $171 million (31 July 2022: $185 million). The Group has made a judgement not to recognise deferred tax liabilities in respect of these amounts because it can control the timing and the manner in which the associated temporary difference will reverse. This includes controlling the timing of dividends, and in the event of divestments made because of the strategic review, the manner in which divestment proceeds are remitted, and therefore the associated tax consequences.

Notes to the Financial Statements CONTINUED

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18 Related party transactions

At a glance

This note provides details on transactions, balances and commitments with persons or entities that are related to the Group, including key management personnel and equity accounted investees.

a) Key management personnel

Key management personnel comprise members of the Board and members of the FMT.

A number of Board Directors are also farmer shareholders.

Transactions with key management personnel are on normal trade terms and no balances are secured.

	2023	2022
Transactions with key management personnel		
Short-term employee benefits	23	21
Long-term employee benefits	1	5
Share-based payments	1	–
Directors' remuneration	3	3
Total key management personnel remuneration	**28**	29
Purchases of goods, primarily milk supplied by farmer shareholder Directors	138	157
Sale of goods, primarily sales through Farm Source™ retail stores	8	8
Dividends paid to farmer shareholder Directors	4	3
Balances with key management personnel		
Total payables and provisions arising from remuneration	19	22
Total capital return payable to farmer shareholder Directors	8	–
Total payables arising from the purchase of goods or services	20	24

During the year Fonterra issued Alignment Rights to FMT under a new long-term incentive plan. The value on issuance of these Alignment Rights is split equally between:

- "Co-op Units", where the participant receives distributions during the period of the arrangement and a cash payment equal to the number of rights times the 12-month volume weighted average price of a Co-operative Share. This is a cash-settled share-based payment as the payment is linked to share prices, and is presented as a share-based payment above; and
- "Farm Units", where the participant receives a cash payment equal to the number of rights times the 3-year average owner operator Dairy Operating Profit per hectare, sourced from the Dairy NZ Economic Survey. This is presented as a long-term employee benefit above.

The cost is spread over the 3-year service period, and paid between 4 to 6 years from the date of issue.

b) Equity accounted investees

Transactions with equity accounted investees are on normal trade terms and no balances are secured.

	2023	2022
Transactions with equity accounted investees		
Revenue from the sale of goods and services, primarily for commodity products sold	41	86
Other income, primarily dividends and royalties	21	6
Purchases of goods, primarily commodity products	87	81
Purchases of services, primarily freight services	218	167
Contributions paid	21	–
Balances with equity accounted investees		
Total receivables arising from the sale of goods or services	3	19
Total payables arising from the purchase of goods or services	14	14

The Group has prospective commitments with related parties including contracts with equity accounted investees for the sale, supply and purchase of dairy products, energy and the provision of various management services.

The Group has committed to provide funding of up to $50 million to the AgriZero^{NZ} joint venture, of which $12 million has been contributed during the year ended 31 July 2023.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
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19 Fair value measurement

At a glance

This note provides a summary of assets and liabilities measured at fair value and categorises these into a hierarchy that indicates the extent to which fair value is based on observable information. This note also includes information about the fair value of financial assets and financial liabilities not measured at fair value.

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

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

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

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

Specific valuation techniques used to value financial instruments include:

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

Fair value hierarchy

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

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

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

The fair value hierarchy for assets and liabilities measured at fair value are presented in the following table.

	LEVEL 1		LEVEL 2		LEVEL 3	
	2023	2022	**2023**	2022	**2023**	2022
Measured at fair value on a recurring basis						
Derivative assets	**34**	211	**535**	453	**–**	–
Derivative liabilities	**(190)**	(40)	**(331)**	(1,006)	**–**	–
Other	**55**	63	**13**	18	**38**	36
Measured at fair value on a non-recurring basis						
Net liabilities held for sale	**–**	–	**–**	–	**(21)**	(155)
Fair value	**(101)**	234	**217**	(535)	**17**	(119)

The fair value of financial assets and liabilities not measured at fair value approximates carrying value, except in respect of medium-term notes. The medium-term notes have a carrying value of $3,399 million (31 July 2022: $3,436 million), and their fair value is $3,470 million (31 July 2022: $3,511 million) at level 2 of the fair value hierarchy.

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20 Re-presentations

At a glance

This note provides a summary of the effect of excluding the Chilean Soprole business from continuing operations and presenting it as a discontinued operation in the comparative period Statement of Profit or Loss and Other Comprehensive Income, for consistency with the current year treatment.

The following table shows the financial effect on the Group's Statement of Profit or Loss and Other Comprehensive Income from the re-presentation of the Chilean Soprole business from continuing operations into discontinued operations.

Discontinued operations presented below incorporates both the performance of the Chilean Soprole business (excluding intercompany interest) and revaluation of derivatives relating to the sale transaction.

	2022 CONTINUING OPERATIONS	TRANSFERRED TO DISCONTINUED OPERATIONS	2022 CONTINUING OPERATIONS RE-PRESENTED
Revenue from sale of goods	22,953	1,052	**21,901**
Cost of goods sold	(19,737)	(745)	**(18,992)**
Gross profit	3,216	307	**2,909**
Expenses and other items including finance costs	(2,386)	(229)	**(2,157)**
Profit before tax	830	78	**752**
Tax expense	(169)	(38)	**(131)**
Profit after tax	661	40	**621**
Total comprehensive income from continuing operations	461	(17)	**478**

21 Financial risk management

At a glance

This note provides information on the Group's financial risks. The Group has exposure to market risk (which includes volatility in foreign exchange, interest rates, and commodity prices), liquidity risk, and credit risk. These risks are managed in accordance with established Group policies and procedures.

The Group has exposure to the following financial risks:

- market risk;
- liquidity risk; and
- credit risk.

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

The Group uses derivatives, such as forwards, futures, options and swaps to manage its exposure to certain risks as described in this section. Derivatives are measured at fair value.

Measurement differences between derivatives and the associated item being hedged can present volatility in the Statement of Profit or Loss and Other Comprehensive Income. To reduce this volatility the Group applies hedge accounting. Refer to Note 22 *Hedge accounting* for further information.

Notes to the Financial Statements CONTINUED

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21 Financial risk management CONTINUED

Market Risk

a) Foreign exchange risk

Nature and exposure of risk

Foreign exchange risk is the risk that changes in foreign exchange rates will affect the Group's future cash flows or fair value of financial instruments.

The Group is exposed to movements in foreign exchange rates through transactions and balances denominated in foreign currencies. The Group's exposure to foreign currency before applying risk management strategies are as follows:

- Forecast foreign currency transactions, which predominantly includes the Group's forecast sales transactions which are mainly denominated in United States Dollars.
- Net investments in foreign operations of $3,678 million (31 July 2022: $4,067 million). This amount includes foreign currency receivables and payables, and excludes net investments in foreign operations held for sale and borrowings held by the Group in the same currency as the investment.
- Borrowings denominated in foreign currency of $3,464 million (31 July 2022: $3,506 million).
- Foreign currency receivables of $1,788 million (31 July 2022: $2,089 million) and payables of $918 million (31 July 2022: $1,075 million).

The concentration of borrowings by currency is presented in the following table.

	2023	2022
United States Dollar	**1,374**	1,441
Australian Dollar	**709**	745
European Euro	**640**	592
New Zealand Dollar	**477**	1,750
British Pound	**468**	447
Chinese Renminbi	**193**	197
Other	**80**	84
Total borrowings	**3,941**	5,256

How foreign exchange risk is managed

Forecast foreign currency transactions

The Group enters into foreign currency forward contracts and foreign currency options to manage foreign exchange risk on the following forecast foreign currency transactions:

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

Foreign operations

The Group also has discretion to use foreign currency denominated borrowings and foreign currency swaps to manage foreign exchange risk on net investments in foreign operations.

Foreign currency denominated borrowings

To the extent the Group has monetary assets in the same foreign currency as the borrowing, the Group has a reduced exposure to foreign exchange risk. Foreign currency gains and losses relating to these balances are offset in the Statement of Profit or Loss and Other Comprehensive Income.

The Group uses cross-currency interest rate swaps (CCIRS) to manage residual foreign exchange and interest rate risk on foreign currency denominated borrowings. CCIRS exchange fixed rate foreign currency borrowings and interest payments into equivalent New Zealand Dollar denominated amounts of principal with floating interest rates. The Group's policy is to maintain its net exposure to a foreign currency within Board approved predefined limits.

Receivables and payables denominated in foreign currency

In accordance with Board approved policy, the Group enters into foreign currency forward contracts and foreign currency options for 100% of its net foreign currency receivables and payables which generate foreign exchange risk within the Statement of Profit or Loss and Other Comprehensive Income.

Derivatives used to hedge the changes in the value of foreign currency receivables and payables are not hedge accounted. Changes in the fair value of these derivatives provide an offset to the changes in the value of foreign currency receivables and payables recognised in the Statement of Profit or Loss and Other Comprehensive Income. These are recognised within operating expenses in the Statement of Profit or Loss and Other Comprehensive Income.

Sensitivity analysis

The following table presents the Group's post-tax sensitivity of financial instruments and net assets held in foreign operations at reporting date, after taking into consideration the impact of hedge accounting, to a reasonably possible strengthening or weakening NZD against foreign currencies. Hedged forecast transactions would offset the equity impacts shown below when incurred.

Notes to the Financial Statements CONTINUED

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21 Financial risk management CONTINUED

a) Foreign exchange risk CONTINUED

Assets and liabilities held for sale have been excluded from the sensitivity analysis in the following table.

	2023		2022	
	EQUITY	PROFIT	EQUITY	PROFIT
10% strengthening of the NZD	**352**	**(9)**	513	10
10% weakening of the NZD	**(389)**	**9**	(617)	(13)

b) Interest rate risk

Nature and exposure of risk

Interest rate risk is the risk that changes in interest rates will affect the Group's future cash flows or fair value of financial instruments.

Changes in interest rates expose the Group to changes in the fair value of borrowings subject to fixed interest rates (fair value risk), and changes in future interest payments on borrowings subject to floating interest rates (cash flow risk).

The Group is exposed to movements in interest rates on its interest-bearing borrowings. The Group's exposure before applying risk management strategies is $2,066 million (31 July 2022: $4,845 million).

How interest rate risk is managed

The Group issues fixed and floating rate debt and uses interest rate swaps (IRS) to manage interest rate exposure on its borrowings within a Board approved target ratio of fixed and floating rate exposure.

Sensitivity analysis

The following table presents the Group's post-tax sensitivity of floating rate financial instruments and of the fair value of fixed rate financial assets and liabilities held at reporting date to a reasonably possible change in interest rates. This analysis assumes that the amount and mix of fixed and floating rate debt remains unchanged from that in place at reporting date, and that the change in interest rates is effective from the beginning of the year.

Assets and liabilities held for sale have been excluded from the sensitivity analysis in the following table.

	2023		2022	
	EQUITY	PROFIT	EQUITY	PROFIT
100 basis point increase	**44**	**2**	48	3
100 basis point decrease	**(46)**	**(2)**	(50)	(3)

c) Commodity price risk

Nature and exposure of risk

Commodity price risk is the risk that changes in commodity prices will affect the Group's future cash flows or fair value of financial instruments.

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

How commodity price risk is managed

Dairy commodity price risk

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

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

Other commodity price risk

The Group manages its exposure to other commodity price risk through the use of derivative contracts to hedge the cost of electricity and diesel and the pre-purchase of emissions units to hedge the cost of emissions units. These are transacted at Board approved levels.

Sensitivity analysis

The following table presents the Group's post-tax sensitivity on its commodity derivatives, after taking into consideration the impact of hedge accounting, from a reasonably possible increase or decrease in commodity prices, with all other variables held constant. Commodity price sensitivity arises from the revaluation of derivative assets and liabilities in the Statement of Financial Position at balance date. Hedged forecast transactions would offset the equity impacts shown below when incurred.

	2023		2022	
	EQUITY	PROFIT	EQUITY	PROFIT
10% increase in commodity prices	**38**	**16**	76	35
10% decrease in commodity prices	**(39)**	**(18)**	(77)	(35)

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

21 Financial risk management CONTINUED

Liquidity Risk

Nature and exposure of risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The following table sets out the contractual, undiscounted cash flows for the Group's financial instruments.

	2023					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	3 MONTHS OR LESS	3–12 MONTHS	1–5 YEARS	MORE THAN 5 YEARS
Non-derivative financial liabilities						
Borrowings						
– Bank loans	(50)	(50)	(16)	(34)	–	–
– Lease liabilities	(392)	(445)	(23)	(65)	(209)	(148)
– NZX-listed bonds	(100)	(110)	–	(4)	(106)	–
– Medium-term notes	(3,399)	(3,993)	(25)	(780)	(2,384)	(804)
Bank overdraft	(102)	(102)	(102)	–	–	–
Trade and other payables (excluding employee entitlements)	(4,026)	(4,026)	(3,943)	(83)	–	–
Capital return payable	(804)	(804)	(804)	–	–	–
Other	(65)	(65)	(15)	(6)	(44)	–
Total non-derivative financial liabilities	(8,938)	(9,595)	(4,928)	(972)	(2,743)	(952)
Derivative financial instruments						
Gross settled derivatives						
Inflow		25,128	12,241	8,628	3,455	804
Outflow		(25,014)	(12,229)	(8,834)	(3,292)	(659)
Total gross settled derivative financial instruments	105	114	12	(206)	163	145
Net settled derivatives	(57)	(18)	(105)	95	(8)	–
Total financial liabilities and derivatives	(8,890)	(9,499)	(5,021)	(1,083)	(2,588)	(807)

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
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21 Financial risk management CONTINUED

	2022					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	3 MONTHS OR LESS	3–12 MONTHS	1–5 YEARS	MORE THAN 5 YEARS
Non-derivative financial liabilities						
Borrowings						
– Bank loans	(999)	(1,119)	(17)	(33)	(1,069)	–
– Commercial paper	(98)	(100)	–	(100)	–	–
– Lease liabilities	(438)	(443)	(26)	(70)	(210)	(137)
– Capital notes	(35)	(41)	–	(1)	(5)	(35)
– NZX-listed bonds	(250)	(270)	(3)	(157)	(110)	–
– Medium-term notes	(3,436)	(4,031)	(25)	(117)	(2,450)	(1,439)
Bank overdraft	(31)	(31)	(31)	–	–	–
Trade and other payables (excluding employee entitlements)	(4,154)	(4,154)	(4,053)	(101)	–	–
Other	(32)	(33)	(18)	–	(15)	–
Total non-derivative financial liabilities	(9,473)	(10,222)	(4,173)	(579)	(3,859)	(1,611)
Derivative financial instruments						
Gross settled derivatives						
Inflow		22,840	7,871	10,153	3,589	1,227
Outflow		(23,476)	(8,098)	(10,605)	(3,721)	(1,052)
Total gross settled derivative financial instruments	(639)	(636)	(227)	(452)	(132)	175
Net settled derivatives	257	274	109	70	97	(2)
Total financial liabilities and derivatives	(9,855)	(10,584)	(4,291)	(961)	(3,894)	(1,438)

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
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21 Financial risk management CONTINUED

How liquidity risk is managed

The Group's approach to managing liquidity risk is to ensure that it will always have sufficient funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

The Group manages its liquidity by retaining cash and marketable securities, and the availability of funding from an adequate amount of committed credit facilities. The Group would also be able to close out market positions if necessary. The Group's funding facilities are reviewed at least annually, which is one of the key financial risk management activities undertaken to ensure an appropriate maturity profile given the nature of the Group's business. At balance date the Group had undrawn lines of committed credit totalling $2,830 million (31 July 2022: $2,345 million).

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

Credit Risk

Nature and exposure of risk

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

The Group has no significant concentrations of credit risk.

How credit risk is managed

The Group sets minimum credit quality requirements, credit limits and uses other credit mitigation tools to manage its credit risk. The Group's Board approved policy is to actively manage its exposure to credit risk through the following actions.

Derivative contracts, cash and cash equivalents and other balances

- Use of financial counterparties that have a credit rating of at least 'A-' from S&P Global Ratings (or equivalent);
- Use of commodity counterparties that have a credit rating of at least 'BBB-' from S&P Global Ratings (or equivalent) for commodity derivative contracts; and
- Posting or receiving margin in respect of derivative contracts transacted on exchanges.

As at 31 July 2023 the Group posted $257 million (31 July 2022: received $54 million) of margin as collateral for derivative financial instruments. This collateral is included in other receivables within Trade and other receivables in the Statement of Financial Position (31 July 2022: $65 million was included in Trade and other payables and $11 million was included in Trade and other receivables).

The Group further manages its credit risk through the following.

Trade and other receivables

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

Long-term advances

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

Expected credit losses on trade receivables

The Group recognises an allowance for expected credit losses based on the lifetime expected credit losses at balance date for trade receivables, and for other receivables if the credit risk has increased significantly since initial recognition. The allowance for expected credit losses for other amounts receivable is based on expected credit losses during the next 12-months.

The Group's Trade and other receivables (excluding prepayments) of $2,371 million (31 July 2022: $2,412 million) are largely current or less than one month past due (31 July 2023: $2,268 million, 31 July 2022: $2,330 million). Expected credit losses of $23 million have been recognised (31 July 2022: $12 million) on a trade receivables balance of $2,094 million (31 July 2022: $2,355 million).

Trade and other receivables includes other receivables of $297 million (31 July 2022: $50 million) and prepayments of $102 million (31 July 2022: $70 million).

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

22 Hedge accounting

At a glance

This note provides information on the Group's risk and hedging instruments, where hedge accounting has been applied. The Group utilises fair value hedges, cash flow hedges, and net investment hedges to manage foreign exchange, interest rate, and commodity price risk. The hedge accounting impacts are presented within this note.

Derivatives are measured at fair value. Refer to Note 19 *Fair value measurement* for information on how fair value is determined.

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

The Group may designate derivatives as:

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

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

Fair value hedges

For fair value hedges the following are recognised in the profit or loss:

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

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

Cash flow hedges

The effective portion of changes in the fair value of the hedging instruments are recognised in other comprehensive income in the Statement of Profit or Loss and Other Comprehensive Income and accumulated in a separate reserve in equity. Subsequently the cumulative amount is transferred to the profit or loss when the underlying transactions are recognised in the profit or loss.

The ineffective portion of changes in the fair value of the hedging instruments are recognised immediately in the profit or loss.

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

Net investment hedges

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

The ineffective portion of changes in the fair value of the hedging instruments are recognised immediately in the profit or loss.

Costs of hedging

The change in fair value of a hedging instrument relating to the time-value of foreign currency options, and the foreign currency basis component of cross-currency interest rate swaps are recognised in other comprehensive income and accumulated within hedge reserves in the Statement of Financial Position. Subsequently, the cumulative amount is transferred to the profit or loss at the same time as the hedged item impacts the profit or loss.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

22 Hedge accounting CONTINUED

The Group's risk management activities described in 21 *Financial risk management* result in volatility to the Statement of Profit or Loss and Other Comprehensive Income caused by timing and measurement differences between hedging instruments and the associated item being hedged. Where a hedge relationship between a hedged item and the hedging instrument (e.g. a derivative) qualifies for hedge accounting, and the Group applies hedge accounting, the volatility in the Statement of Profit or Loss and Other Comprehensive Income caused by the timing and measurement differences between hedging instruments and the associated hedged item is reduced. The Group applies the following hedge accounting activities.

Foreign exchange risk

Forecast foreign currency transactions

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

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

The Statement of Profit or Loss and Other Comprehensive Income impact of hedge accounting effectiveness and ineffectiveness is recognised in revenue from sale of goods.

Foreign operations

The Group's net investments are designated in hedge relationships to the extent borrowings denominated in the same foreign currency and foreign currency swaps are directly attributed to the net investment.

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

The Statement of Profit or Loss and Other Comprehensive Income impact of hedge accounting effectiveness and ineffectiveness is recognised in operating expenses.

Foreign currency denominated borrowings

The Group applies hedge accounting to foreign currency denominated borrowings that are managed by CCIRS. The amount and maturity of the CCIRS and the hedged debt is aligned to ensure that the hedge relationship remains effective, with any undesignated costs of hedging accounted for separately.

The hedge relationship may be designated into separate cash flow hedges and fair value hedges to manage the different components of foreign currency and interest rate risk:

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

Hedge ineffectiveness arises in relation to CCIRS that have been designated in hedge relationships after their initial recognition, or from changes in counterparty credit risk and cross currency basis spreads.

The Statement of Profit or Loss and Other Comprehensive Income impact of hedge accounting effectiveness and ineffectiveness is recognised in net finance costs and operating expenses.

Interest rate risk

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

Hedge ineffectiveness arises in relation to IRS that have been designated to hedge relationships after their initial recognition or from changes in counterparty credit risk.

In specific situations, where changes in the fair value of fixed to floating IRS provide an offset to the changes in the fair value of other associated floating-to-fixed IRS, hedge accounting is not applied. The changes in fair values of these IRS offset each other and are recognised within net finance costs in the Statement of Profit or Loss and Other Comprehensive Income.

The Statement of Profit or Loss and Other Comprehensive Income impact of hedge accounting effectiveness and ineffectiveness is recognised in net finance costs.

Commodity price risk

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

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

The Statement of Profit or Loss and Other Comprehensive Income impact of hedge accounting effectiveness and ineffectiveness is recognised in cost of goods sold and operating expenses.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

22 Hedge accounting CONTINUED

a) Impact to reserves in equity

A breakdown of reserves is presented in the following table.

	2023	2022
Hedge reserves	43	(346)
Foreign currency translation reserve	7	(253)
Other	9	30
Total	**59**	(569)

HEDGE RESERVES	2023	2022
Opening balance	**(346)**	(26)
Movements attributable to cash flow hedges		
Change in value of effective derivative hedging instruments	(56)	(726)
Reclassifications to the Statement of Profit or Loss and Other Comprehensive Income:		
– As hedged transactions occurred	563	308
Net change in the cost of hedging reserve	33	(26)
Tax (expense)/credit	(151)	124
Total movement	**389**	(320)
Closing balance	**43**	(346)

FOREIGN CURRENCY TRANSLATION RESERVE	2023	2022
Opening balance	**(253)**	(355)
Movements attributable to net investments in foreign operations and net investment hedges		
Net translation loss on:		
– Borrowings and derivative hedging instruments	15	76
– Net investments in foreign operations	47	27
Reclassifications to the Statement of Profit or Loss and Other Comprehensive Income:		
– Disposals of foreign operations	194	(1)
– Tax credit	4	–
Total movement	**260**	102
Closing balance	**7**	(253)

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
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22 Hedge accounting CONTINUED

b) Hedging instruments designated in a hedge accounting relationship

Information about hedging instruments that the Group has designated in a hedge accounting relationship is presented in the following tables.

	2023					
				CARRYING AMOUNT IN THE STATEMENT OF FINANCIAL POSITION		
RISK AND HEDGING INSTRUMENTS	MATURITY (MONTHS)	WEIGHTED AVERAGE RATE/PRICE	NOMINAL AMOUNT[1]	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	BORROWINGS
Foreign exchange risk – Forecast foreign currency transactions						
Cash flow hedges						
NZD:USD forwards and options (sales)	1-18	0.623	11,603	117	(114)	–
USD:CNY forwards and options (sales)	1-12	6.898	774	21	(2)	–
AUD:USD forwards (sales)	1-7	0.666	114	1	(1)	–
USD:AUD forwards (purchases)	1-18	0.704	43	3	(2)	–
Total			12,534	142	(119)	–
Foreign exchange risk – Foreign operations						
Net investment hedges						
AUD borrowings	52	–	87	–	–	(87)
EUR borrowings	16	–	173	–	–	(173)
Total			260	–	–	(260)
Foreign exchange risk and interest rate risk – Foreign currency denominated borrowings						
Cash flow and fair value hedges						
NZD:USD CCIRS	38-85	0.760/Floating	1,184	179	–	–
NZD:GBP CCIRS	5	0.361/Floating	623	–	(161)	–
NZD:EUR CCIRS	16	0.656/Floating	386	43	–	–
NZD:CNY CCIRS	24	4.669/Floating	171	11	–	–
Total			2,364	233	(161)	–

1 Nominal amount is the face value converted into NZD using the exchange rate at year-end, except for CCIRS which are converted using the weighted average contracted foreign exchange rate.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

22 Hedge accounting CONTINUED

b) Hedging instruments designated in a hedge accounting relationship CONTINUED

	2023					
				CARRYING AMOUNT IN THE STATEMENT OF FINANCIAL POSITION		
RISK AND HEDGING INSTRUMENTS	MATURITY (MONTHS)	WEIGHTED AVERAGE RATE/PRICE	NOMINAL AMOUNT[1]	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	BORROWINGS
Interest rate risk – Borrowings						
Cash flow hedges						
NZD IRS	1-60	2.57%	3,418	144	–	–
AUD IRS	11-13	3.34%	173	2	–	–
Total			3,591	146	–	–
Fair value hedges						
NZD IRS	28	Floating	100	–	(4)	–
AUD IRS	35-52	Floating	519	–	(30)	–
Total			619	–	(34)	–
Commodity price risk – Forecast transactions						
Cash flow hedges[2]						
Fuel futures	1-16	$98.72	15	1	–	–
Milk Price futures and options	3-27	$10.57	836	16	(174)	–
Electricity futures	1-42	$140.42	262	3	(26)	–
Total			1,113	20	(200)	–

1 Nominal amount is the face value converted into NZD using the exchange rate at year-end, except for CCIRS which are converted using the weighted average contracted foreign exchange rate.
2 The weighted average prices for commodity hedges are presented as the price per barrel for fuel futures (shown in USD), kilogram of milk solid for milk price futures and options, and per megawatt hour for electricity futures.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

22 Hedge accounting CONTINUED

b) Hedging instruments designated in a hedge accounting relationship CONTINUED

	2022					
				CARRYING AMOUNT IN THE STATEMENT OF FINANCIAL POSITION		
RISK AND HEDGING INSTRUMENTS	MATURITY (MONTHS)	WEIGHTED AVERAGE RATE/PRICE	NOMINAL AMOUNT[1]	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	BORROWINGS
Foreign exchange risk – Forecast foreign currency transactions						
Cash flow hedges						
NZD:USD forwards and options (sales)	1-18	0.663	14,636	42	(610)	–
USD:CNY forwards and options (sales)	1-12	6.615	708	14	(2)	–
AUD:USD forwards (sales)	1-12	0.714	165	1	(4)	–
USD:AUD forwards (purchases)	1-30	0.714	125	4	(2)	–
AUD:AED forwards (sales)	1-9	2.573	46	–	–	–
Total			15,680	61	(618)	–
Foreign exchange risk – Foreign operations						
Net investment hedges						
AUD borrowings	64	–	89	–	–	(89)
EUR borrowings	28	–	157	–	–	(157)
NZD:CNY forwards	5	4.340	19	–	(1)	–
Total			265	–	(1)	(246)
Foreign exchange risk and interest rate risk – Foreign currency denominated borrowings						
Cash flow and fair value hedges						
NZD:USD CCIRS	50-97	0.760/Floating	1,184	239	–	–
NZD:GBP CCIRS	17	0.361/Floating	623	9	(206)	–
NZD:EUR CCIRS	28	0.656/Floating	386	10	–	–
NZD:CNY CCIRS	36	4.669/Floating	171	16	–	–
Total			2,364	274	(206)	–

1 Nominal amount is the face value converted into NZD using the exchange rate at year-end, except for CCIRS which are converted using the weighted average contracted foreign exchange rate.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

22 Hedge accounting CONTINUED

b) Hedging instruments designated in a hedge accounting relationship CONTINUED

	2022					
				CARRYING AMOUNT IN THE STATEMENT OF FINANCIAL POSITION		
RISK AND HEDGING INSTRUMENTS	MATURITY (MONTHS)	WEIGHTED AVERAGE RATE/PRICE	NOMINAL AMOUNT[1]	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	BORROWINGS
Interest rate risk – Borrowings						
Cash flow hedges						
NZD IRS	1-60	2.43%	4,193	106	(12)	–
AUD IRS	23-25	3.34%	178	–	–	–
Total			4,371	106	(12)	–
Fair value hedges						
NZD IRS	8-40	Floating	250	–	(4)	–
AUD IRS	47-64	Floating	534	–	(19)	–
Total			784	–	(23)	–
Commodity price risk – Forecast transactions						
Cash flow hedges[2]						
Fuel futures	1-18	$109.55	25	5	–	–
Milk Price futures and options	3-27	$8.50	1,291	130	–	–
Electricity futures	1-45	$119.81	138	28	–	–
Total			1,454	163	–	–

1 Nominal amount is the face value converted into NZD using the exchange rate at year-end, except for CCIRS which are converted using the weighted average contracted foreign exchange rate.
2 The weighted average prices for commodity hedges are presented as the price per barrel for fuel futures (shown in USD), kilogram of milk solid for milk price futures and options, and per megawatt hour for electricity futures.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

22 Hedge accounting CONTINUED

c) Impact of hedge accounting

Information about the impact of hedge accounting on the Group's Financial Statements is presented in the following tables.

	2023				
RISK AND HEDGING INSTRUMENTS USED	ACCUMULATED COST OF HEDGING	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS[1]	CHANGE IN VALUE OF HEDGING INSTRUMENT RECOGNISED IN OTHER COMPREHENSIVE INCOME	AMOUNTS RECLASSIFIED FROM HEDGING RESERVE TO PROFIT OR LOSS	FAIR VALUE HEDGE ADJUSTMENTS RECOGNISED IN PROFIT OR LOSS
Foreign exchange risk – Forecast foreign currency transactions					
Cash flow hedges	(24)	10	80	475	–
Foreign exchange risk – Foreign operations					
Net investment hedges	–	(14)	(14)	–	–
Foreign exchange risk and interest rate risk – Foreign currency denominated borrowings					
Cash flow and fair value hedges	(7)	135	26	(7)	(61)
Interest rate risk – Borrowings					
Cash flow hedges	–	207	85	(48)	–
Fair value hedges	–	(33)	–	–	(12)
Commodity price risk – Forecast transactions					
Cash flow hedges	–	(177)	(247)	143	–
Total	(31)	N/A	(70)	563	(73)

1 For those borrowings in a net investment hedge, the change in value to calculate hedge effectiveness is for the year ended 2023.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2023
($ MILLION)

22 Hedge accounting CONTINUED

c) Impact of hedge accounting CONTINUED

	2022				
RISK AND HEDGING INSTRUMENTS USED	ACCUMULATED COST OF HEDGING	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS[1]	CHANGE IN VALUE OF HEDGING INSTRUMENT RECOGNISED IN OTHER COMPREHENSIVE INCOME	AMOUNTS RECLASSIFIED FROM HEDGING RESERVE TO PROFIT OR LOSS	FAIR VALUE HEDGE ADJUSTMENTS RECOGNISED IN PROFIT OR LOSS
Foreign exchange risk – Forecast foreign currency transactions					
Cash flow hedges	(56)	(545)	(973)	409	–
Foreign exchange risk – Foreign operations					
Net investment hedges	–	2	2	–	–
Foreign exchange risk and interest rate risk – Foreign currency denominated borrowings					
Cash flow and fair value hedges	(8)	145	14	5	(82)
Interest rate risk – Borrowings					
Cash flow hedges	–	168	106	42	–
Fair value hedges	–	(26)	–	–	(79)
Commodity price risk – Forecast transactions					
Cash flow hedges	–	158	127	(148)	–
Total	(64)	N/A	(724)	308	(161)

1 For those borrowings in a net investment hedge, the change in value to calculate hedge effectiveness is for the year ended 2022.

Notes to the Financial Statements CONTINUED

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22 Hedge accounting CONTINUED

d) Statement of Profit or Loss and Other Comprehensive Income impact from derivatives not designated in a hedge relationship

In addition to derivatives that are designated and qualify for hedge accounting, the Group also holds certain derivatives as economic hedges of foreign currency, commodity and interest rate exposure.

The impact of derivatives not designated in a hedge relationship on the Statement of Profit or Loss and Other Comprehensive Income was a gain of $27 million (31 July 2022: a loss of $205 million), predominantly related to $21 million favourable movements on foreign currency contracts hedging net receivables (31 July 2022: $182 million loss). Hedges of net receivables are offset within operating expenses by the revaluation of net receivables balances.

Additional impacts of derivatives not designated in a hedge relationship in relation to divestment activities are set out in Note 2 *Divestments*.

23 Offsetting of financial assets and liabilities

At a glance

This note provides a summary of financial assets and financial liabilities which have been presented net in Statement of Financial Position (and additional financial assets and financial liabilities with offset rights that are conditional, and have not been presented net).

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

Balances offset within the Statement of Financial Position include derivative transactions with certain counterparties and amounts owed by farmer shareholders which are offset against amounts owed to them by the Group.

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

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and other agreements are presented in the following table.

	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION				
	GROSS FINANCIAL ASSETS/ (LIABILITIES)	GROSS FINANCIAL ASSETS/ (LIABILITIES) SET OFF	NET FINANCIAL ASSETS/ (LIABILITIES) PRESENTED	AMOUNTS NOT OFFSET	NET
As at 31 July 2023					
Derivative financial assets	**741**	**(172)**	**569**	**(197)**	**372**
Trade and other receivables (excluding prepayments)	**2,479**	**(108)**	**2,371**	**(160)**	**2,211**
	3,220	**(280)**	**2,940**	**(357)**	**2,583**
Derivative financial liabilities	**(693)**	**172**	**(521)**	**357**	**(164)**
Total trade and other payables (excluding employee entitlements)	**(4,134)**	**108**	**(4,026)**	**–**	**(4,026)**
Borrowings	**(3,941)**	**–**	**(3,941)**	**–**	**(3,941)**
	(8,768)	**280**	**(8,488)**	**357**	**(8,131)**
As at 31 July 2022					
Derivative financial assets	944	(280)	664	(444)	220
Trade and other receivables (excluding prepayments)	2,523	(111)	2,412	–	2,412
	3,467	(391)	3,076	(444)	2,632
Derivative financial liabilities	(1,326)	280	(1,046)	363	(683)
Total trade and other payables (excluding employee entitlements)	(4,265)	111	(4,154)	66	(4,088)
Borrowings	(5,256)	–	(5,256)	15	(5,241)
	(10,847)	391	(10,456)	444	(10,012)

Notes to the Financial Statements CONTINUED

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24 Subsidiaries

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

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

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

In addition to the entities presented, the Group controls the Fonterra Shareholders' Fund and Fonterra Farmer Custodian Limited and consolidates these two entities. The trustees of the Fonterra Farmer Custodian Trust own the legal title to all of the shares of the Custodian. The Fund is a managed investment scheme with an independent trustee.

The significant subsidiaries of the Group are presented in the following table.

SUBSIDIARY NAME	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	OWNERSHIP INTERESTS (%) 2023	2022
New Zealand Milk (Australasia) Pty Limited	Australia	**100**	100
Fonterra Australia Pty Limited	Australia	**100**	100
Fonterra Brands (Australia) Pty Limited	Australia	**100**	100
Fonterra Investments Pty Ltd	Australia	**100**	100
Dairy Partners Americas Brasil Limitada[1]	Brazil	**51**	51
Soprole Inversiones S.A.[2]	Chile	**–**	99.9
Comercial Santa Elena S.A.[2]	Chile	**–**	99.9
Soprole S.A.[2]	Chile	**–**	99.9
Prolesur S.A.[2]	Chile	**–**	99.9
Fonterra Commercial Trading (Shanghai) Company Limited[1]	China	**100**	100
Tangshan Fonterra Dairy Farm Limited[3]	China	**–**	100
Fonterra (Japan) Limited[4]	Japan	**50**	50
Fonterra Brands Indonesia, PT	Indonesia	**100**	100
Fonterra Brands (Malaysia) Sdn Bhd	Malaysia	**100**	100
Fonterra (Europe) Coöperatie U.A.	Netherlands	**100**	100
Fonterra Europe Manufacturing B.V.	Netherlands	**100**	100
Fonterra (New Zealand) Limited	New Zealand	**100**	100
Fonterra Brands (New Zealand) Limited	New Zealand	**100**	100
Fonterra Dairy Solutions Limited	New Zealand	**100**	100
Fonterra Ingredients Limited	New Zealand	**100**	100
Fonterra Limited	New Zealand	**100**	100
New Zealand Milk Brands Limited	New Zealand	**100**	100
RD1 Limited	New Zealand	**100**	100
Kotahi Logistics LP	New Zealand	**91**	90
Fonterra Brands (Singapore) Pte Limited	Singapore	**100**	100
Fonterra Brands Lanka (Private) Limited	Sri Lanka	**100**	100
Fonterra Brands (Middle East) L.L.C.[4]	UAE	**49**	49
Fonterra (USA) Inc.	United States	**100**	100

1 Balance date 31 December.
2 Balance date 31 December. These subsidiaries were disposed as part of the sale of the Chilean Soprole business. Refer to Note 2 *Divestments* for further information.
3 Balance date 31 December. This subsidiary was disposed as part of the sale of the Hangu China farm business. Refer to Note 2 *Divestments* for further information.
4 Consolidated on the basis that the Group controls through its exposure or rights to variable returns and the power to affect those returns.

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