



Dairy for life

ANNUAL FINANCIAL RESULTS

FOR THE YEAR ENDED
31 JULY 2017

CONTENTS

DIRECTORS' STATEMENT	1
INCOME STATEMENT	2
STATEMENT OF COMPREHENSIVE INCOME	3
STATEMENT OF FINANCIAL POSITION	4
STATEMENT OF CHANGES IN EQUITY	5
CASH FLOW STATEMENT	6
BASIS OF PREPARATION	7
NOTES TO THE FINANCIAL STATEMENTS	9
INDEPENDENT AUDITOR'S REPORT	47
STATUTORY INFORMATION	51
FIVE YEAR SUMMARY	61

DIRECTORS' STATEMENT

FOR THE YEAR ENDED 31 JULY 2017

The Directors of Fonterra Co-operative Group Limited (Fonterra) are pleased to present to Shareholders the Annual Report¹ and financial statements for Fonterra and its subsidiaries (together the Group) and the Group's interest in its equity accounted investments for the year ended 31 July 2017.

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

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

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

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

The Directors hereby approve and authorise for issue the Annual Report for the year ended 31 July 2017. For and on behalf of the Board:



JOHN WILSON
CHAIRMAN
23 September 2017



DAVID JACKSON
DIRECTOR
23 September 2017

¹ This document, in conjunction with the Fonterra Annual Review 2017, constitutes the 2017 Annual Report to Shareholders of Fonterra Co-operative Group Limited.

INCOME STATEMENT

FOR THE YEAR ENDED 31 JULY 2017

	NOTES	GROUP \$ MILLION	
		31 JULY 2017	31 JULY 2016
Revenue from sale of goods		19,232	17,199
Cost of goods sold	2	(15,968)	(13,567)
Gross profit		3,264	3,632
Other operating income		190	266
Selling and marketing expenses		(641)	(703)
Distribution expenses		(550)	(585)
Administrative expenses		(810)	(844)
Other operating expenses		(369)	(396)
Net foreign exchange gains		29	7
Share of profit of equity accounted investees	16	7	54
Profit before net finance costs and tax	4	1,120	1,431
Finance income	8	34	18
Finance costs	8	(389)	(517)
Net finance costs		(355)	(499)
Profit before tax		765	932
Tax expense	18	(20)	(98)
Profit after tax		745	834
Profit after tax is attributable to:			
Equity holders of the Co-operative		734	810
Non-controlling interests		11	24
Profit after tax		745	834
		GROUP \$	
		31 JULY 2017	31 JULY 2016
Earnings per share:			
Basic and diluted earnings per share	3	0.46	0.51

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 JULY 2017

	NOTES	GROUP \$ MILLION	
		31 JULY 2017	31 JULY 2016
Profit after tax		745	834
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges and other costs of hedging, net of tax		128	601
Net investment hedges and translation of foreign operations, net of tax		(124)	(318)
Hyperinflation losses attributable to equity holders		(1)	(16)
Share of equity accounted investees' movements in reserves	16	–	5
Other reserve movements		(2)	5
Total items that may be reclassified subsequently to profit or loss		1	277
Items that will not be reclassified subsequently to profit or loss:			
Net fair value gains on investments in shares		2	–
Foreign currency translation losses attributable to non-controlling interests		(3)	(84)
Hyperinflation movements attributable to non-controlling interests		–	(10)
Non-controlling interests other movements		(2)	–
Total items that will not be reclassified subsequently to profit or loss		(3)	(94)
Total other comprehensive (expense)/income recognised directly in equity		(2)	183
Total comprehensive income		743	1,017
Total comprehensive income is attributable to:			
Equity holders of the Co-operative		737	1,087
Non-controlling interests		6	(70)
Total comprehensive income		743	1,017

STATEMENT OF FINANCIAL POSITION

AS AT 31 JULY 2017

	NOTES	GROUP \$ MILLION	
		31 JULY 2017	31 JULY 2016
ASSETS			
Current assets			
Cash and cash equivalents		393	369
Trade and other receivables	9	2,303	1,625
Inventories	10	2,593	2,401
Tax receivable		32	13
Derivative financial instruments		580	451
Assets held for sale		-	87
Other current assets		181	145
Total current assets		6,082	5,091
Non-current assets			
Property, plant and equipment	13	6,391	6,172
Equity accounted investments	16	887	960
Livestock	14	319	342
Intangible assets	15	3,115	3,142
Deferred tax assets	18	363	410
Derivative financial instruments		239	417
Other non-current assets		446	584
Total non-current assets		11,760	12,027
Total assets		17,842	17,118
LIABILITIES			
Current liabilities			
Bank overdraft		11	12
Borrowings	7	1,112	955
Trade and other payables	11	2,117	2,169
Owing to suppliers	12	1,330	719
Tax payable		34	18
Derivative financial instruments		43	43
Provisions	19	40	47
Other current liabilities		44	35
Total current liabilities		4,731	3,998
Non-current liabilities			
Borrowings	7	5,151	5,397
Derivative financial instruments		547	569
Provisions	19	148	152
Deferred tax liabilities	18	9	44
Other non-current liabilities		8	11
Total non-current liabilities		5,863	6,173
Total liabilities		10,594	10,171
Net assets		7,248	6,947
EQUITY			
Subscribed equity		5,858	5,833
Retained earnings		1,637	1,384
Foreign currency translation reserve	17	(552)	(428)
Hedge reserves	17	192	64
Other reserves		5	6
Total equity attributable to equity holders of the Co-operative		7,140	6,859
Non-controlling interests		108	88
Total equity		7,248	6,947

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JULY 2017

GROUP \$ MILLION	ATTRIBUTABLE TO EQUITY HOLDERS OF THE CO-OPERATIVE							TOTAL EQUITY
	SUBSCRIBED EQUITY	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION RESERVE	HEDGE RESERVES	OTHER RESERVES	TOTAL	NON-CONTROLLING INTERESTS	
As at 1 August 2016	5,833	1,384	(428)	64	6	6,859	88	6,947
Profit after tax	-	734	-	-	-	734	11	745
Other comprehensive income/(expense)	-	-	(124)	128	(1)	3	(5)	(2)
Total comprehensive income/(expense)	-	734	(124)	128	(1)	737	6	743
Transactions with equity holders in their capacity as equity holders:								
Dividend paid to equity holders of the Co-operative	-	(481)	-	-	-	(481)	-	(481)
Equity instruments issued	25	-	-	-	-	25	42	67
Dividend paid to non-controlling interests	-	-	-	-	-	-	(28)	(28)
As at 31 July 2017	5,858	1,637	(552)	192	5	7,140	108	7,248
As at 1 August 2015	5,814	1,289	(110)	(537)	17	6,473	186	6,659
Profit after tax	-	810	-	-	-	810	24	834
Other comprehensive income/(expense)	-	5	(318)	601	(11)	277	(94)	183
Total comprehensive income/(expense)	-	815	(318)	601	(11)	1,087	(70)	1,017
Transactions with equity holders in their capacity as equity holders:								
Dividend paid to equity holders of the Co-operative	-	(720)	-	-	-	(720)	-	(720)
Equity instruments issued	19	-	-	-	-	19	-	19
Dividend paid to non-controlling interests	-	-	-	-	-	-	(28)	(28)
As at 31 July 2016	5,833	1,384	(428)	64	6	6,859	88	6,947

The accompanying notes form part of these financial statements.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 JULY 2017

	GROUP \$ MILLION	
	31 JULY 2017	31 JULY 2016
Cash flows from operating activities		
Profit before net finance costs and tax	1,120	1,431
Adjustments for:		
Foreign exchange gains	(1)	(365)
Depreciation and amortisation	526	570
Other	15	(44)
	540	161
Decrease/(increase) in working capital:		
Inventories	(177)	597
Trade and other receivables	(634)	485
Amounts owing to suppliers	745	560
Payables and accruals	(100)	171
Other movements	(48)	(42)
Total	(214)	1,771
Cash generated from operations	1,446	3,363
Net taxes paid	(70)	(85)
Net cash flows from operating activities	1,376	3,278
Cash flows from investing activities		
Cash was provided from:		
– Proceeds from sale of business operations	–	230
– Proceeds from disposal of property, plant and equipment	105	26
– Proceeds from sale of livestock	62	35
– Proceeds from sale of investments in shares	–	78
– Other cash inflows	51	26
Cash was applied to:		
– Acquisition of property, plant and equipment	(690)	(859)
– Acquisition of livestock	(89)	(95)
– Acquisition of intangible assets	(103)	(85)
– Co-operative support loans	–	(383)
– Advances to and investments in equity accounted investees	(42)	(41)
– Other cash outflows	–	(26)
Net cash flows from investing activities	(706)	(1,094)
Cash flows from financing activities		
Cash was provided from:		
– Proceeds from borrowings	4,174	4,909
– Interest received	13	7
– Other cash inflows	38	–
Cash was applied to:		
– Interest paid	(393)	(415)
– Repayment of borrowings	(3,968)	(5,815)
– Dividends paid to non-controlling interests	(28)	(28)
– Dividends paid to equity holders of the Co-operative	(456)	(701)
– Other cash outflows	(2)	(7)
Net cash flows from financing activities	(622)	(2,050)
Net increase in cash and cash equivalents	48	134
Cash and cash equivalents at the beginning of the year	357	303
Effect of exchange rate changes on cash balances	(23)	(80)
Cash and cash equivalents at the end of the year	382	357
Reconciliation of closing cash balances to the statement of financial position:		
Cash and cash equivalents	393	369
Bank overdraft	(11)	(12)
Closing cash balances	382	357

The accompanying notes form part of these financial statements.

BASIS OF PREPARATION

FOR THE YEAR ENDED 31 JULY 2017

A) GENERAL INFORMATION

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

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

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

B) BASIS OF PREPARATION

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

These financial statements are prepared on a historical cost basis, except for derivative financial instruments, the investment in Beingmate Baby & Child Food Co., Ltd., livestock and the hedged risks on certain debt instruments, which are recognised at their fair values.

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

Significant accounting policies which are relevant to an understanding of the financial statements and summarise the measurement basis used are provided throughout the Notes in blue frames.

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

Intangible assets (Note 15)

The recoverability of the carrying value of goodwill and indefinite life brands is assessed at least annually to ensure they are not impaired. Performing this assessment requires management to estimate future cash flows, pre-tax discount rates and terminal growth rates.

Investment in Beingmate Baby & Child Food Co., Ltd. (Beingmate) (Note 16)

Throughout the year, Beingmate's shares traded significantly below the share price at the time Fonterra acquired its investment. In addition, Beingmate reported losses for the full year ended December 2016 and the half year ended 30 June 2017. As a result the carrying value of the investment has been assessed for impairment. In previous periods a discounted cash flow forecast was used to perform this assessment. However, the short-term uncertainty associated with the market's response to regulatory changes, which has had an adverse impact on Beingmate's financial performance, means that as at 31 July 2017 a fair value methodology has been applied. The fair value applied is an estimate of what a market participant would pay for a similar stake in Beingmate under current market conditions. The market fundamentals remain strong and the changes to the regulatory regime, anticipated to be effective from 1 January 2018, are expected to have a positive impact on Beingmate's financial performance. However, the value of the investment calculated on a fair value basis supports a carrying value of \$617 million, therefore an impairment loss of \$35 million has been recognised in the financial year.

Provisions and contingent liabilities (Note 19)

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

Deferred tax assets (Note 18)

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

C) BASIS OF CONSOLIDATION

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

Translation of the financial statements into NZD

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

D) NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

i) New and amended standards adopted by the Group: Impact of adopting NZ IFRS 9 Financial Instruments

NZ IFRS 9 Financial Instruments addresses the classification, measurement and de-recognition of financial assets, financial liabilities, impairment of financial assets and hedge accounting. The hedge accounting rules in NZ IFRS 9 align hedge accounting more closely with Fonterra's risk management activities. Therefore, Fonterra elected to adopt NZ IFRS 9 from 1 August 2016. The impact of adopting NZ IFRS 9 is summarised below:

- Fonterra is now able to achieve hedge accounting for certain interest rate swaps, which was not possible under the accounting standards previously applied.
- For interest rate swaps in place on transition to NZ IFRS 9, the hedging relationship for accounting purposes can only commence on 1 August 2016. This means that these interest rate swaps will not be perfectly matched to the underlying exposure. Any hedge ineffectiveness will continue to be reflected in finance costs.

- Option premium costs and the time value of options are now recognised in other comprehensive income as 'costs of hedging reserve', until the hedged sales transaction is recognised. Under the accounting standards previously applied, these costs were recorded in the income statement when they were incurred. This change is required to be recognised retrospectively, however as it did not have a material impact on Fonterra's financial statements for the year ended 31 July 2016, no change has been made to the comparative numbers.

NZ IFRS 9 required changes in classification, measurement and impairment requirements, none of which were material to Fonterra's financial statements.

ii) New and amended standards issued but not yet effective

New and amended standards that could be expected to have a material impact on the Group's financial statements, which were available for early adoption but have not been adopted, are stated below.

- NZ IFRS 15 Revenue from Contracts with Customers replaces the current guidance on revenue recognition. It requires revenue to be recognised when a customer obtains control of the goods or service, and has the ability to direct the use and obtain the benefits from those goods or services.

Fonterra has reviewed its main types of contracts with customers. As a result of this review, Fonterra's preliminary assessment is that the application of NZ IFRS 15 will not have a material impact on its financial position or performance.

- NZ IFRS 16 Leases replaces the current guidance on lease accounting. It requires a lease liability, reflecting future lease payments, and a 'right of use asset' to be recognised for most lease contracts. This includes many of the leases currently classified as operating leases for which no asset or liability is reflected on the balance sheet under existing accounting rules. Entities can choose to retain the current accounting treatment for certain short-term leases and leases of low value assets.

Fonterra has commenced its assessment of the impact of NZ IFRS 16. The policy choices and transition options available in the Standard are currently being evaluated. Therefore the impact of adoption has not yet been fully assessed. Fonterra's operating lease commitments as at reporting date are disclosed in Note 19.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2017

NOTE	PAGE
PERFORMANCE	10
1 Segment reporting	10
2 Cost of goods sold	14
3 Earnings per share	15
4 Profit before net finance costs and tax	15
DEBT AND EQUITY	16
5 Subscribed equity instruments	16
6 Dividends paid	17
7 Borrowings	17
8 Net finance costs	20
WORKING CAPITAL	21
9 Trade and other receivables	21
10 Inventories	22
11 Trade and other payables	22
12 Owing to suppliers	22
LONG-TERM ASSETS	23
13 Property, plant and equipment	23
14 Livestock	25
15 Intangible assets	26
INVESTMENTS	28
16 Equity accounted investments	28
FINANCIAL RISK MANAGEMENT	29
17 Financial risk management	29
OTHER	39
18 Taxation	39
19 Contingent liabilities, provisions and commitments	41
20 Related party transactions	43
21 Group entities	45
22 Net tangible assets per security	46

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

PERFORMANCE

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

This section includes the following Notes:

Note 1: Segment reporting

Note 2: Cost of goods sold

Note 3: Earnings per share

Note 4: Profit before net finance costs and tax

1 SEGMENT REPORTING

During the year financial information was viewed by the Fonterra Management Team based on two different management reporting structures. The first, based on operating segments as presented in section (a), the second, a strategic platform view as presented in section (b).

a) Operating segments

The Group has five reportable segments that reflect the Group's management and reporting structure as viewed by the Fonterra Management Team. Transactions between segments are based on estimated market prices.

REPORTABLE SEGMENT	DESCRIPTION
Global Ingredients and Operations	Represents the collection, processing and distribution of New Zealand milk, global sales and marketing of New Zealand and non-New Zealand milk products (including the Quick Service Restaurant businesses in Asia and Greater China), Global Brands and Nutrition, Co-operative Affairs, Fonterra Farm Source™ stores and Group Services.
Oceania	Represents fast-moving consumer goods (FMCG) businesses in New Zealand (including export to the Pacific Islands) and all FMCG and ingredients businesses in Australia (including Milk Supply and Manufacturing). It includes foodservice sales in Australia and New Zealand.
Asia	Represents FMCG and foodservice businesses (excluding the Quick Service Restaurant business) in Asia (excluding Greater China), Africa and the Middle East.
Greater China	Represents FMCG, foodservice (excluding the Quick Service Restaurant business) and farming businesses in Greater China.
Latin America	Represents FMCG and ingredients businesses in South America and the Caribbean.

a) Operating segments continued

	GROUP \$ MILLION						TOTAL GROUP
	GLOBAL INGREDIENTS AND OPERATIONS	OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	ELIMINATIONS	
Segment income statement							
<i>Year ended 31 July 2017</i>							
External revenue	12,510	2,458	1,509	1,183	1,572	–	19,232
Inter-segment revenue	1,949	458	142	275	8	(2,832)	–
Revenue from sale of goods	14,459	2,916	1,651	1,458	1,580	(2,832)	19,232
Cost of goods sold	(13,039)	(2,400)	(1,159)	(1,082)	(1,125)	2,837	(15,968)
Segment gross profit	1,420	516	492	376	455	5	3,264
Selling and marketing expenses	(170)	(100)	(155)	(99)	(117)	–	(641)
Distribution expenses	(204)	(143)	(35)	(11)	(157)	–	(550)
Administrative and other operating expenses	(738)	(154)	(106)	(108)	(88)	15	(1,179)
Segment operating expenses	(1,112)	(397)	(296)	(218)	(362)	15	(2,370)
Net other operating income	96	86	3	19	2	(16)	190
Net foreign exchange gains/(losses)	31	1	(5)	(1)	3	–	29
Share of profit/(loss) of equity accounted investees	49	–	–	(46)	4	–	7
Segment earnings before net finance costs and tax	484	206	194	130	102	4	1,120
Normalisation adjustments	1	(42)	–	76	–	–	35
Normalised segment earnings before net finance costs and tax	485	164	194	206	102	4	1,155
Normalisation adjustments							(35)
Finance income							34
Finance costs							(389)
Profit before tax							765
Profit before tax includes the following amounts:							
Depreciation	(307)	(51)	(11)	(27)	(39)	–	(435)
Amortisation	(68)	(18)	(3)	(1)	(1)	–	(91)
Normalisation adjustments consist of the following amounts:							
Gain on sale of Darnum manufacturing plant ¹	–	42	–	–	–	–	42
Reduction in the carrying value of investment in Beingmate ²	–	–	–	(76)	–	–	(76)
Time value of options ³	(1)	–	–	–	–	–	(1)
Total normalisation adjustments	(1)	42	–	(76)	–	–	(35)
Segment asset information:							
<i>As at and for the year ended 31 July 2017</i>							
Equity accounted investments	215	–	–	662	10	–	887
Capital expenditure ⁴	553	188	23	38	49	–	851

¹ The \$42 million normalisation adjustment relates to other operating income.

² Of the \$76 million normalisation adjustment, \$35 million relates to other operating expenses and \$41 million to the share of profit/(loss) of equity accounted investees.

³ Of the \$1 million normalisation adjustment, \$18 million relates to revenue offset by \$19 million of net foreign exchange losses.

⁴ Capital expenditure comprises purchases of property, plant and equipment and intangible assets, and net purchases of livestock.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

a) Operating segments continued

	GROUP \$ MILLION						TOTAL GROUP
	GLOBAL INGREDIENTS AND OPERATIONS	OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	ELIMINATIONS	
Segment income statement							
<i>Year ended 31 July 2016</i>							
External revenue	10,636	2,425	1,630	1,008	1,500	-	17,199
Inter-segment revenue	1,505	439	171	13	5	(2,133)	-
Revenue from sale of goods	12,141	2,864	1,801	1,021	1,505	(2,133)	17,199
Cost of goods sold	(10,343)	(2,362)	(1,213)	(742)	(1,042)	2,135	(13,567)
Segment gross profit	1,798	502	588	279	463	2	3,632
Selling and marketing expenses	(168)	(99)	(187)	(132)	(117)	-	(703)
Distribution expenses	(222)	(160)	(38)	(10)	(155)	-	(585)
Administrative and other operating expenses	(778)	(205)	(128)	(85)	(74)	30	(1,240)
Segment operating expenses	(1,168)	(464)	(353)	(227)	(346)	30	(2,528)
Net other operating income	145	97	3	27	20	(26)	266
Net foreign exchange gains/(losses)	30	1	(3)	(5)	(16)	-	7
Share of profit/(loss) of equity accounted investees	59	1	-	(10)	4	-	54
Segment earnings before net finance costs and tax	864	137	235	64	125	6	1,431
Normalisation adjustments	(96)	23	-	-	-	-	(73)
Normalised segment earnings before net finance costs and tax	768	160	235	64	125	6	1,358
Normalisation adjustments							73
Finance income							18
Finance costs							(517)
Profit before tax							932
Profit before tax includes the following amounts:							
Depreciation	(337)	(48)	(13)	(30)	(37)	-	(465)
Amortisation	(72)	(27)	(4)	(1)	(1)	-	(105)
Normalisation adjustments consist of the following amounts:							
Gain on sale of DairyConcepts investment ¹	68	-	-	-	-	-	68
Disposal and impairment of the Australian yoghurt and dairy desserts business ²	-	(23)	-	-	-	-	(23)
Time value of options ³	28	-	-	-	-	-	28
Total normalisation adjustments	96	(23)	-	-	-	-	73
Segment asset information:							
<i>As at and for the year ended 31 July 2016</i>							
Equity accounted investments	188	-	-	763	9	-	960
Capital expenditure ⁴	632	114	21	131	46	-	944

1 The \$68 million normalisation adjustment relates to other operating income.

2 Of the total \$23 million, \$4 million relates to cost of goods sold and \$19 million to other operating expenses.

3 The \$28 million normalisation adjustment relates to net foreign exchange gains.

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

b) Strategic platforms

Strategic platforms are organised on a different basis than the Group's operating segments presented in section a) of this note. The basis of presentation is explained in the table below.

Fonterra considers this information to be useful as it provides more clarity on the financial performance of the ingredients, consumer and foodservice, and China Farms businesses.

PLATFORM	DESCRIPTION
Ingredients	Represents the Global Ingredients and Operations reportable segment, the ingredients businesses in Australia and South America, and excludes the Quick Service Restaurant businesses in Asia and Greater China and unallocated costs.
Consumer and foodservice	
- Oceania	Represents the Oceania reportable segment, excluding the ingredients business in Australia.
- Asia	Represents the Asia reportable segment and the Asia Quick Service Restaurant business reported in Global Ingredients and Operations.
- Greater China	Represents the Greater China reportable segment, excluding China Farms and including the Quick Service Restaurant business in Greater China reported in Global Ingredients and Operations.
- Latin America	Represents the Latin America reportable segment, excluding the ingredients businesses in South America.
China Farms	Represents farming operations in China.

	GROUP								
	31 JULY 2017								
	INGREDIENTS	CONSUMER AND FOODSERVICE				CHINA FARMS ¹	UNALLOCATED COSTS AND ELIMINATIONS	TOTAL	
	OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL				
Volume ² (liquid milk equivalents, billion)	21.30	1.74	1.70	1.28	0.74	5.46	0.34	(4.16)	22.94
Volume ² (metric tonnes, thousand)	3,019	636	310	237	600	1,783	26	(648)	4,180
Sales revenue ² (\$ million)	15,284	1,952	1,810	1,277	1,478	6,517	269	(2,838)	19,232
Normalised EBIT (\$ million)	943	101	201	209	103	614	1	(403)	1,155
Capital employed ³ (\$ million)	7,950	463	117	22	270	872	789	(518)	9,093
Return on capital ⁴	10.3%	13.5%	118.4%	680.5%	23.3%	47.2%	NA		11.1%

For the year ended 31 July 2017 the Group's return on capital including intangible assets, goodwill and equity accounted investments, was 8.3 per cent.

	GROUP								
	31 JULY 2016								
	INGREDIENTS	CONSUMER AND FOODSERVICE				CHINA FARMS	UNALLOCATED COSTS AND ELIMINATIONS	TOTAL	
	OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL				
Volume ² (liquid milk equivalents, billion)	22.39	1.83	1.55	0.87	0.62	4.87	0.23	(3.83)	23.66
Volume ^{2,5} (metric tonnes, thousand)	3,074	698	292	167	643	1,800	16	(577)	4,313
Sales revenue ² (\$ million)	13,005	2,051	1,944	916	1,385	6,296	183	(2,285)	17,199
Normalised EBIT (\$ million)	1,204	97	244	131	108	580	(59)	(367)	1,358
Capital employed ³ (\$ million)	7,724	489	127	22	284	922	873	(127)	9,392
Return on capital ⁴	13.4%	10.9%	133.4%	429.9%	23.6%	41.7%	(6.5)%		12.4%

For the year ended 31 July 2016 the Group's return on capital including intangible assets, goodwill and equity accounted investments, was 9.2 per cent.

1 During the year ended 31 July 2017 the responsibility for the sale of China Farm's milk was transitioned to the Ingredients sales team in Greater China which has had an impact on year on year comparability. The transfer price is reflective of long-term milk price trends in China.

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

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

4 Return on capital is calculated as normalised EBIT, less equity accounted investees' earnings, less a notional royalty charge for use of the Group's brands, less a notional tax charge, divided by capital employed.

5 China Farms volumes for the year ended 31 July 2016 (metric tonnes, thousand), have been restated to align to the same product volume to weight conversion methodology as used by the Ingredients business to aid comparability between segments. Previously China Farms volumes were converted to metric tonnes based on the litres of raw milk sold.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

c) Geographical revenue

	GROUP \$ MILLION								
	CHINA	REST OF ASIA	AUSTRALIA	NEW ZEALAND	UNITED STATES	EUROPE	LATIN AMERICA	REST OF WORLD	TOTAL
<i>Geographical segment external revenue:</i>									
Year ended 31 July 2017	3,383	5,165	1,592	2,056	1,254	838	2,162	2,782	19,232
Year ended 31 July 2016	2,394	4,829	1,471	1,939	1,305	745	2,053	2,463	17,199

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

d) Non-current assets

	GROUP \$ MILLION							TOTAL GROUP
	GLOBAL INGREDIENTS AND OPERATIONS		OCEANIA		ASIA	GREATER CHINA	LATIN AMERICA	
	NEW ZEALAND	REST OF WORLD	NEW ZEALAND	AUSTRALIA				
<i>Geographical segment non-current assets:</i>								
As at 31 July 2017	5,479	347	1,285	840	738	1,481	988	11,158
As at 31 July 2016	5,459	301	1,292	740	779	1,648	981	11,200

	GROUP \$ MILLION	
	AS AT 31 JULY 2017	AS AT 31 JULY 2016
<i>Reconciliation of geographical segment's non-current assets to total non-current assets:</i>		
Geographical segment non-current assets	11,158	11,200
Deferred tax assets	363	410
Derivative financial instruments	239	417
Total non-current assets	11,760	12,027

2 COST OF GOODS SOLD

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

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

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

	GROUP \$ MILLION	
	31 JULY 2017	31 JULY 2016
Opening inventory	2,401	3,025
Cost of milk:		
– New Zealand sourced	9,471	6,205
– Non-New Zealand sourced	932	944
Other costs	5,757	5,794
Closing inventory	(2,593)	(2,401)
Total cost of goods sold	15,968	13,567

3 EARNINGS PER SHARE

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

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

	GROUP	
	31 JULY 2017	31 JULY 2016
Basic and diluted earnings per share attributable to equity holders of the Co-operative (\$)	0.46	0.51
Earnings attributable to equity holders of the Co-operative (\$ million)	734	810
Weighted average number of shares (thousands of shares)	1,604,744	1,600,825

4 PROFIT BEFORE NET FINANCE COSTS AND TAX

	GROUP \$ MILLION	
	31 JULY 2017	31 JULY 2016
The following items have been included in profit before net finance costs and tax:		
Auditors' remuneration:		
– Fees paid for the audit of the financial statements	6	5
– Fees paid for other services ¹	–	–
Operating lease expense	84	94
Research and development costs	81	88
Donations	1	1
Research and development grants received from government	(4)	(4)
Total employee benefits expense	1,966	2,019
Contributions to defined contribution plans included in employee benefits expense	68	69

¹ The Group uses the services of PricewaterhouseCoopers on assignments additional to their statutory audit duties where their expertise and experience with the Group are important and auditor independence is not impaired. Other services include other assurance and attestation services \$0.1 million (31 July 2016: \$0.1 million) and advisory services of \$0.1 million (31 July 2016: nil).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

DEBT AND EQUITY

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

This section includes the following Notes:

Note 5: Subscribed equity instruments

Note 6: Dividends paid

Note 7: Borrowings

Note 8: Net finance costs

5 SUBSCRIBED EQUITY INSTRUMENTS

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

Co-operative shares, including shares held within the Group

Co-operative shares may only be held by a shareholder supplying milk to the Company (farmer shareholder), by former farmer shareholders for up to three seasons after cessation of milk supply, or by Fonterra Farmer Custodian Limited (the Custodian). Voting rights in the Company are dependent on milk supply supported by Co-operative shares¹.

	CO-OPERATIVE SHARES (THOUSANDS)
Balance at 1 August 2016	1,602,703
Shares issued under the dividend reinvestment plan ²	4,230
Shares surrendered	–
Balance at 31 July 2017	1,606,933
Balance at 1 August 2015	1,599,094
Shares issued under the dividend reinvestment plan ²	3,609
Shares surrendered	–
Balance at 31 July 2016	1,602,703

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

² Total value of \$25 million (31 July 2016: \$19 million).

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

Units in the Fonterra Shareholders' Fund

The Custodian holds legal title of Co-operative shares of which the Economic Rights have been sold to the Fund on trust for the benefit of the Fund. At 31 July 2017, 126,047,304 Co-operative shares (31 July 2016: 111,991,937) were legally owned by the Custodian, on trust for the benefit of the Fund.

	UNITS (THOUSANDS)
Balance at 1 August 2016	111,992
Units issued	29,933
Units surrendered	(15,878)
Balance at 31 July 2017	126,047
Balance at 1 August 2015	105,480
Units issued	27,137
Units surrendered	(20,625)
Balance at 31 July 2016	111,992

The rights attaching to units are set out in the Trust Deed constituting the Fonterra Shareholders' Fund, available in the 'Our Financials/Fonterra Shareholders' Fund' section of Fonterra's website.

Capital management and structure

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

5 SUBSCRIBED EQUITY INSTRUMENTS CONTINUED

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

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

6 DIVIDENDS PAID

All Co-operative shares, including those held by the Custodian on trust for the benefit of the Fund, are eligible to receive dividends if declared by the Board. Dividends paid to the Custodian are passed on to unit holders by the FSF Management Company Limited (the Manager).

Dividends are recognised as a liability in the Group's financial statements in the period in which they are declared by the Board.

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

DIVIDENDS	\$ MILLION	
	YEAR ENDED 31 JULY 2017	YEAR ENDED 31 JULY 2016
2017 Interim dividend – 20 cents per share ¹	321	–
2016 Final dividend – 10 cents per share ²	160	–
2016 Interim dividend – 10 cents per share ³	–	160
2016 Interim dividend – 20 cents per share ⁴	–	320
2015 Final dividend – 15 cents per share ⁵	–	240

¹ Declared on 21 March 2017 and paid on 20 April 2017 to all Co-operative shares on issue at 5 April 2017.

² Declared on 18 August 2016 and paid on 9 September 2016 to all Co-operative shares on issue at 1 September 2016.

³ Declared on 16 May 2016 and paid on 7 June 2016 to all Co-operative shares on issue at 30 May 2016.

⁴ Declared on 22 March 2016 and paid on 20 April 2016 to all Co-operative shares on issue at 8 April 2016.

⁵ Declared on 23 September 2015 and paid on 20 October 2015 to all Co-operative shares on issue at 8 October 2015.

Dividend declared after balance date

On 23 September 2017, the Board declared a final dividend of 20 cents per share, to be paid on 20 October 2017 to all Co-operative shares on issue as at 9 October 2017.

Fonterra has a Dividend Reinvestment Plan, where eligible shareholders can choose to reinvest all or part of their dividend in additional Co-operative shares. The Dividend Reinvestment Plan does apply to this dividend. Participation in the Dividend Reinvestment Plan requires shareholders to submit an election notice for participation by 9 October 2017. Full details of the Dividend Reinvestment Plan are available in the 'Dividends' section of Fonterra's website.

7 BORROWINGS

The Group borrows in the form of bonds, bank facilities and other financial instruments. The interest expense incurred on Fonterra's borrowings is shown in Note 8.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method, with the hedged risks on certain debt instruments measured at fair value. Details of the Group's hedge accounting policies are included in Note 17 Financial Risk Management.

Economic net interest-bearing debt

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

	GROUP \$ MILLION	
	AS AT 31 JULY 2017	AS AT 31 JULY 2016
Net interest-bearing debt position		
Total borrowings	6,263	6,352
Cash and cash equivalents	(393)	(369)
Interest-bearing advances ¹	(435)	(464)
Bank overdraft	11	12
Net interest-bearing debt	5,446	5,531
Value of derivatives used to manage changes in hedged risks on debt instruments	155	(58)
Economic net interest-bearing debt	5,601	5,473

¹ Includes \$135 million of Fonterra Co-operative Support Loan repayments relating to the 2016/17 season (31 July 2016: nil).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

7 BORROWINGS CONTINUED

Total borrowings in the table above are represented by:

	GROUP \$ MILLION	
	AS AT 31 JULY 2017	AS AT 31 JULY 2016
Commercial paper	164	454
Bank loans	854	879
Finance leases ¹	137	143
Capital notes ²	35	35
NZX-listed bonds	500	499
Medium-term notes	4,573	4,342
Total borrowings	6,263	6,352
Included within the statement of financial position as follows:		
Total current borrowings	1,112	955
Total non-current borrowings	5,151	5,397
Total borrowings	6,263	6,352

1 Finance leases are secured over the related item of property, plant and equipment (Note 13).

2 Capital notes are unsecured subordinated borrowings.

3 All other borrowings are unsecured and unsubordinated.

Leverage ratios

The Board closely monitors the Group's leverage ratios, which include the gearing ratio and debt coverage ratios (debt payback and interest coverage ratios). The primary debt payback ratios comprise funds from operations divided by economic net interest-bearing debt, and economic net interest-bearing debt divided by EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation). Debt pay-back ratios are adjusted for the impact of operating leases. The gearing ratio is calculated as economic net interest-bearing debt divided by total capital. Economic net interest-bearing debt is calculated in the table above. Total capital is calculated as equity, as presented in the statement of financial position (excluding hedge reserves), plus economic net interest-bearing debt. The gearing ratio as at 31 July 2017 was 44.3 per cent (31 July 2016: 44.3 per cent). The Group is not subject to externally imposed capital requirements.

Finance leases included in total borrowings are represented by:

	GROUP \$ MILLION	
	AS AT 31 JULY 2017	AS AT 31 JULY 2016
Finance leases – minimum lease payments		
Not later than one year	17	17
Later than one year and not later than five years	144	161
Later than five years	5	6
	166	184
Future finance charges on finance leases	(29)	(41)
Present value of finance leases	137	143
The present value of finance leases is as follows:		
Not later than one year	6	6
Later than one year and not later than five years	126	131
Later than five years	5	6
Total present value of finance leases	137	143

Liquidity risk

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

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

The Group manages its liquidity by retaining cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Fonterra's funding facilities are reviewed at least annually, which is one of the key financial risk management activities undertaken by the Group to ensure an appropriate maturity profile given the nature of the Group's business. At balance date the Group had undrawn lines of credit totalling \$3,811 million (31 July 2016: \$3,723 million).

7 BORROWINGS CONTINUED

Liquidity and refinancing risks are also managed by ensuring that Fonterra can maintain access to funding markets throughout the world.

To that end, Fonterra maintains debt issuance programmes in a number of key markets and manages relationships with international investors.

Exposure to liquidity risk

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

	GROUP \$ MILLION					
	AS AT 31 JULY 2017					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	3 MONTHS OR LESS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS
Non-derivative financial liabilities						
Borrowings						
– Commercial paper	(164)	(165)	(165)	–	–	–
– Bank loans	(854)	(904)	(218)	(189)	(497)	–
– Finance leases	(137)	(166)	(4)	(13)	(144)	(5)
– Capital notes	(35)	(42)	–	(1)	(6)	(35)
– NZX-listed bonds	(500)	(609)	(11)	(11)	(430)	(157)
– Medium-term notes	(4,573)	(5,806)	(232)	(537)	(2,168)	(2,869)
Bank overdraft	(11)	(12)	(12)	–	–	–
Owing to suppliers	(1,330)	(1,330)	(1,330)	–	–	–
Trade and other payables (excluding employee entitlements)	(1,841)	(1,841)	(1,841)	–	–	–
Financial guarantees issued ¹	–	(1)	(1)	–	–	–
Total non-derivative financial liabilities	(9,445)	(10,876)	(3,814)	(751)	(3,245)	(3,066)
Derivative financial instruments						
Gross settled derivatives						
– Inflow		22,210	10,964	7,921	1,364	1,961
– Outflow		(22,052)	(10,838)	(7,579)	(1,451)	(2,184)
Total gross settled derivative financial instruments	312	158	126	342	(87)	(223)
Net settled derivatives	(83)	(122)	(5)	9	(130)	4
Total financial instruments	(9,216)	(10,840)	(3,693)	(400)	(3,462)	(3,285)

1 Maximum cash flows under guarantees provided by the Group.

	GROUP \$ MILLION					
	AS AT 31 JULY 2016					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	3 MONTHS OR LESS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS
Non-derivative financial liabilities						
Borrowings						
– Commercial paper	(454)	(456)	(365)	(91)	–	–
– Bank loans	(879)	(911)	(368)	(135)	(408)	–
– Finance leases	(143)	(184)	(4)	(13)	(161)	(6)
– Capital notes	(35)	(42)	–	(1)	(6)	(35)
– NZX-listed bonds	(499)	(630)	(11)	(11)	(87)	(521)
– Medium-term notes	(4,342)	(5,653)	(33)	(175)	(2,643)	(2,802)
Bank overdraft	(12)	(12)	(12)	–	–	–
Owing to suppliers	(719)	(719)	(719)	–	–	–
Trade and other payables (excluding employee entitlements)	(1,867)	(1,867)	(1,867)	–	–	–
Financial guarantees issued ¹	–	(6)	(6)	–	–	–
Total non-derivative financial liabilities	(8,950)	(10,480)	(3,385)	(426)	(3,305)	(3,364)
Derivative financial instruments						
Gross settled derivatives						
– Inflow		24,524	13,975	7,236	1,601	1,712
– Outflow		(24,332)	(13,837)	(6,975)	(1,647)	(1,873)
Total gross settled derivative financial instruments	461	192	138	261	(46)	(161)
Net settled derivatives	(205)	(106)	(28)	1	(98)	19
Total financial instruments	(8,694)	(10,394)	(3,275)	(164)	(3,449)	(3,506)

1 Maximum cash flows under guarantees provided by the Group.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

8 NET FINANCE COSTS

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

Finance costs also include the changes in fair value relating to derivatives used to manage interest rate risk, and the associated changes in fair value of the borrowings designated in a hedge relationship. Details of the Group's hedge accounting policies are included in Note 17 Financial Risk Management.

Fonterra Co-operative Support Loans

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

	GROUP \$ MILLION	
	31 JULY 2017	31 JULY 2016
Finance income ¹	34	18
Total interest expense at amortised cost ²	(427)	(434)
Changes in fair value relating to:		
– Borrowings designated in a hedge relationship	157	(111)
– Derivatives designated in a hedge relationship	(123)	129
– Derivatives where hedge accounting has not been applied	4	(101)
Total interest income/(expense) from fair value movements	38	(83)
Finance costs	(389)	(517)
Net finance costs	(355)	(499)

1 Finance income includes \$24 million of fair value adjustments relating to the Fonterra Co-operative Support Loans. For the year ended 31 July 2016, \$36 million of fair value adjustments are included within interest expense at amortised cost.

2 Includes interest expense of \$22 million (31 July 2016: \$22 million) relating to derivatives where hedge accounting has not been applied, and cash flow hedge effectiveness reclassified to profit or loss.

Interest rate risk

Details of how the Group manages interest rate risk is included in Note 17 Financial Risk Management.

WORKING CAPITAL

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

This section includes the following Notes:

Note 9: Trade and other receivables

Note 10: Inventories

Note 11: Trade and other payables

Note 12: Owing to suppliers

9 TRADE AND OTHER RECEIVABLES

Revenue from sale of goods is recognised at the fair value of the consideration received or receivable, net of returns, discounts and allowances. Revenue is recognised when the amount can be reliably measured, significant risks and rewards of ownership of the inventory have passed to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

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

Estimates are used in determining the level of receivables that may not be collected. A provision for impairment is established when there is evidence that the Group will not be able to collect all amounts due.

	GROUP \$ MILLION	
	AS AT 31 JULY 2017	AS AT 31 JULY 2016
Trade receivables	2,015	1,302
Less: provision for impairment of trade receivables	(23)	(20)
Trade receivables net of provision for impairment	1,992	1,282
Receivables from related parties ¹	32	18
Other receivables	162	201
Total receivables	2,186	1,501
Prepayments	117	124
Total trade and other receivables	2,303	1,625

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

Credit risk

Details of how the Group manages credit risk is included in Note 17 Financial Risk Management.

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

GROUP \$ MILLION	CURRENT	LESS THAN 1 MONTH PAST DUE	MORE THAN 1 MONTH BUT LESS THAN 3 MONTHS PAST DUE	MORE THAN 3 MONTHS PAST DUE	TOTAL
As at 31 July 2016	1,303	130	38	30	1,501

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

10 INVENTORIES

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

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

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

	GROUP \$ MILLION	
	AS AT 31 JULY 2017	AS AT 31 JULY 2016
Raw materials	680	647
Finished goods	1,950	1,793
Impairment of finished goods	(37)	(39)
Total inventories	2,593	2,401

11 TRADE AND OTHER PAYABLES

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

	GROUP \$ MILLION	
	AS AT 31 JULY 2017	AS AT 31 JULY 2016
Trade payables	1,683	1,640
Amounts due to related parties	21	16
Other payables	137	211
Total trade and other payables (excluding employee entitlements)	1,841	1,867
Employee entitlements	276	302
Total trade and other payables	2,117	2,169

12 OWING TO SUPPLIERS

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

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

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

	GROUP	
	AS AT 31 JULY 2017	AS AT 31 JULY 2016
Owing to suppliers (\$ million)	1,330 ¹	719
Farmgate Milk Price (per kgMS)	\$6.12 ²	\$3.90
Of this amount:		
– Total advance payments made during the year	\$5.21	\$3.48
– Total owing as at 31 July	\$0.91	\$0.42
Amount advanced during the year as a percentage of the milk price for the season ended 31 May	85%	89%

1 This amount is after offsetting \$135 million Fonterra Co-operative Support Loan repayments relating to the 2016/17 season (31 July 2016: nil).

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

LONG-TERM ASSETS

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

This section includes the following Notes:

Note 13: Property, plant and equipment

Note 14: Livestock

Note 15: Intangible assets

13 PROPERTY, PLANT AND EQUIPMENT

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

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

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

Depreciation

Depreciation is calculated on a straight line basis to allocate the cost of the asset, less any residual value, over its estimated useful life.

The range of estimated useful lives for each class of property, plant and equipment is as follows:

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

	GROUP \$ MILLION				TOTAL
	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	PLANT, VEHICLES AND EQUIPMENT	CAPITAL WORK IN PROGRESS	
As at 31 July 2017					
Cost	348	2,644	7,740	535	11,267
Accumulated depreciation and impairment	–	(953)	(3,923)	–	(4,876)
Net book value at 31 July 2017	348	1,691	3,817	535	6,391
As at 31 July 2016					
Cost	339	2,479	7,231	718	10,767
Accumulated depreciation and impairment	–	(883)	(3,712)	–	(4,595)
Net book value at 31 July 2016	339	1,596	3,519	718	6,172

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

13 PROPERTY, PLANT AND EQUIPMENT CONTINUED

	GROUP \$ MILLION				TOTAL
	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	PLANT, VEHICLES AND EQUIPMENT	CAPITAL WORK IN PROGRESS	
Net book value					
As at 1 August 2016	339	1,596	3,519	718	6,172
Additions ¹	3	13	53	685	754
Transfer from capital work in progress	15	205	644	(864)	-
Hyperinflationary movements	2	4	2	2	10
Depreciation charge	-	(92)	(343)	-	(435)
Impairment reversal/(losses)	-	2	-	-	2
Disposals	(8)	(9)	(29)	(2)	(48)
Foreign currency translation	(3)	(28)	(29)	(4)	(64)
As at 31 July 2017	348	1,691	3,817	535	6,391
Net book value					
As at 1 August 2015	366	1,505	3,185	1,103	6,159
Additions ¹	1	6	21	769	797
Transfer from capital work in progress	11	313	794	(1,118)	-
Hyperinflationary movements	2	4	3	1	10
Depreciation charge	-	(108)	(357)	-	(465)
Impairment losses	-	(2)	(16)	-	(18)
Disposals	(5)	(6)	(24)	(3)	(38)
Foreign currency translation	(36)	(116)	(87)	(34)	(273)
As at 31 July 2016	339	1,596	3,519	718	6,172

1 Additions include borrowing costs of \$10 million (2016: \$19 million) capitalised using a weighted average interest rate of 5.85 per cent (2016: 6.00 per cent).

Leased assets

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

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

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

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

	GROUP \$ MILLION	
	AS AT 31 JULY 2017	AS AT 31 JULY 2016
Land	5	5
Building and leasehold improvements	93	97
Plant and equipment	22	25
Net book value of property, plant and equipment subject to finance leases	120	127

14 LIVESTOCK

The Group's livestock balance primarily comprises dairy cows, which provide Fonterra with a quality milk source in China.

Livestock is measured at fair value less costs to sell, with any resulting gain or loss recognised in the income statement. The Group's dairy cow herd comprises both immature and mature livestock.

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

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

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

	HEADCOUNT	
	AS AT 31 JULY 2017	AS AT 31 JULY 2016
Immature dairy cows	46,269	58,055
Mature dairy cows	39,280	36,516
Other livestock	3,664	2,802
Total livestock headcount	89,213	97,373

During the year the Group collected 371 million litres of milk (31 July 2016: 279 million litres) from its dairy cows.

The value of livestock at 31 July is as follows:

	GROUP \$ MILLION	
	AS AT 31 JULY 2017	AS AT 31 JULY 2016
Opening balance	342	331
Purchase of livestock	7	17
Rearing costs of immature livestock	82	77
Change in fair value – birth and growth	(5)	20
Change in fair value – price changes	10	1
Sale of livestock	(98)	(68)
Effect of movements in exchange rates	(19)	(36)
Closing balance	319	342
Represented by:		
Immature dairy cows	160	197
Mature dairy cows	158	144
Other livestock	1	1
Total livestock at 31 July	319	342

Valuation techniques and significant unobservable inputs

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

TYPE	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	RELATIONSHIP BETWEEN KEY UNOBSERVABLE INPUTS AND FAIR VALUE MEASUREMENT
Mature livestock	Discounted cash flows	Raw milk yield	A 5% increase/(decrease) in the raw milk yield would result in a \$11 million (31 July 2016: \$10 million) increase/(decrease) in fair value.
		Milk price	A 5% increase/(decrease) in the selling price of milk would result in a \$22 million (31 July 2016: \$19 million) increase/(decrease) in fair value.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

15 INTANGIBLE ASSETS

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

Goodwill

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

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

Brands and other identifiable intangible assets

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

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

Finite life brands are amortised on a straight line basis over the shorter of their contractual or useful economic life, being three to 25 years. They are tested for impairment when an indicator of impairment exists.

Software assets

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

Software assets amortised on a straight line basis over their estimated useful lives, being three to 10 years. They are tested for impairment when an indicator of impairment exists.

	GROUP \$ MILLION					TOTAL INTANGIBLES
	GOODWILL	BRANDS	SOFTWARE	SOFTWARE WIP	OTHER	
As at 31 July 2017						
Cost	1,076	1,690	1,223	134	73	4,196
Accumulated amortisation and impairment	(3)	(114)	(910)	-	(54)	(1,081)
Net book value at 31 July 2017	1,073	1,576	313	134	19	3,115
As at 31 July 2016						
Cost	1,082	1,733	1,192	67	77	4,151
Accumulated amortisation and impairment	(3)	(111)	(838)	-	(57)	(1,009)
Net book value at 31 July 2016	1,079	1,622	354	67	20	3,142

15 INTANGIBLE ASSETS CONTINUED

	GROUP \$ MILLION					TOTAL INTANGIBLES
	GOODWILL	BRANDS	SOFTWARE	SOFTWARE WIP	OTHER	
Net book value						
As at 1 August 2016	1,079	1,622	354	67	20	3,142
Additions	-	-	6	107	-	113
Transfer from work in progress	-	-	40	(40)	-	-
Amortisation	-	(3)	(87)	-	(1)	(91)
Foreign currency translation	(6)	(43)	-	-	-	(49)
As at 31 July 2017	1,073	1,576	313	134	19	3,115
Net book value						
As at 1 August 2015	1,099	1,699	350	92	33	3,273
Additions	-	-	2	83	1	86
Transfer from work in progress	-	-	108	(108)	-	-
Amortisation	-	(3)	(101)	-	(1)	(105)
Impairment loss	-	(7)	-	-	-	(7)
Disposals	-	(8)	-	-	(13)	(21)
Foreign currency translation	(20)	(59)	(5)	-	-	(84)
As at 31 July 2016	1,079	1,622	354	67	20	3,142

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

Impairment testing of goodwill and indefinite life brands

Impairment testing is performed annually at the same time each year. In completing the impairment testing, the recoverable amounts are determined on a value in use basis, using a discounted cash flow methodology. The cash flows are based on the Group's three-year strategic business plan which has been prepared taking into account past performance as well as forecast future performance supported by strategic initiatives. Other key assumptions are based on external data where possible.

Brazil consumer and foodservice business

The consumer and foodservice business in Brazil includes goodwill of \$143 million (31 July 2016: \$145 million) and brands of \$266 million (31 July 2016: \$270 million).

The long term growth rate applied to the future cash flows at year 10 of the forecast is 4.5 per cent (31 July 2016: 5.3 per cent). The discount rate applied is within the market range of 11.7 per cent to 12.4 per cent (31 July 2016: 12.9 per cent to 13.6 per cent).

Notwithstanding the challenging economic environment in Brazil, the cash flow forecast used to support the carrying value of the consumer and foodservice business in Brazil shows significant growth in each year of the extended five-year forecast period. This growth is supported by the strategic business plan and associated initiatives, and reflects the expected improvement in economic conditions in Brazil. The forecast growth rate used in the following five years is aligned to the expected economic recovery in Brazil.

Using these key assumptions the recoverable amount is equivalent to the carrying value of the consumer and foodservice business in Brazil.

Significant goodwill balance

The consumer and foodservice business in New Zealand includes goodwill of \$611 million (31 July 2016: \$650 million) and brands of \$391 million (31 July 2016: \$389 million).

The long-term growth rate applied to the future cash flows is 2.1 per cent (31 July 2016: 2.2 per cent). The discount rate applied is within the market range of 7.7 per cent to 8.3 per cent (31 July 2016: 7.7 per cent to 8.3 per cent).

Significant indefinite life brands balances

The consumer and foodservice businesses in Asia include brands of \$624 million (31 July 2016: \$662 million).

The average long-term growth rate applied to the future cash flows is 3.1 per cent (31 July 2016: 3.1 per cent). The average discount rate applied is 9.2 per cent (31 July 2016: 9.2 per cent).

Of the total brands held by the Group, 99 per cent (31 July 2016: 99 per cent) have indefinite lives.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

INVESTMENTS

This section provides information about Fonterra's interest in other entities. These investments include subsidiaries and equity accounted investments.

This section includes the following Note:

Note 16: Equity accounted investments

16 EQUITY ACCOUNTED INVESTMENTS

Associates and joint ventures

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

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

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

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

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

EQUITY ACCOUNTED INVESTEE NAME	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	OWNERSHIP INTERESTS (%)	
		AS AT 31 JULY 2017	AS AT 31 JULY 2016
DMV Fonterra Excipients GmbH & Co KG	Germany	50	50
Beingmate Baby & Child Food Co., Ltd ¹	China	18.8	18.8
Falcon Dairy Holdings Limited	Hong Kong	51	51

¹ Carrying value reflects the fair value of the investment.

All investees have balance dates of 31 December.

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

	GROUP \$ MILLION					
	ASSOCIATES		JOINT VENTURES		TOTAL	
	AS AT 31 JULY 2017	AS AT 31 JULY 2016	AS AT 31 JULY 2017	AS AT 31 JULY 2016	AS AT 31 JULY 2017	AS AT 31 JULY 2016
Carrying amount of investment	617 ¹	739	270	221	887	960
Profit/(loss) from continuing operations	(42)	(7)	49	61	7	54
Other comprehensive income	-	-	-	5	-	5
Total comprehensive income	(42)	(7)	49	66	7	59

¹ The carrying value of the Group's investment in Beingmate Baby & Child Food Co., Ltd. includes an impairment of \$35 million and a decrease of \$47 million from the impacts of foreign exchange.

The Group has provided financial guarantees to certain equity accounted investees as set out in Note 20.

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

FINANCIAL RISK MANAGEMENT

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

This section includes the following Note:

Note 17: Financial risk management

17 FINANCIAL RISK MANAGEMENT

Financial risks faced by the Group

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

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

FINANCIAL RISK/DISCLOSURE ITEM	DESCRIPTION	MANAGEMENT OF RISK
Market Risks		
Foreign exchange risk (Section a)	Impact from changes in foreign exchange rates	<p><i>Foreign currency transactions</i></p> <p>For foreign currency transactions the Group uses foreign currency forward contracts and foreign currency options to manage foreign exchange risk.</p> <p><i>Foreign operations</i></p> <p>For investments in foreign operations the Group uses foreign currency denominated borrowings and foreign currency swaps to manage foreign exchange risk.</p> <p><i>Foreign denominated borrowings</i></p> <p>For foreign denominated borrowings the Group uses cross-currency interest rate swaps to manage foreign exchange and interest rate risk combined.</p>
Interest rate risk (Section b)	Impact from changes in interest rates	The Group uses interest rate swaps to achieve a target ratio of fixed and floating rate exposure on its borrowings.
Commodity price risk (Section c)	Impact from changes in commodity prices	The Group uses commodity derivatives to manage its exposure to commodity price risk. The Group also uses its product mix and sales contract terms to manage the impact of changes in dairy commodity prices on its earnings.
Sensitivity analysis of changes in market risks (Section d)	Sensitivity of the Group's reported profit and equity to changes in market risks	
Impact to reserves in equity (Section e)	Movements in the Group's hedge reserves and foreign currency translation reserve	
Other Risks		
Credit risk (Section f)	Risk of loss to the Group due to customer and counterparty default	The Group sets minimum credit quality requirements, credit limits and uses other credit mitigation tools to manage its credit risk.
Liquidity risk (Note 7)	Risk that the Group will be unable to meet its financial obligations as they fall due	The Group actively manages its minimum on-hand cash facilities, access to committed funds and lines of credit and the maturity profile of its financial obligations.
Fair value measurement (Section g)	Assets and liabilities measured or disclosed at fair value	
Offsetting of financial assets and liabilities (Section h)	Financial asset and financial liability balances that are offset in the balance sheet	
Capital management and structure (Note 5)	The Group's capital structure	The Group actively manages its capital structure through leverage and coverage ratios. The Fonterra Shareholders' Fund removes the redemption risk associated with Co-operative shares.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

17 FINANCIAL RISK MANAGEMENT CONTINUED

Derivative financial instruments and hedge accounting

Derivatives are measured at fair value. Refer to Section g) Fair value measurement for details on how fair value is determined.

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

The Group may designate derivatives as:

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

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

Fair value hedges

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

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

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

Cash flow hedges

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

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

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

Net investment hedges

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

The ineffective portion of changes in the fair value of the hedging instruments are recognised immediately in 'Net foreign exchange gains' in the income statement.

Costs of hedging

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

a) Foreign exchange risk

Nature and exposure of foreign exchange risk

Net foreign exchange gains or losses

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

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

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

- The Group's foreign currency transactions are predominantly denominated in United States Dollars.
- The Group has net investments in foreign operations of \$5,518 million (31 July 2016: \$5,321 million). This amount is before considering borrowings held by the Group in the same currency as the investment.
- The Group has borrowings denominated in foreign currency of \$4,672 million (31 July 2016: \$4,489 million).

17 FINANCIAL RISK MANAGEMENT CONTINUED

How foreign exchange risk is managed

Forecast foreign currency transactions

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

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

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

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

HEDGING INSTRUMENT USED	GROUP \$ MILLION						
	AS AT 31 JULY 2017 ¹				YEAR ENDED 31 JULY 2017 ²		
	CARRYING AMOUNT				HEDGE EFFECTIVENESS IN RESERVES		
	NOMINAL AMOUNT ³	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	ACCUMULATED COST OF HEDGING	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	RECLASSIFIED TO THE INCOME STATEMENT ⁴
Cash flow hedging							
<i>Foreign currency forwards and options</i>							
Maturity: 0-18 months							
Weighted average NZD:USD rate: 0.7122	7,896	426	(3)	11	388	465	(330)
Total	7,896	426	(3)	11	388	465	(330)

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

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

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

4 Recognised in revenue.

Net investments in foreign operations

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

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

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

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

HEDGED NET INVESTMENTS AND HEDGING INSTRUMENTS USED	GROUP \$ MILLION				
	AS AT 31 JULY 2017		YEAR ENDED 31 JULY 2017		
	CARRYING AMOUNT	NOMINAL AMOUNT	HEDGE EFFECTIVENESS		
	AMOUNT OF NET INVESTMENT HEDGED ¹	FOREIGN CURRENCY BORROWINGS	FOREIGN CURRENCY SWAPS ²	NET INVESTMENT GAIN/(LOSS) RECOGNISED IN OTHER COMPREHENSIVE INCOME	BORROWING/ SWAPS GAIN/(LOSS) RECOGNISED IN OTHER COMPREHENSIVE INCOME
Net investment hedging					
United States Dollar-denominated					
Maturity of borrowings: 34-47 months	123	(123)	–	(7)	7
Australian Dollar-denominated					
Maturity of borrowings: 48 months	425	(425)	–	1	(1)
Euro-denominated					
Maturity of borrowings: 89 months	151	(151)	–	–	–
Chinese Renminbi-denominated					
Maturity of borrowings: 18 months					
Maturity of swaps: 1-4 months	341	(247)	(94)	(24)	24
Hong Kong Dollar-denominated					
Maturity of borrowings: 10 months	36	(36)	–	–	–
Total	1,076	(982)	(94)	(30)	30

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

2 The carrying amount of foreign currency swaps at balance date is \$3 million, and is presented within derivative assets.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

17 FINANCIAL RISK MANAGEMENT CONTINUED*Borrowings denominated in foreign currency*

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

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

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

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

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

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

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

	GROUP \$ MILLION									
	AS AT 31 JULY 2017 ¹					YEAR ENDED 31 JULY 2017 ²				
	CARRYING AMOUNT					HEDGE EFFECTIVENESS IN RESERVES	HEDGE EFFECTIVENESS	HEDGE INEFFECTIVENESS		
HEDGING INSTRUMENTS USED	NOMINAL AMOUNT ³	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	ACCUMULATED COST OF HEDGING	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	CASH FLOW HEDGE HEDGE (OCI)	RECLASSIFIED TO THE INCOME STATEMENT ⁴	FAIR VALUE HEDGE (INCOME STATEMENT) GAIN/(LOSS) ⁴	RECOGNISED IN THE INCOME STATEMENT GAIN/(LOSS) ⁴	
Cash flow hedging and fair value hedging										
<i>Cross-currency interest rate swaps</i>										
USD	893	83	(18)	–	44	2	3	(87)	6	
Maturity: 111-159 months										
Weighted average interest rate: floating										
Weighted average NZD:USD rate: 0.7841										
GBP	623	79	(319)	–	(260)	(19)	20	(27)	(8)	
Maturity: 77 months										
Weighted average interest rate: floating										
Weighted average NZD:GBP rate: 0.3610										
EUR	386	–	(16)	(5)	(8)	1	(11)	(9)	(3)	
Maturity: 89 months										
Weighted average interest rate: floating										
Weighted average NZD:EUR rate: 0.6559										
Fair value hedging	356	19	–	–	19	NA	NA	(19)	6	
Maturity: 10-47 months										
Weighted average interest rate: floating										
Weighted average NZD:USD rate: 0.7733										
Total		181	(353)	(5)	(205)	(16)	12	(142)	1	

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

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

3 Nominal amount is the face value, converted using the weighted average foreign exchange rate, of foreign denominated borrowings in hedge relationships. For those borrowings in fair value hedges, the carrying amount includes the life-to-date fair value hedge adjustment of \$82 million.

4 Recognised in net finance costs.

Receivables and payables denominated in foreign currency

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

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

17 FINANCIAL RISK MANAGEMENT CONTINUED**Foreign exchange gains and losses in the income statement**

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

	GROUP \$ MILLION	
	31 JULY 2017	31 JULY 2016
<i>Relationships where fair value hedge accounting has been applied</i>		
Net foreign exchange gains/(losses) attributable to:		
– Foreign currency-denominated borrowings	91	193
– Derivatives	(94)	(195)
<i>Relationships where fair value hedge accounting has not been applied</i>		
Net foreign exchange gains/(losses) attributable to:		
– Foreign currency denominated receivables	(229)	(271)
– Foreign currency denominated payables and borrowings	125	135
– Derivatives	135	138
– Other net foreign exchange gains	1	7
Net foreign exchange gains	29	7

b) Interest rate risk**Nature and exposure of interest rate risk to the Group**

The Group is exposed to interest rate risk on its interest-bearing borrowings, included within economic net interest-bearing debt (refer Note 7).

Changes in market interest rates expose the Group to:

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

How the Group manages its exposure to interest rate risk

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

17 FINANCIAL RISK MANAGEMENT CONTINUED

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

HEDGING INSTRUMENTS USED	GROUP \$ MILLION							
	AS AT 31 JULY 2017 ¹				YEAR ENDED 31 JULY 2017 ²			
	CARRYING AMOUNT			CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	HEDGE EFFECTIVENESS IN RESERVES		HEDGE EFFECTIVENESS	HEDGE INEFFECTIVENESS
	NOMINAL AMOUNT ³	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES		CASH FLOW HEDGE (OCI)	CASH FLOW HEDGE RECLASSIFIED TO THE INCOME STATEMENT ⁴	FAIR VALUE HEDGE (INCOME STATEMENT) GAIN/(LOSS) ⁴	RECOGNISED IN THE INCOME STATEMENT GAIN/(LOSS) ⁴
Cash flow hedging								
<i>Interest rate swaps</i>								
Maturity: 4-87 months								
Weighted average interest rate: 4.36%	3,935	1	(178)	38	1	41	NA	37
Fair value hedging								
<i>Interest rate swaps on NZD borrowings</i>								
Maturity: 3-68 months								
Weighted average interest rate: floating	575	4	–	(9)	NA	NA	(5)	(4)
<i>Interest rate swaps on AUD borrowings</i>								
Maturity: 108 months								
Weighted average interest rate: floating	191	–	(12)	(12)	NA	NA	(10)	–
Total		5	(190)	17	1	41	(15)	33

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

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

3 The nominal amount represents the principal amount of outstanding or forecast borrowings designated in hedge relationships. For those borrowings in fair value hedges, the carrying amount includes the life-to-date fair value hedge adjustment of \$15 million.

4 Recognised in net finance costs.

c) Commodity price risk**Nature and exposure of commodity price risk to the Group**

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

How the Group manages its exposure to commodity price risk*Dairy commodity price risk*

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

- determining the most appropriate mix of products to manufacture based on the supply curve and global demand for dairy products;
- governing the length and terms of sales contracts so that sales revenue is reflective of current market prices and is, where possible, linked to GlobalDairyTrade (GDT) prices; and
- using dairy commodity derivative contracts to obtain an optimal price for future sales. 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, diesel and sugar.

Hedge accounting

Hedge accounting is not applied to commodity derivatives. Changes in the fair value of commodity derivative contracts are recognised within other operating income in the income statement.

17 FINANCIAL RISK MANAGEMENT CONTINUED**d) Sensitivity analysis of changes in market risks**

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

The sensitivity thresholds used represent reasonably possible changes in market rates.

	GROUP \$ MILLION			
	31 JULY 2017		31 JULY 2016	
	EQUITY	PROFIT	EQUITY	PROFIT
Foreign currency rates				
10% strengthening of the NZD	138	4	(28)	4
10% weakening of the NZD	(115)	8	96	(5)
Interest rates				
100 basis point increase	68	5	11	40
100 basis point decrease	(66)	(21)	(14)	(46)
Dairy commodity prices				
10% increase	–	15	–	(3)
10% decrease	–	(15)	–	3

Interest rate cash flow sensitivity analysis

A change in interest rate would also impact floating rate interest payments and receipts on the Group's borrowings and derivatives.

The impact of a change in interest rate on the one year forecast cash flows is shown below:

	GROUP \$ MILLION	
	31 JULY 2017	31 JULY 2016
100 basis point increase in interest rates	(3)	(3)
100 basis point decrease in interest rates	3	3

e) Impact to reserves in equity

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

	GROUP \$ MILLION	
	HEDGE RESERVES	FOREIGN CURRENCY TRANSLATION RESERVES
As at 1 August 2016	64	(428)
<i>Movements attributable to cash flow hedges</i>		
Change in value of effective derivative hedging instruments	450	NA
Reclassifications to the income statement:		
– As hedged transactions occurred	(277)	NA
<i>Movements attributable to net investments in foreign operations and net investment hedges</i>		
Net translation gain/(loss) on:		
– Borrowings and derivative hedging instruments	NA	30
– Net investments in foreign operations	NA	(143)
Reclassifications to the income statement:		
– Upon disposal of foreign operations	NA	(2)
Net change in the cost of hedging reserve	6	NA
Tax expense	(51)	(9)
Total movement	128	(124)
As at 31 July 2017	192 ¹	(552) ²

1 Included in the closing balance of the hedge reserves is \$32 million relating to hedge relationships for which hedge accounting is no longer applied.

2 Included in the closing balance of the foreign currency translation reserve is \$35 million relating to hedge relationships for which hedge accounting is no longer applied.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

17 FINANCIAL RISK MANAGEMENT CONTINUED**f) Credit risk****Nature and exposure of credit risk to the Group**

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

The Group has no undue concentrations of credit risk.

How the Group manages its exposure to credit risk

The Group's policy is to actively manage its exposure to credit risk by:

- using financial counterparties that have a credit rating of at least 'A-' from Standard & Poor's (or equivalent) for derivative contracts, cash and cash equivalents and other investment balances;
- using commodity counterparties that have a credit rating of at least 'BBB-' from Standard & Poor's (or equivalent) for derivative contracts; and
- applying credit limits, and credit mitigation tools, such as letters of credit.

Trade and other receivable balances are included in Note 9 Trade and other receivables.

g) Fair value measurement*Valuation techniques for determining fair values*

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

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

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

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

Specific valuation techniques used to value financial instruments include:

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

17 FINANCIAL RISK MANAGEMENT CONTINUED*Fair value hierarchy*

All financial instruments for which a fair value is recognised are categorised within level 1 or level 2 of the fair value hierarchy.

These categories are described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

	GROUP \$ MILLION					
	LEVEL 1		LEVEL 2		LEVEL 3	
	AS AT 31 JULY 2017	AS AT 31 JULY 2016	AS AT 31 JULY 2017	AS AT 31 JULY 2016	AS AT 31 JULY 2017	AS AT 31 JULY 2016
Derivative assets						
– Commodity derivatives	30	5	1	1	–	–
– Foreign exchange derivatives	–	–	595	473	–	–
– Interest rate derivatives ¹	–	–	193	389	–	–
Derivative liabilities						
– Commodity derivatives	(7)	(16)	(2)	(3)	–	–
– Foreign exchange derivatives	–	–	(24)	(25)	–	–
– Interest rate derivatives ¹	–	–	(557)	(568)	–	–
Investments in shares	10	6	–	–	9	–
Investment in Beingmate ²	–	–	–	–	617	–
Livestock	–	–	–	–	319	342
Fair value	33	(5)	206	267	945	342

¹ Includes cross-currency interest rate swaps.

² The key assumption used in determining the fair value of the investment in Beingmate is the premium above share price that would be paid for a long term strategic investment of a similar size.

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

	GROUP \$ MILLION					
	CARRYING VALUE		LEVEL 1		LEVEL 2	
	AS AT 31 JULY 2017	AS AT 31 JULY 2016	AS AT 31 JULY 2017	AS AT 31 JULY 2016	AS AT 31 JULY 2017	AS AT 31 JULY 2016
Financial assets						
Long-term advances	300	464	–	–	289	466
Financial liabilities						
Borrowings						
– NZX-listed bonds	(500)	(499)	(510)	(510)	–	–
– Capital notes	(35)	(35)	(33)	(33)	–	–
– Medium-term notes	(4,573)	(4,342)	–	–	(4,829)	(4,665)
– Finance leases	(137)	(143)	–	–	(155)	(167)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

17 FINANCIAL RISK MANAGEMENT CONTINUED**h) Offsetting of financial assets and liabilities**

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

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

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

	GROUP \$ MILLION				
	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION			AMOUNTS NOT OFFSET	NET
	GROSS FINANCIAL ASSETS/ (LIABILITIES)	GROSS FINANCIAL ASSETS/ (LIABILITIES) SET OFF	NET FINANCIAL ASSETS/ (LIABILITIES) PRESENTED		
Derivative financial assets	963	(144)	819	(411)	408
Trade and other receivables (excluding prepayments)	2,900	(714)	2,186	-	2,186
	3,863	(858)	3,005	(411)	2,594
Derivative financial liabilities	(734)	144	(590)	292	(298)
Trade and other payables (excluding employee entitlements)	(2,340)	499	(1,841)	-	(1,841)
Owing to suppliers	(1,545)	215	(1,330)	-	(1,330)
Borrowings	(6,263)	-	(6,263)	119	(6,144)
	(10,882)	858	(10,024)	411	(9,613)
31 July 2017	(7,019)	-	(7,019)	-	(7,019)
Derivative financial assets	1,037	(169)	868	(510)	358
Trade and other receivables (excluding prepayments)	1,964	(463)	1,501	-	1,501
	3,001	(632)	2,369	(510)	1,859
Derivative financial liabilities	(781)	169	(612)	373	(239)
Trade and other payables (excluding employee entitlements)	(2,257)	390	(1,867)	-	(1,867)
Owing to suppliers	(792)	73	(719)	-	(719)
Borrowings	(6,352)	-	(6,352)	137	(6,215)
	(10,182)	632	(9,550)	510	(9,040)
31 July 2016	(7,181)	-	(7,181)	-	(7,181)

OTHER

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

This section includes the following Notes:

Note 18: Taxation

Note 19: Contingent liabilities, provisions and commitments

Note 20: Related party transactions

Note 21: Group entities

Note 22: Net tangible assets per security

18 TAXATION

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

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

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

Deferred tax is not recognised on the following temporary differences:

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

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

a) Taxation – income statement

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

	GROUP \$ MILLION	
	31 JULY 2017	31 JULY 2016
Current tax expense	97	108
Prior period adjustments to current tax	(25)	5
Deferred tax movements:		
- Origination and reversal of temporary differences	(52)	(15)
Tax expense	20	98

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

18 TAXATION CONTINUED

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

	GROUP \$ MILLION	
	31 JULY 2017	31 JULY 2016
Profit before tax	765	932
Prima facie tax expense at 28%	214	261
Add/(deduct) tax effect of:		
– Effect of tax rates in foreign jurisdictions	(33)	(24)
– Non-deductible expenses/additional assessable income	54	90
– Non-assessable income/additional deductible expenses	(30)	(66)
– Prior year under provision	(25)	5
Tax expense before distributions and deferred tax	180	266
Effective tax rate before distributions and deferred tax¹	23.5%	28.5%
Tax effect of distributions to farmer shareholders	(163)	(170)
Tax expense before deferred tax	17	96
Effective tax rate before deferred tax¹	2.2%	10.3%
Add/(deduct) tax effect of:		
– Origination and reversal of other temporary differences	2	(1)
– Losses of overseas Group entities not recognised	1	3
Tax expense	20	98
Effective tax rate ¹	2.6%	10.5%
Imputation credits		
Imputation credits available for use in subsequent reporting periods	20	20
Tax losses		
Gross tax losses available for which no deferred tax asset has been recognised	52	48

¹ The effective tax rate is the tax charge on the face of the income statement expressed as a percentage of the profit before tax.

b) Taxation – statement of financial position

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

	GROUP \$ MILLION	
	AS AT 31 JULY 2017	AS AT 31 JULY 2016
Deferred tax		
Property, plant and equipment	(3)	(53)
Intangible assets	(519)	(522)
Derivative financial instruments	(84)	(30)
Employee entitlements	75	75
Inventories	31	52
Receivables, payables and provisions	58	71
New Zealand tax losses	486	480
Offshore tax losses	289	287
Other	21	6
Total deferred tax	354	366
Movements for the year		
Opening balance	366	623
Recognised in the income statement	52	15
Recognised directly in other comprehensive income	(60)	(262)
Foreign currency translation	(4)	(10)
Closing balance	354	366
Included within the statement of financial position as follows:		
Deferred tax assets	363	410
Deferred tax liabilities	(9)	(44)
Total deferred tax	354	366

Deferred tax assets relating to tax losses carried forward of \$540 million (31 July 2016: \$471 million) are recognised by Group entities that reported a taxable loss in either the current or prior year. The forecast utilisation of the carried forward tax losses of these entities reflect their strategic business plans.

The Group has not recognised deferred tax liabilities in respect of unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries. As at 31 July 2017, these earnings amount to \$893 million (31 July 2016: \$675 million). These could be subject to withholding and other taxes on remittance.

19 CONTINGENT LIABILITIES, PROVISIONS AND COMMITMENTS**Contingent liabilities**

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

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

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

In January 2014, Danone formally initiated legal proceedings against Fonterra in the High Court of New Zealand and separate Singapore arbitration proceedings against Fonterra in relation to the WPC80 precautionary recall. The New Zealand High Court proceedings have been stayed pending completion of the Singapore arbitration. An initial hearing of the arbitration took place in February 2016 and a final hearing of the arbitration took place in June 2016. A decision of the arbitration panel is pending.

Based on current information available and the claims made to date in both proceedings, Fonterra will vigorously defend its position in these proceedings. Uncertainty exists regarding the outcome of the proceedings. Fonterra has provided \$11 million (31 July 2016: \$11 million) in respect of the Danone claims, which represents the maximum contractual liability to Danone.

The Directors believe that these proceedings have been adequately provided for and disclosed by the Group and that there are no additional claims or legal proceedings in respect of this matter that are pending at the date of these financial statements that require provision or disclosure.

The Group has no other contingent liabilities as at 31 July 2017 (31 July 2016: nil).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

19 CONTINGENT LIABILITIES, PROVISIONS AND COMMITMENTS CONTINUED**Provisions**

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

	GROUP \$ MILLION			
	RESTRUCTURING AND RATIONALISATION PROVISIONS	LEGAL CLAIMS PROVISIONS	OTHER PROVISIONS	TOTAL PROVISIONS
As at 1 August 2016	5	80	114	199
Additional provisions	1	-	22	23
Unused amounts reversed	(2)	(7)	(4)	(13)
Charged to income statement	(1)	(7)	18	10
Utilised during the year	(2)	(1)	(18)	(21)
As at 31 July 2017	2	72	114	188

Included within the statement of financial position as follows:

Current liabilities	40
Non-current liabilities	148
Total provisions	188

	GROUP \$ MILLION			
	RESTRUCTURING AND RATIONALISATION PROVISIONS	LEGAL CLAIMS PROVISIONS	OTHER PROVISIONS	TOTAL
As at 1 August 2015	39	99	125	263
Additional provisions	5	-	22	27
Unused amounts reversed	(5)	(13)	(4)	(22)
Charged to income statement	-	(13)	18	5
Utilised during the year	(34)	-	(9)	(43)
Foreign currency translation	-	(6)	(20)	(26)
As at 31 July 2016	5	80	114	199

Included within the statement of financial position as follows:

Current liabilities	47
Non-current liabilities	152
Total provisions	199

The nature of the provisions are:

- the provision for restructuring and rationalisation includes obligations relating to planned changes throughout the business to improve efficiencies and reduce costs. The provisions are expected to be utilised in the next year;
- the legal claims provisions include obligations relating to tax, customs and duties and legal matters arising in the normal course of business. The timing and amount of the future obligations are uncertain, as they are contingent on the outcome of a number of judicial proceedings. The outcome of most of the obligations is not expected to be determined within the next year and therefore most of these provisions are classified as non-current; and
- other provisions include defined benefit pension schemes obligations and other employee related provisions.

19 CONTINGENT LIABILITIES, PROVISIONS AND COMMITMENTS CONTINUED**Commitments****a) Capital commitments**

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

	GROUP \$ MILLION	
	AS AT 31 JULY 2017	AS AT 31 JULY 2016
Buildings	63	79
Plant, vehicles and equipment	172	48
Software	20	8
Livestock	-	3
Total commitments	255	138

b) Operating lease commitments

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

	GROUP \$ MILLION	
	AS AT 31 JULY 2017	AS AT 31 JULY 2016
Less than one year	116	109
One to five years	224	227
Greater than five years	170	177
Total operating lease commitments	510	513

20 RELATED PARTY TRANSACTIONS

Equity accounted investees (refer to Note 16 for a list) and key management personnel are related parties of the Group. Key management personnel comprises the Board and the Fonterra Management Team.

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

Key management personnel remuneration

	GROUP \$ MILLION	
	31 JULY 2017	31 JULY 2016
Short-term employee benefits	11	16
Long-term employee benefits	10	3
Termination benefits	-	1
Directors' remuneration	3	3
Total key management personnel remuneration	24	23

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

20 RELATED PARTY TRANSACTIONS CONTINUED**Transactions with related parties during the year**

Transactions with related parties are under normal trade terms.

	GROUP \$ MILLION	
	31 JULY 2017	31 JULY 2016
Equity accounted investees		
Revenue from the sale of goods ¹	90	73
Sale of services ²	7	5
Royalty and other income	2	2
Dividends received	22	77
Interest income from financing arrangements	-	1
Purchases of goods ³	(5)	(10)
Purchases of services ⁴	(158)	(44)
Key management personnel		
Purchases of goods ⁵	(121)	(78)
Co-operative support loans	-	(6)
Dividends paid	(6)	(9)

1 Goods sold are primarily commodity products.

2 Services provided include management fees.

3 Goods purchased are primarily commodity products.

4 Services provided are primarily freight services.

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

Outstanding balances with related parties

	GROUP \$ MILLION	
	AS AT 31 JULY 2017	AS AT 31 JULY 2016
Equity accounted investees		
Total receivables arising from the sale or purchase of goods or services ⁶	22	18
Total receivables arising from financing arrangements ⁷	61	50
Total payables arising from the sale or purchase of goods or services	(21)	(15)
Total payables arising from financing arrangements	(2)	-
Key management personnel		
Total payables arising from the sale or purchase of goods or services ⁸	(17)	(9)
Total receivables arising from Co-operative support loans	5	6

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

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

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

Financial guarantees

The Group has provided financial guarantees for several equity accounted investees. The aggregate drawn down amount of equity accounted investees' liabilities for which the Group is jointly and severally liable is nil (31 July 2016: nil).

Transactions with related entities

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

Commitments

In addition to the transactions disclosed above, the Group has prospective commitments with related parties including contracts with equity accounted investees for the supply of dairy products and energy, and the provision of various management services.

21 GROUP ENTITIES

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

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

Equity accounted investments are discussed in further detail in Note 16.

The Group's subsidiaries and equity accounted investees are involved in the marketing, distribution, processing, technology or financing of dairy products. All Group entities have a balance date of 31 July unless otherwise indicated. Subsidiaries and equity accounted investees with different balance dates from that of the Group are due to legislative requirements in the country the entities are domiciled. Equity accounted investees may also have a different balance date due to alignment with their other investors' balance dates or to align with the milk season.

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

The significant subsidiaries of the Group are listed below:

SUBSIDIARY NAME	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	OWNERSHIP INTERESTS (%)	
		AS AT 31 JULY 2017	AS AT 31 JULY 2016
Fonterra Australia Pty Limited	Australia	100	100
Fonterra Brands (Australia) Pty Limited	Australia	100	100
Dairy Partners Americas Brasil Limitada ¹	Brazil	51	51
Comercial Santa Elena S.A. ¹	Chile	99.9	99.9
Soprole S.A. ¹	Chile	99.9	99.9
Prolesur S.A. ¹	Chile	86.18	86.26
Fonterra Commercial Trading (Shanghai) Company Limited ¹	China	100	100
Fonterra (Yutian) Dairy Farm Co. Limited ¹	China	100	100
Fonterra (Ying) Dairy Company Limited ¹	China	100	100
PT Fonterra Brands Indonesia	Indonesia	100	100
Fonterra Brands (Hong Kong) Limited	Hong Kong	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 Brands (Singapore) Pte Limited	Singapore	100	100
Fonterra (SEA) Pte Limited	Singapore	100	100
Fonterra Brands Lanka (Private) Limited	Sri Lanka	100	100
Fonterra (USA) Inc.	United States	100	100
Corporación Inlaca CA	Venezuela	60	60
Canpac International Limited	New Zealand	100	100
Fonterra Brands (New Zealand) Limited	New Zealand	100	100
Fonterra Brands (Tip Top) 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
Fonterra (New Zealand) Limited	New Zealand	100	100
RD1 Limited	New Zealand	100	100
Kotahi Logistics LP	New Zealand	91	91

1 Balance date 31 December.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

21 GROUP ENTITIES CONTINUED

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

OVERSEAS SUBSIDIARIES 50% OR LESS OWNERSHIP	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	OWNERSHIP INTERESTS (%)	
		AS AT 31 JULY 2017	AS AT 31 JULY 2016
Fonterra (Japan) Limited	Japan	50	50
Fonterra Brands (Middle East) L.L.C.	UAE	49	49

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

22 NET TANGIBLE ASSETS PER SECURITY

	GROUP	
	AS AT 31 JULY 2017	AS AT 31 JULY 2016
Net tangible assets per security¹		
\$ per listed debt security on issue	6.86	6.32
\$ per equity instrument on issue	2.57	2.37
Listed debt securities on issue (million)	603	603
Equity instruments on issue (million)	1,607	1,603

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

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 JULY 2017

**TO THE SHAREHOLDERS OF FONTERRA CO-OPERATIVE GROUP LIMITED**

We have audited the financial statements which comprise:

- the statement of financial position as at 31 July 2017;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

OUR OPINION

In our opinion, the financial statements of Fonterra Co-operative Group Limited (the Company), including its controlled entities (the Group), present fairly, in all material respects, the financial position of the Group as at 31 July 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

BASIS FOR OPINION

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

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

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

Our firm carries out other services for the Group in relation to advisory, other assurance and attestation services. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These matters have not impaired our independence as auditor of the Group.

OUR AUDIT APPROACH**Overview**

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

Overall Group materiality: \$32 million, which represents 5% of the Group's three-year weighted average net profit before tax.

We chose to use the Group's net profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. However, the Group's net profit before tax is subject to volatility due to fluctuations in the Farmgate Milk Price, commodity prices, and foreign exchange rates. Therefore using a three-year weighted average net profit before tax provides a more stable basis for establishing our materiality.

We have determined that there are two key audit matters:

- Impairment assessment of goodwill and brands for the Brazil consumer and foodservice business; and
- Impairment assessment of the Group's investment in Beingmate.

Materiality

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

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

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

INDEPENDENT AUDITOR'S REPORT CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry and strategic markets in which the Group operates. The Group has five reportable segments that reflect the Group's management and reporting structure as viewed by the Company's Management Team. The financial statements are a consolidation of 163 subsidiaries, comprising the Group's collection, processing and distribution of New Zealand milk, global sales and marketing of New Zealand and non-New Zealand milk products, Quick Service Restaurant businesses, Global Brands and Nutrition, Co-operative Affairs, Fonterra Farm Source stores, Group Services, fast-moving consumer goods businesses, ingredients businesses, foodservice businesses, and farming businesses.

Of the Group's 163 subsidiaries we identified 11 subsidiaries that, due to their financially significant contribution as well as strategic importance to the Group's overall results, required a full-scope audit. In addition, we also performed specific audit procedures on certain balances and transactions of other subsidiaries. Audits of each location are performed at a materiality level calculated with reference to a proportion of Group materiality relative to the financial scale of the business concerned.

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

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

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
<p>1. Impairment assessment of goodwill and brands for the Brazil consumer and foodservice business</p> <p>Indefinite life intangible assets (goodwill and brands) are disclosed within note 15 (pages 26 and 27) of the financial statements. These assets are required to be tested for impairment on an annual basis.</p> <p>Management tests for impairment of intangible assets by performing a value-in-use assessment using a discounted cash flow model based on forecast future performance. The recoverability of these assets are therefore dependent on achieving sufficient future cash flows.</p> <p>Forecast cash flows are judgemental and influenced by factors such as regulatory and economic environments. As these assets are spread across a broad range of economic markets, there are a number of different factors and judgements that can influence the impairment assessment.</p> <p>Due to a general deterioration in the macroeconomic environment in Brazil, the impact on the current performance of the business and the potential impact on future cash flows, our audit focused on the Brazil cash generating unit (CGU) impairment assessment. The preparation of forecast cash flows requires the application of significant judgement over key assumptions such as earnings growth, discount rates and long-term growth rates.</p> <p>The carrying values of the indefinite lived intangible assets held in the Brazil CGU amounts to \$409 million, which represents approximately 15% of the Group's indefinite life intangible assets.</p>	<p>We performed the following audit procedures in relation to the Brazil CGU impairment assessment:</p> <ul style="list-style-type: none"> held discussions with management and understood the processes undertaken and basis for determining key assumptions in preparing the forecast cash flows; engaged our auditor's valuation experts to assist us in evaluating the assumptions and methodologies used; and challenged management on key assumptions, including earnings growth, discount rates and long-term growth rates as described below. <p>The Brazil CGU impairment assessment is the most sensitive to forecast cash flows from key strategic and go-to-market growth initiatives. In relation to these forecast cash flows we performed the following procedures:</p> <ul style="list-style-type: none"> compared forecast cash flows to the three year Board approved business plan and understood the processes undertaken by the Directors to approve the plan; understood and assessed growth rates applied to the forecast cash flows beyond the business plan, a combination of continued growth from strategic initiatives and industry forecasts; understood the difference between historical and budgeted performance to assess the accuracy of the budgeting process in previous years and considered the impact on forecast earnings; and understood and assessed the commercial prospects of achieving key strategic and go-to-market growth initiatives, by agreeing these to detailed supporting analyses prepared by management and corroborating these to independent market analyses (where relevant).

Key audit matter	How our audit addressed the key audit matter
<p>1. Impairment assessment of goodwill and brands for the Brazil consumer and foodservice business (continued)</p> <p>The recoverable amount of these assets are equivalent to their carrying values.</p>	<p>In relation to discount rates and long-term growth rates, we assessed the economic and industry forecasts in Brazil and cost of capital and other inputs to comparable organisations both in Brazil and globally.</p> <p>We also considered the appropriateness of disclosures in relation to intangible assets.</p>
<p>2. Impairment assessment of the Group's investment in Beingmate</p> <p>As disclosed in the basis of preparation (page 7) and within note 16 (page 28) of the financial statements, the Group holds an 18.8% share in Beingmate Baby and Child Food Co., Ltd., (Beingmate) a Chinese listed entity. The entity is accounted for as an equity accounted investment.</p> <p>Beingmate reported losses for the financial year ended 31 December 2016 and further losses for the half year ended 30 June 2017. The Group accounted for its share of Beingmate's losses for the period 1 August 2016 through to 31 July 2017 as a reduction in the carrying amount of the investment of \$41 million. Beingmate's share price has also traded significantly below the share price at the time the Group acquired its investment. As a result of these factors, the carrying value of the investment has been assessed for impairment, using a fair value less cost to sell methodology.</p> <p>The fair value has been determined using an estimate of what a market participant would pay for a similar long-term strategic equity stake in Beingmate under current market conditions. This resulted in an impairment charge of \$35 million.</p> <p>Our audit focused on this area as there are a number of judgements and assumptions applied in determining the fair value.</p>	<p>Our audit procedures in relation to the Group's investment in Beingmate, and specifically our audit of management's impairment assessment, focused on the key input to which the fair value is most sensitive, in particular, the determination of the premium above share price which a market participant might pay to acquire a long-term strategic investment of a similar size to Beingmate (the acquisition premium).</p> <p>In relation to the acquisition premium, we performed the following audit procedures:</p> <ul style="list-style-type: none"> conducted meetings with management responsible for overseeing the strategic relationships with Beingmate and understood the processes management undertook to derive the acquisition premium; understood and assessed the impact on the acquisition premium of: the infant milk formula market fundamentals in China; Beingmate's market share; potential growth opportunities due to imminent changes in the Chinese regulatory regime for both food safety laws and cross border e-commerce regulations; Fonterra's access to Beingmate's distribution network and other key strategic benefits; considered the impact of Beingmate's reported losses for the financial year ended 31 December 2016, and further losses for the half year ended 30 June 2017 on the acquisition premium; through the engagement of our auditor's valuation experts, we challenged the appropriateness of the acquisition premium with reference to comparable market acquisition premia where strategic market penetration and synergies were evidenced; and considered the appropriateness of disclosures in relation to the impairment. <p>Based on our work, the impairment charge fell within the range of reasonable outcomes we considered.</p>

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

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

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

INDEPENDENT AUDITOR'S REPORT CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

This description forms part of our auditor's report.

WHO WE REPORT TO

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

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

For and on behalf of:



Chartered Accountants

Auckland
23 September 2017

STATUTORY INFORMATION

FOR THE YEAR ENDED 31 JULY 2017

EQUITY SECURITIES HELD AT BALANCE DATE

In accordance with Rules of the Fonterra Shareholders' Market (FSM) Rule 9.4.4(c), the following table identifies the Equity Securities in which each Director has a Relevant Interest as at 31 July 2017.

	UNITS ISSUED BY THE FONTERRA SHAREHOLDERS' FUND ¹	CO-OPERATIVE SHARES
Leonie Guiney	–	878,824
John Monaghan	–	140,179
Nicola Shadbolt	–	366,705
Donna Smit	–	1,457,589
Ashley Waugh	–	115,812
John Wilson	–	4,523,700

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

A 'Relevant Interest' in Fonterra securities which is required to be disclosed is explicitly defined in the Financial Markets Conduct Act 2013.

To qualify as a Farmer Elected Director under the Fonterra Constitution a person must be a shareholder, a shareholder of a company that is a shareholder, a member of a partnership that is a shareholder, or have a legal or beneficial interest in, or a right or entitlement to participate directly in the distributions of, a body corporate that is a shareholder of Fonterra.

Given the variety of ways that farmer shareholders can organise their interests, it is possible for Fonterra Elected Directors to have an interest in Fonterra shares without this being a 'Relevant Interest' as defined in the Financial Markets Conduct Act 2013.

The interests of Mr Ian Farrelly and Mr David MacLeod in Fonterra shares at balance date did not meet the 'Relevant Interest' definition applicable to the disclosure above. However, their respective interests in Fonterra shares qualify them as Elected Directors under the Fonterra Constitution. Other Fonterra Elected Directors also have interests in Fonterra shares which are not within the definition of 'Relevant Interest' in the Financial Markets Conduct Act 2013 and those interests are not disclosed above.

CO-OPERATIVE STATUS

In accordance with section 10 of the Co-operative Companies Act 1996, the Directors of Fonterra unanimously resolved on 23 August 2017 that the Company was, for the year ended 31 July 2017, a co-operative company. The opinion was based upon the fact that:

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

STATUTORY INFORMATION CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

REMUNERATION OF DIRECTORS

The total remuneration and value of other benefits received by each Director in the 12 month period from 1 August 2016 to 31 July 2017 are scheduled below:

	BOARD FEES	COMMITTEE CHAIR FEES	TRAVEL ALLOWANCE	TOTAL REMUNERATION (\$)
Malcolm Bailey	58,808	-	-	58,808
Clinton Dines	165,000	-	-	165,000
Ian Farrelly	138,154	-	-	138,154
Leonie Guiney	165,000	-	-	165,000
Simon Israel	165,000	-	80,000 ¹	245,000
David Jackson (Chair of the Audit and Finance Committee and Chair of the Milk Price Panel, part year)	165,000	31,000	-	196,000
David MacLeod	165,000	-	-	165,000
John Monaghan (Chair of the Co-operative Relations Committee)	165,000	31,000	-	196,000
Nicola Shadbolt (Chair of the Risk Committee)	165,000	31,000	-	196,000
Donna Smit	110,032	-	-	110,032
Michael Spaans	82,500	-	-	82,500
Scott St John (Chair of the Milk Price Panel, part year)	126,500	8,250	-	134,750
John Waller (Chair of the Milk Price Panel, part year)	13,750	2,583	-	16,333
Ashley Waugh	165,000	-	-	165,000
John Wilson (Chairman of the Board of Directors)	405,000	-	-	405,000

¹ The Board has approved the payment to Mr Israel of a travel allowance of \$10,000 per meeting to travel to and from New Zealand to attend Board meetings.

SUBSIDIARY COMPANY DIRECTORS

The following companies were subsidiaries of Fonterra as at 31 July 2017. Directors as at that date are listed; those who resigned during the year are denoted with an R. Alternate Directors are denoted with an A.

Anchor Ethanol Limited: G A Duncan, P D Washer	Fonterra Brands (Tip Top Investments) Limited: G A Duncan, K M Turner	Fonterra TM Limited: G A Duncan, S D T Till
Canpac International Limited: G A Duncan, M R Spiers	Fonterra Brands (Tip Top) Limited: M R Cronin, L M Clement	Glencol Energy Limited: G A Duncan, M R Spiers
Civil Whey Distributors Limited: G A Duncan, M R Spiers	Fonterra Commodities Limited: G A Duncan, B M Turner	GlobalDairyTrade Holdings Limited: G A Duncan, L J Paravicini
Dairy Industry Superannuation Scheme Trustee Limited: M A Apiata-Wade, B J Kerr, D M Marshall (R), T P McGuinness, D W C Scott, A K Williams, P D Wynen, K Duffy (R)	Fonterra Dairy Solutions Limited: G A Duncan, R McNickle	Kotahi GP Limited: M E Leslie, K G Winders (R), R J Spurway, R M Kennerley, G P Howie
Fonterra (Delegated Compliance Trading Services) Limited: G A Duncan, S D T Till	Fonterra Equities Limited: G A Duncan, S D T Till	MIH Limited: G A Duncan, J P Minkhorst
Fonterra (International) Limited: G A Duncan, C E Rowe	Fonterra Farming Ventures Limited: G A Duncan, J P Minkhorst	Milktest GP Limited: P G Brown, B Greaney (R), M E Leslie, R G Townshend, T A Winter, P D S Grave, J T Powell
Fonterra (Kotahi) Limited: M E Leslie, R J Spurway	Fonterra Finance Corporation Limited: G A Duncan, S D T Till	MyMilk Limited: M W Hurrell, R M Kennerley
Fonterra (Middle East) Limited: G A Duncan, P D Washer	Fonterra Holdings (Americas) Limited: G A Duncan, R M Kennerley	New Zealand Dairy Board: G A Duncan, C E Rowe
Fonterra (New Zealand) Limited: G A Duncan, C E Rowe	Fonterra Holdings (Brazil) Limited: G A Duncan, R M Kennerley	New Zealand Milk (International) Limited: G A Duncan, L J Paravicini
Fonterra (North Asia) Limited: G A Duncan, K A Wickham (R), S D T Till	Fonterra Holdings (Venezuela) Limited: G A Duncan, R M Kennerley	New Zealand Milk Brands Limited: G A Duncan, S D T Till
Fonterra Brands (New Zealand) Limited: M R Cronin, L M Clement	Fonterra Ingredients Limited: G A Duncan, L J Paravicini	NZAgbiz Limited: G A Duncan, J P Minkhorst
	Fonterra Limited: K A Wickham, R J Spurway	RD1 Limited: J P Minkhorst, K M Turner
	Fonterra PGGRC Limited: G A Duncan, J P Minkhorst	

SAITL Limited: B Greaney, M E Leslie	Fonterra (Brasil) Ltda [Brazil]: F Spinelli (R), R Carneiro (R), M P Bueno, G Nascimento, M J L Barros	Fonterra Brands (Far East) Limited [Hong Kong]: G A Duncan, M Namboodiri, S C Deschamps
Tangshan Dairy Farm (NZ) Limited: G A Duncan, K A Wickham	Fonterra (Canada), Inc. [Canada]: G A Duncan, B Kipping, B M Ryan, J P Coote	Fonterra Brands (Guangzhou) Ltd [China]: K A Wickham, A R R Kasireddy, R M Kennerley
Whareroa Co-Generation Limited: G A Duncan, M R Spiers	Fonterra (China) Limited [Hong Kong]: G A Duncan, C Zhu, M Namboodiri	Fonterra Brands (Guatemala), S.A. [Guatemala]: A J Cordner, G A Duncan, K J Murray (R)
A.C.N. 113 345 430 Pty Ltd [Australia]: G A Duncan, A Maharaj	Fonterra (CIS) Limited Liability Company [Russian Federation]: M Bates	Fonterra Brands (Hong Kong) Limited [Hong Kong]: G A Duncan, M Namboodiri, S C Deschamps
Anchor Insurance Pte. Limited [Singapore]: L J Paravicini, S S Herbert, M W Smith (R), C L Khoon (A), R M Kennerley	Fonterra (Europe) Coöperatie U.A. [Netherlands]: G A Duncan, H Huistra, A Wright	Fonterra Brands (Malaysia) Sdn Bhd [Malaysia]: M W Smith (R), J M Porraz, J Ling, F Spinelli
Annum (Malaysia) Sdn. Bhd. [Malaysia]: M W Smith (R), J M Porraz, J Ling, F Spinelli	Fonterra (Europe) GmbH [Germany]: A Wright	Fonterra Brands (New Young) Pte. Ltd. [Singapore]: M W Smith (R), M R Cronin, A Dasgupta
Auckland Limited [Barbados]: M F Maldonado, A Turnbull, L Hartmann, F Spinelli, L J Paravicini	Fonterra (France) SAS [France]: H Huistra	Fonterra Brands (Thailand) Ltd [Thailand]: C Phaonimongkol (R), M W Smith (R), P A Richards, P Oh, F Spinelli
Australasian Food Holdings Pty Limited [Australia]: G A Duncan, A Maharaj	Fonterra (Ing.) Limited [Mauritius]: G Lee, B M Ryan	Fonterra Brands (Viet Nam) Company Limited [Vietnam]: A M Fitzsimmons (R), M W Smith (R), A Renard, F Spinelli
Bonlac Finance Pty Limited [Australia]: G A Duncan, A Maharaj	Fonterra (Japan) Limited [Japan]: K Kumagai, H Ono, Y Saito, K Ueta, B M Ryan, K A Wickham	Fonterra Brands Indonesia, PT [Indonesia]: M W Smith (R), A Affudin, M Namjoshi, A R R Kasireddy (R), J H Priem (R), J Chow, F Spinelli
Bonland Cheese Trading Pty Ltd [Australia]: G A Duncan, A Maharaj	Fonterra (Korea) Limited [Korea]: G A Duncan, Y Saito (R), J Murney	Fonterra Brands Lanka (Private) Limited [Sri Lanka]: J H P Gallage, M W Smith (R), S Sethi, F Spinelli
Comercial Dos Alamos S.A. [Chile]: J C Petersen, R Waldspurger, M Kunstmann	Fonterra (Logistics) Ltd [United Kingdom]: G R Sharma, A Wright	Fonterra Brands Manufacturing Indonesia, PT [Indonesia]: M W Smith (R), M A Nasution, T A Siswanto, A R R Kasireddy (R), M Namjoshi, J H Priem (R), J Chow, F Spinelli
Comercial Santa Elena S.A. [Chile]: H Covarrubias Lalanne, J Barria, E Aldunate	Fonterra (Mexico) S.A. de C.V. [Mexico]: G A Duncan, M M Pérez Ortiz (R), P D Washer (R), L Barona Mariscal (A), F R Camacho (A), G A Castro Palafox (A) (R), J P Coote, J A Del Rio, E P G R Gil (A)	Fonterra Brands Myanmar Co Ltd [Myanmar]: G A Duncan, M W Smith (R), P Richards
Corporación Inlaca C.A [Venezuela]: M F Maldonado, M M Perez, J R Odon, F C Ortega	Fonterra (SEA) Pte. Ltd. [Singapore]: B Connolly (R), J C M Fair (R), H Gowans, A Aggarwal	Fonterra Brands Phils. Inc. [Philippines]: L T Barin, R A Mendoza, E T Ogsimer, M W Smith (R), S Choo, M T Boness, F Spinelli
Dairy Enterprises (Chile) Limitada [Chile]: R Sepúlveda Seminario, J P Egaña Bertoglia (A), F Spinelli, G A Duncan, R Lavados (A), P L Linhares (A)	Fonterra (Thailand) Limited [Thailand]: K Vunthanadit, B Connolly (R), A Aggarwal	Fonterra Commercial Trading (Shanghai) Company Limited [China]: W F Chu (R), G A Duncan, A R R Kasireddy (R), R M Kennerley (R), K A Wickham (R), R Allen, J Ruan, S C R Deschamps, C Zhu
Dairy Enterprises International (Chile) Limited [Cayman Islands]: M P Campbell, G A Duncan	Fonterra (USA) Inc. [United States]: G A Duncan, B M Ryan, J P Coote, N R Christiansen	Fonterra Egypt Limited [Egypt]: G A Duncan, A Anwar
Dairymas (Malaysia) Sdn Bhd [Malaysia]: M W Smith (R), J M Porraz, J Ling, F Spinelli	Fonterra (Ying) Dairy Farm Company Limited [China]: R M Kennerley, A van der Nagel (R), G A Duncan, H Berghorst	Fonterra Europe Manufacturing B.V. [Netherlands]: H Berghorst, C E Rowe
Dairy Partners Americas Brasil Limitada [Brazil]: O C L Faccina (R), M J L Barros, L P L Rivero, D G Cano (R), F A Sporques, L Medeiros, F Goncalves, D S Oliveira	Fonterra (Yutian) Dairy Farm Company Limited [China]: R M Kennerley, A van der Nagel (R), G A Duncan, H Berghorst	Fonterra Europe Manufacturing Holding B.V. [Netherlands]: G A Duncan, H Huistra
Dairy Partners Americas Nordeste-Productos Alimenticios Ltda [Brazil]: O C L Faccina (R), M J L Barros, D G Cano (R), F A Sporques, L P L Rivero, L Medeiros, F Goncalves, D S Oliveira	Fonterra Argentina S.R.L. [Argentina]: L P Wiener	Fonterra Farming Ventures (Australia) Pty Ltd [Australia]: G A Duncan, A Maharaj
Darnum Park Pty Ltd [Australia]: J Swales (R), G A Duncan, R Dedoncker	Fonterra Australia Pty Ltd [Australia]: G A Duncan, J Swales (R), R Dedoncker	
Falcon Dairy Holdings Limited [Hong Kong]: R M Kennerley, G A Duncan (R), J F Ginascol, R O Frey, M P Campbell	Fonterra Beijing Farm Management Consulting Company Limited [China]: R M Kennerley, A van der Nagel, L O'Neil	
Fast Forward FFW Limited [United Kingdom]: M P Campbell, H Huistra, M Gallagher, A Waugh, K Baine	Fonterra Brands (Asia Holdings) Pte. Ltd [Singapore]: M W Smith (R), M R Cronin, S I Ahmed, A Dasgupta	
Fazenda MIH Ltda [Brazil]: R Santos (R), R Carneiro (R), M P Bueno, G Nascimento	Fonterra Brands (Australia) Pty Ltd [Australia]: G A Duncan, J Swales (R), R Dedoncker	

STATUTORY INFORMATION CONTINUED
FOR THE YEAR ENDED 31 JULY 2017

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

Fonterra Global Business Services Asia Sdn Bhd [Malaysia]:
J Ling, J M Porraz

Fonterra India Private Limited [India]:
G N Kane (R), K M Turner, H D Gowans, S G Matthews

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

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

Fonterra Middle East FZE [United Arab Emirates]:
G A Duncan, A M Fitzsimmons

Fonterra MIH Holdings Brasil Ltda [Brazil]:
R Carneiro (R), F Spinelli (R), M P Bueno, G Nascimento

Fonterra Milk Australia Pty Ltd [Australia]:
G A Duncan, A Maharaj

Fonterra Tangshan Dairy Farm (HK) Limited [Hong Kong]:
A van der Nagel (R), R M Kennerley, H Berghorst

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

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

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

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

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

Milk Products Holdings (Middle East) EC [Bahrain]:
M W Smith (R), G A Duncan, A Fitzsimmons, F Spinelli

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

New Tai Milk Products Co Ltd [Taiwan]:
G N Kane (R), C Lee, G Lee, M Lee, B M Ryan, J H Priem, K Lee, K A Wickham

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

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

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

New Zealand Milk Products (Ethiopia) SC [Ethiopia]:
A Fitzsimmons, M Woodward, M W Smith (R), M Smith (R), A B Abubeker, M B Abubeker

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

NZMP (AEM) Ltd [United Kingdom]:
G R Sharma, A Wright

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

Pure Source Dairy Farm Company Limited [Hong Kong]:
R M Kennerley, A van der Nagel (R), J F Ginascol, Y Chen, H Berghorst

REMUNERATION FRAMEWORK

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

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

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

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

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

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

At the end of each financial year, performance is reviewed and incentive payments are approved by the People, Culture and Safety (“PCS”) Committee at its discretion. The Committee retains absolute discretion in respect to payments for all incentive schemes.

Further detail on Fonterra’s remuneration framework can be found in the Corporate Governance section of the Annual Review on page 73.

EMPLOYEE REMUNERATION

The Group operates in a number of countries where remuneration market levels differ widely. During the year ended 31 July 2017, the number of employees, not being Directors of Fonterra, who received remuneration and the value of other benefits exceeding \$100,000 was as follows:

REMUNERATION RANGE (\$)	NEW ZEALAND ¹	OFFSHORE ²	CESSATIONS ³	TOTAL	REMUNERATION RANGE (\$)	NEW ZEALAND ¹	OFFSHORE ²	CESSATIONS ³	TOTAL
100,000 - 110,000	917	193	58	1,168	590,001 - 600,000	2	–	–	2
110,001 - 120,000	797	233	29	1,059	610,001 - 620,000	3	1	–	4
120,001 - 130,000	444	188	24	656	620,001 - 630,000	–	2	–	2
130,001 - 140,000	234	161	23	418	630,001 - 640,000	4	3	–	7
140,001 - 150,000	183	110	13	306	640,001 - 650,000	2	–	–	2
150,001 - 160,000	140	90	12	242	650,001 - 660,000	2	1	–	3
160,001 - 170,000	119	57	11	187	660,001 - 670,000	2	1	–	3
170,001 - 180,000	86	63	8	157	670,001 - 680,000	–	2	–	2
180,001 - 190,000	74	39	8	121	680,001 - 690,000	1	–	–	1
190,001 - 200,000	61	32	7	100	690,001 - 700,000	2	–	–	2
200,001 - 210,000	57	27	7	91	700,001 - 710,000	1	3	1	5
210,001 - 220,000	46	31	2	79	710,001 - 720,000	1	1	–	2
220,001 - 230,000	30	21	4	55	720,001 - 730,000	1	1	–	2
230,001 - 240,000	33	22	2	57	730,001 - 740,000	2	1	–	3
240,001 - 250,000	29	14	4	47	740,001 - 750,000	1	1	–	2
250,001 - 260,000	14	14	2	30	750,001 - 760,000	–	1	1	2
260,001 - 270,000	17	9	3	29	760,001 - 770,000	–	1	1	2
270,001 - 280,000	22	14	2	38	770,001 - 780,000	2	1	1	4
280,001 - 290,000	19	16	2	37	780,001 - 790,000	–	2	–	2
290,001 - 300,000	11	13	2	26	790,001 - 800,000	–	1	–	1
300,001 - 310,000	15	12	1	28	800,001 - 810,000	–	1	–	1
310,001 - 320,000	8	10	–	18	810,001 - 820,000	1	–	–	1
320,001 - 330,000	6	9	1	16	820,001 - 830,000	–	1	–	1
330,001 - 340,000	9	12	1	22	830,001 - 840,000	–	1	–	1
340,001 - 350,000	7	7	2	16	840,001 - 850,000	–	1	–	1
350,001 - 360,000	3	5	1	9	850,001 - 860,000	–	1	–	1
360,001 - 370,000	2	7	2	11	860,001 - 870,000	–	1	–	1
370,001 - 380,000	2	3	1	6	870,001 - 880,000	1	–	–	1
380,001 - 390,000	4	6	–	10	880,001 - 890,000	1	–	–	1
390,001 - 400,000	3	4	–	7	890,001 - 900,000	–	1	–	1
400,001 - 410,000	4	2	–	6	900,001 - 910,000	1	1	–	2
410,001 - 420,000	5	5	1	11	910,001 - 920,000	1	–	–	1
420,001 - 430,000	5	4	–	9	920,001 - 930,000	–	–	1	1
430,001 - 440,000	5	1	1	7	930,001 - 940,000	–	2	–	2
440,001 - 450,000	1	5	–	6	940,001 - 950,000	–	1	–	1
450,001 - 460,000	4	3	2	9	950,001 - 960,000	–	1	–	1
460,001 - 470,000	4	1	1	6	960,001 - 970,000	–	1	–	1
470,001 - 480,000	6	2	–	8	970,001 - 980,000	1	1	–	2
480,001 - 490,000	–	3	1	4	980,001 - 990,000	–	–	1	1
490,001 - 500,000	2	4	–	6	990,001 - 1,000,000	–	2	–	2
500,001 - 510,000	1	4	1	6	1,000,001 - 1,020,000	–	–	1	1
510,001 - 520,000	1	3	–	4	1,020,001 - 1,030,000	–	–	1	1
520,001 - 530,000	1	4	1	6	1,030,001 - 1,040,000	1	–	–	1
530,001 - 540,000	–	3	–	3	1,040,001 - 1,050,000	1	–	–	1
540,001 - 550,000	2	–	–	2	1,050,001 - 1,060,000	1	–	–	1
550,001 - 560,000	–	1	–	1	1,060,001 - 1,070,000	–	–	1	1
560,001 - 570,000	2	–	–	2	1,070,001 - 1,080,000	–	–	1	1
570,001 - 580,000	2	2	1	5	1,080,001 - 1,090,000	–	–	1	1
580,001 - 590,000	–	2	1	3	1,090,001 - 1,100,000	–	1	–	1
					1,100,001 - 1,120,000	1	–	–	1
					1,120,001 - 1,150,000	1	–	–	1
					1,150,001 - 1,180,000	1	1	–	2
					1,180,001 - 1,190,000	1	–	–	1
					1,190,001 - 1,260,000	1	–	–	1
					1,260,001 - 1,300,000	–	1	–	1
					1,300,001 - 1,310,000	–	1	–	1
					1,310,001 - 1,370,000	–	1	–	1
					1,370,001 - 1,380,000	–	1	–	1
					1,380,001 - 1,390,000	1	1	–	2
					1,390,001 - 1,490,000	–	–	1	1
					1,490,001 - 1,500,000	–	–	1	1
					1,500,001 - 1,610,000	–	–	1	1
					1,610,001 - 1,620,000	–	–	1	1
					1,620,001 - 1,710,000	–	1	–	1
					1,710,001 - 1,720,000	–	1	–	1
					1,720,001 - 1,750,000	–	1	–	1
					1,750,001 - 1,760,000	–	1	–	1
					1,760,001 - 2,050,000	1	–	–	1
					2,050,001 - 2,060,000	1	–	–	1
					2,060,001 - 2,070,000	1	–	–	1
					2,070,001 - 2,080,000	1	–	–	1
					2,080,001 - 2,660,000	1	–	–	1
					2,660,001 - 2,670,000	1	–	–	1
					2,670,001 - 2,870,000	1	–	–	1
					2,870,001 - 2,880,000	1	–	–	1
					2,880,001 - 2,980,000	–	–	1	1
					2,980,001 - 2,990,000	–	–	1	1
					2,990,001 - 3,250,000	1	–	–	1
					3,250,001 - 3,260,000	1	–	–	1
					3,260,001 - 8,320,000	1	–	–	1
Total	3,481	1,513	251	5,245					

1 Includes employees employed in New Zealand during the reporting period.
 2 Includes employees employed in an offshore operation during the reporting period. Amounts paid in foreign currency have been translated at the average conversion rate for the period. As Fonterra has a significant offshore population, the number of offshore employees exceeding the fixed figure of \$100,000 increases if the New Zealand dollar currency weakens significantly. Should the New Zealand dollar strengthen against those markets’ currencies, these same individuals may not be reported in future lists.
 3 Cessations include employees that have been terminated or retired during the period. The amounts paid to former employees include salary and bonuses for the current period, prior period bonuses that have been paid in the current period (which were accrued at 31 July 2016) and termination entitlements including those arising from employment arrangements entered into by legacy companies prior to the formation of Fonterra.

STATUTORY INFORMATION CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

CURRENT CREDIT RATING STATUS

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

EXCHANGE RULINGS AND WAIVERS

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

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

The Company was issued with a waiver of Rule 5.2.3 by NZX on 10 April 2015 (for a period of one year from 21 April 2015) in respect of the Company's issuance of \$350 million of unsecured, unsubordinated, fixed rate bonds maturing on 20 October 2021 ('FCG030 Bonds'), to the extent that that rule would otherwise require the FCG030 Bonds to be held by at least 500 members of the public holding at least 25% of the FCG030 Bonds.

The Company was also issued with a waiver of Rule 5.2.3, as modified by NZX's ruling on Rule 5.2.3, by NZX on 18 February 2016 (for a period of six months from 8 March 2016) in respect of the Company's issuance of \$150 million of unsecured, unsubordinated, fixed rate bonds maturing on 7 March 2023 ('FCG040 Bonds'), to the extent that the rule (as modified) would otherwise require the FCG040 Bonds to be held by at least 100 members of the public holding at least 25% of the FCG040 Bonds.

The effect of these waivers from Rule 5.2.3 is that the FCG030 Bonds and the FCG040 Bonds may not be widely held and there may be reduced liquidity in those bonds.

The Company was issued with a waiver of Rule 7.11.1 by NZX on 18 February 2016 in respect of the Company's issuance of the FCG040 Bonds, to the extent that the rule would have otherwise required the Company to allot the FCG040 Bonds within five business days after the latest date on which applications for the FCG040 Bonds closed.

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

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

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

NZX TRADING HALTS

No trading halts were placed on Fonterra securities by NZX Regulation in the financial year ended 31 July 2017.

STOCK EXCHANGE LISTINGS

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

As at 14 August 2017 there were 1,606,932,511 Fonterra Co-operative shares on issue.

ANALYSIS OF SHAREHOLDING

Analysis of Fonterra's shareholding as at 14 August 2017:

FCG Largest Recorded Share Holdings¹

NAME	NUMBER OF SHARES	% OF SHARES
Fonterra Farmer Custodian Limited	127,307,140	7.92
Ellis-Lea Farms (2000) Ltd – Lamorna	1,032,996	0.06
Singletree Dairies 2013 Limited	1,001,077	0.06
Stewart Partnership Ltd	922,500	0.06
Theland Tahī Farm Group Limited – Pureora	898,786	0.06
Moffitt Dairy Ltd	873,433	0.05
McBain Farms Ltd	867,790	0.05
Arlanda Limited	863,479	0.05
Poplar Partnership Ltd	843,970	0.05
Bishopdale Farm Limited	833,858	0.05
McIntyre Williamson Partnership	819,888	0.05
Van'T Klooster Farms Ltd – Waihao Valley Farm	817,500	0.05
Coringa Park Dairies Ltd	810,666	0.05
Plantation Road Dairies Ltd	794,170	0.05
Van'T Klooster Farms Ltd – Tawai Farm	785,190	0.05
Theland Tahī Farm Group Limited – Ngaherenga	761,354	0.05
Feather Holdings Limited – Wairango	744,898	0.05
Twin Terraces Ltd	742,768	0.05
Elderslie Holdings Limited	742,383	0.05
Ellis-Lea Farms (2000) Ltd – Grandview	736,844	0.05

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

Substantial Product Holders

According to notices given to the Company under the Financial Markets Conduct Act 2013, as at 31 July 2017, the substantial product holders in the Company and their relevant interests are noted below. The total number of Co-operative shares on issue as at 14 August 2017 was 1,606,932,511.

SUBSTANTIAL PRODUCT HOLDERS	NUMBER OF VOTING SECURITIES	DATE OF MOST RECENT NOTICE
Fonterra Farmer Custodian Limited	111,308,130	25 July 2016
FSF Management Company Limited	111,180,848	25 July 2016

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

STATUTORY INFORMATION CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

FCG Fonterra Co-operative Shares

Analysis of Fonterra Co-operative Shares as at 14 August 2017:

FROM-TO	HOLDER COUNT	%	HOLDING QUANTITY	%
1-50,000	1,517	14.84	39,659,088	2.47
50,001-100,000	2,882	28.19	218,982,854	13.63
100,001-200,000	3,477	34.02	488,956,495	30.43
200,001-400,000	1,946	19.04	527,955,956	32.85
400,001 and over	400	3.91	331,378,118	20.62

ANALYSIS OF CAPITAL NOTE AND RETAIL BOND HOLDING

Analysis of Fonterra's Capital Note Holding as at 9 August 2017:

FCGHA Capital Notes

FROM-TO	HOLDER COUNT	%	HOLDING QUANTITY	%
1-1,000	10	1.35	4,358	0.01
1,001-5,000	27	3.65	70,236	0.07
5,001-10,000	247	33.38	1,754,038	1.71
10,001-100,000	423	57.16	12,160,604	11.86
100,001 and over	33	4.46	88,530,018	86.35

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

Analysis of Fonterra's Retail Bond Holding as at 9 August 2017:

FCG030 \$350 million Retail Bond issue

FROM-TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000-9,999	42	6.68	243,000	0.07
10,000-49,999	319	50.71	7,108,000	2.03
50,000-99,999	83	13.19	5,018,000	1.43
100,000-999,999	161	25.60	52,186,000	14.91
1,000,000 and over	24	3.82	285,445,000	81.56

FCG040 \$150 million Retail Bond issue

FROM-TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000-9,999	60	9.13	344,000	0.23
10,000-49,999	424	64.54	8,823,000	5.88
50,000-99,999	82	12.48	4,929,000	3.29
100,000-999,999	76	11.57	16,345,000	10.90
1,000,000 and over	15	2.28	119,559,000	79.70

ENTRIES IN THE INTERESTS REGISTER

Directors' interests in transactions

General disclosures of interest

The following general disclosures of interest were made in the period from 1 August 2016 to 31 July 2017:

Clinton Dines	Director of Freedom Road Travel
Ian Farrelly	Chair of Fortuna Group Limited; Director and Shareholder of F.D. Lands Limited, Jamieson Dairies Limited, Kahuterawa Farms Limited; Director of FMM Holdings Limited, Island Glen Dairies Limited, Tower Peak Station Limited, Hinewai Holdings Limited, Spectrum Dairies GP Limited, Totman Dairies Limited and Waikato Stud Limited; ceased as a Director of FSF Management Company Limited
Simon Israel	Director of Stewardship Asia Centre CLG Limited; Member of Westpac Advisory Board; ceased to be a Director of Stewardship Asia Centre Pte Limited, CapitalLand Limited
David Jackson	Chair of Tegel Group Holdings Limited; ceased as a Director of Nuplex Industries Limited
David MacLeod	Director of Predator Free 2050 Limited
Donna Smit	Director of KEL Woodlands Orchard Limited, Director of KEL Rangiuoru Orchard Limited and Primary ITO; Director and Shareholder of Corona Farms Limited, Seven Mile Farms Limited, Ballance Agri Nutrients Limited, Kiwifruit Equities Limited and Corona Kiwi Limited; Shareholder of Ravensdown Limited, Eastpack Limited, Farmlands Co-operative Society Limited and Livestock Improvement Corporation Limited; Trustee of Eastern Bay Energy Trust, Taratahi Agricultural Training Centre (Wairarapa) Trust Board and Dairy Women's Network; ceased as Director of Primary ITO; ceased as a Trustee of Eastern Bay Energy Trust
Scott St John	Director of FSF Management Company Limited, Te Awanga Terraces Limited, Hutton Wilson Nominees Limited, Fisher and Paykel Healthcare Corporation Limited, NEXT Foundation, Captain Cook Nominees Limited and First NZ Capital Limited; Trustee of Butland Medical Foundation; Chancellor of the University of Auckland

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

Securities dealings of Directors

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

New disclosures

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

	RELEVANT INTERESTS IN CO-OPERATIVE SHARES
Donna Smit (on appointment 8 December 2016)	1,457,589

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

Co-operative share transactions

DIRECTOR	NUMBER OF SECURITIES ACQUIRED	NUMBER OF SECURITIES DISPOSED	CONSIDERATION \$	DATE
John Wilson ¹	25,182 ¹	25,182 ¹	-	10 November 2016
John Wilson	-	31,614	-	30 November 2016

¹ Transfers between related entities.

Unit transactions

There were no transactions by Directors (or their associated persons) in Units reported during the period from 1 August 2016 to 31 July 2017.

Retail Bond transactions

There were no transactions by Directors (or their associated persons) in Retail Bonds reported during the period from 1 August 2016 to 31 July 2017. No current holdings of Retail Bonds have been advised by Directors (or their associated persons).

Capital Note transactions

There were no transactions by Directors (or their associated persons) in Capital Notes reported during the period from 1 August 2016 to 31 July 2017. No current holdings of Capital Notes have been advised by Directors (or their associated persons).

STATUTORY INFORMATION CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

Directors' remuneration

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

At the Annual Meeting of shareholders held on 8 December 2016, shareholders approved, on the recommendation of the Directors' Remuneration Committee, the following amounts of remuneration to apply to Elected Directors from the date of that Annual Meeting of shareholders.

Chairman	\$405,000 p.a.
Directors	\$165,000 p.a.
Discretionary additional payments to the Chair of permanent Board Committees (except if the Chair is the Fonterra Chairman)	\$31,000 p.a.

The Board has approved payment of the discretionary additional payment, at the prevailing approved rate, to the Chair of permanent Board Committees.

The Board has discretion to set the fees for Directors appointed under clause 12.4 of the Constitution (Appointed Directors). In the period to 31 July 2017 the Board applied the same remuneration levels as above to the Appointed Directors.

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

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

Directors' indemnity and insurance

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

FIVE YEAR SUMMARY

FOR THE YEAR ENDED 31 JULY 2017

	JULY 2017	JULY 2016	JULY 2015	JULY 2014	JULY 2013
SHAREHOLDER SUPPLIER RETURNS					
Payout					
Farmgate Milk Price (per kgMS) ¹	6.12	3.90	4.40	8.40	5.84
Dividend (per share)	0.40	0.40	0.25	0.10	0.32
Cash payout²	6.52	4.30	4.65	8.50	6.16
Retentions (per share) ³	0.06	0.11	0.04	–	0.14
OPERATING PERFORMANCE					
Average commodity prices (US\$ per MT FOB)					
Whole Milk Powder ⁴	2,855	2,111	2,639	4,824	3,394
Skim Milk Powder ⁴	2,216	1,803	2,552	4,504	3,625
Butter ⁴	4,221	2,830	3,027	3,920	3,550
Cheese ⁵	3,763	2,766	3,477	4,706	4,124
Average NZD/USD spot exchange rate applying throughout the year⁶	0.71	0.67	0.76	0.84	0.82
Fonterra's average NZD/USD conversion rate ⁷	0.70	0.71	0.79	0.81	0.80
Revenue (\$ million)					
Ingredients and other revenue	12,715	10,903	12,144	17,748	13,926
Consumer revenue	6,517	6,296	6,701	4,527	4,717
Total revenue	19,232	17,199	18,845	22,275	18,643
Dairy ingredients manufactured in New Zealand (000s MT)	2,379	2,466	2,753	2,519	2,312
Total ingredients sales volume (000s MT) ⁸	3,019	3,074	2,982	3,052	2,765
Segment earnings (\$ million)⁹					
Global Ingredients and Operations	484	864	673	280	480
Oceania	206	137	(156)	31	93
Asia	194	235	192	50	207
Greater China	130	64	(5)	30	–
Latin America	102	125	256	111	137
Eliminations	4	6	(18)	1	20
Segment earnings	1,120	1,431	942	503	937
Normalisation adjustments	35	(73)	32	–	65
Normalised segment earnings	1,155	1,358	974	503	1,002
Profit after tax attributable to shareholders (\$ million)	734	810	466	157	718
Earnings per share¹⁰	0.46	0.51	0.29	0.10	0.44

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

2 Average payout for a 100 per cent share-backed supplier.

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

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

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

6 Average spot exchange rate is the average of the daily spot rates for the financial period.

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

8 For the year ended 31 July 2014 the total ingredients sales volume has been restated to reflect Fonterra's strategic platforms. Figures for the year ended 31 July 2013 have not been restated.

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

FIVE YEAR SUMMARY CONTINUED

FOR THE YEAR ENDED 31 JULY 2017

	JULY 2017	JULY 2016	JULY 2015	JULY 2014	JULY 2013
KEY CAPITAL MEASURES (\$ million)					
Equity excluding hedge reserve	7,056	6,883	7,196	6,452	6,830
Economic net interest-bearing debt ¹⁰	5,601	5,473	7,120	4,732	4,467
Economic debt to debt plus equity ratio ¹¹	44.3%	44.3%	49.7%	42.3%	39.6%
Capital employed ¹²	9,093	9,392	9,487	8,493	8,249
Return on capital ¹³	11.1%	12.4%	8.9%	4.7%	10.5%
STAFF EMPLOYED					
Total staff employed (000s, permanent full time equivalents)	21.4	21.3	22.0	18.2	17.5
New Zealand	11.7	11.4	11.9	11.4	11.2
Overseas	9.7	9.9	10.1	6.8	6.3
SEASON STATISTICS¹⁴					
Total NZ milk collected (million litres)	17,051	17,585	18,143	17,932	16,673
Highest daily volume collected (million litres)	80.1	86.9	89.7	87.1	84.8
NZ shareholder supply milk solids collected (million kgMS)	1,417	1,453	1,520	1,533	1,424
NZ contract supply milk solids collected (million kgMS)	109	113	94	51	39
NZ milk solids collected (million kgMS)	1,526	1,566	1,614	1,584	1,463
Total number of shareholders at 31 May	10,267	10,579	10,753	10,721	10,668
Total number of sharemilkers at 31 May	2,722	3,098	3,379	3,398	3,449
Total number of shares at 31 May (million)	1,607	1,602	1,599	1,598	1,598

¹⁰ Economic net interest-bearing debt reflects total borrowings less cash and cash equivalents and non-current interest-bearing advances adjusted for derivatives used to manage changes in hedged risks.

¹¹ Economic debt to debt plus equity ratio is calculated as economic net interest-bearing debt divided by economic net interest-bearing debt plus equity excluding hedge reserves.

¹² Capital employed excludes brands, goodwill and equity accounted investments.

¹³ Return on capital is calculated as normalised EBIT, less equity accounted investees' earnings, divided by capital employed.

¹⁴ All season statistics are based on the 12 month milk season of 1 June–31 May.



Dairy for life

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