ANNUAL FINANCIAL RESULTS

For the year ended 31 July 2013

Dairy for life

Contents:

DIRECTORS' STATEMENT

FOR THE YEAR ENDED 31 JULY 2013

The Directors of Fonterra Co-operative Group Limited (Fonterra or the Company) are pleased to present to Shareholders the Annual Report[1] and financial statements for Fonterra and its subsidiaries (together the Group) and the Group's interest in its equity accounted investees for the year ended 31 July 2013.

The Directors are responsible for presenting financial statements for each financial year which give a true and fair view of the financial position for the Company and Group and of the financial performance and cash flows for that period.

The Directors consider the financial statements of the Company and 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 Company and Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The Directors consider that they have taken adequate steps to safeguard the assets of the Company and 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 2013. For and on behalf of the Board:

JOHN WILSON
Chairman
24 September 2013

DAVID JACKSON
Director
24 September 2013

1 This document, in conjunction with the Fonterra Annual Review 2013, constitutes the 2013 Annual Report to Shareholders of Fonterra Co-operative Group Limited.

INCOME STATEMENT

FOR THE YEAR ENDED 31 JULY 2013

	NOTES	GROUP $ MILLION		PARENT $ MILLION	
		31 JULY 2013	31 JULY 2012	31 JULY 2013	31 JULY 2012
Revenue from sale of goods		**18,643**	19,769	**8,649**	9,050
Dividends received		**–**	–	**264**	114
Total revenue		**18,643**	19,769	**8,913**	9,164
Cost of goods sold	1	**(15,611)**	(16,721)	**(8,649)**	(9,050)
Gross profit		**3,032**	3,048	**264**	114
Other operating income		**105**	132	**55**	56
Selling and marketing expenses		**(622)**	(568)	**(13)**	(10)
Distribution expenses		**(514)**	(501)	**–**	–
Administrative expenses		**(766)**	(784)	**(240)**	(241)
Other operating expenses		**(354)**	(385)	**(56)**	(73)
Net foreign exchange losses	3	**(7)**	(7)	**–**	–
Share of profit of equity accounted investees		**63**	52	**–**	–
Profit/(loss) before net finance costs and tax	2	**937**	987	**10**	(154)
Finance income	4	**25**	30	**276**	263
Finance costs	4	**(294)**	(340)	**(251)**	(287)
Net finance costs		**(269)**	(310)	**25**	(24)
Profit/(loss) before tax		**668**	677	**35**	(178)
Tax credit/(expense)	5	**68**	(53)	**195**	226
Profit for the year		**736**	624	**230**	48
Profit for the year is attributable to:					
Equity holders of the Parent		**718**	609	**230**	48
Non-controlling interests		**18**	15	**–**	–
Profit for the year		**736**	624	**230**	48

		GROUP $	
		31 JULY 2013	RESTATED[1] 31 JULY 2012
Earnings per share:			
Basic and diluted earnings per share	24	**0.44**	0.41

1 Restated for impact of the non-cash Bonus issue of shares, issue date 24 April 2013.

The accompanying notes form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 JULY 2013

	GROUP $ MILLION		PARENT $ MILLION	
	31 JULY 2013	31 JULY 2012	31 JULY 2013	31 JULY 2012
Profit for the year	736	624	230	48
Items that may be reclassified subsequently to profit or loss:				
Cash flow hedges:				
– Net fair value gains/(losses)	116	(229)	10	(3)
– Transferred and reported in revenue from sale of goods	(317)	(400)	–	–
– Tax credit/(expense) on cash flow hedges	56	176	(3)	–
Net investment hedges:				
– Net fair value losses on hedging instruments	(5)	(33)	–	–
– Tax credit on net investment hedges	2	9	–	–
Foreign currency translation (losses)/gains attributable to equity holders	(45)	37	–	–
Foreign currency translation reserve transferred to income statement	(7)	(7)	–	–
Share of equity accounted investees' movements in reserves	(1)	1	–	–
Total items that may be reclassified subsequently to profit or loss	(201)	(446)	7	(3)
Items that will not be reclassified subsequently to profit or loss:				
Foreign currency translation attributable to non-controlling interests	1	1	–	–
Total items that will not be reclassified subsequently to profit or loss	1	1	–	–
Total other comprehensive (expense)/income recognised directly in equity	(200)	(445)	7	(3)
Total comprehensive income for the year	536	179	237	45
Attributable to:				
Equity holders of the Parent	517	163	237	45
Non-controlling interests	19	16	–	–
Total comprehensive income for the year	536	179	237	45

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 JULY 2013

	NOTES	GROUP $ MILLION 31 JULY 2013	GROUP $ MILLION 31 JULY 2012	PARENT $ MILLION 31 JULY 2013	PARENT $ MILLION 31 JULY 2012
ASSETS					
Current assets					
Cash and cash equivalents		**330**	1,033	**42**	793
Trade and other receivables	8	**2,054**	2,302	**9,112**	9,125
Inventories	9	**3,078**	2,981	**–**	–
Tax receivable		**26**	18	**–**	–
Derivative financial instruments		**100**	275	**103**	270
Other current assets		**58**	83	**–**	–
Total current assets		**5,646**	6,692	**9,257**	10,188
Non-current assets					
Property, plant and equipment	10	**4,807**	4,569	**208**	210
Investment in subsidiaries		**–**	–	**6,895**	6,895
Equity accounted investments	11	**449**	439	**–**	–
Intangible assets	12	**2,858**	2,882	**87**	77
Deferred tax asset	16	**217**	99	**444**	385
Derivative financial instruments		**127**	198	**127**	198
Other non-current assets		**269**	238	**10**	9
Total non-current assets		**8,727**	8,425	**7,771**	7,774
Total assets		**14,373**	15,117	**17,028**	17,962
LIABILITIES					
Current liabilities					
Bank overdraft		**1**	42	**–**	–
Borrowings	15	**1,569**	1,204	**1,321**	999
Trade and other payables	13	**1,491**	1,386	**7,033**	7,053
Owing to suppliers		**711**	1,083	**780**	1,134
Tax payable		**23**	28	**–**	–
Derivative financial instruments		**149**	255	**146**	247
Provisions	14	**82**	83	**14**	20
Other current liabilities		**52**	44	**–**	–
Total current liabilities		**4,078**	4,125	**9,294**	9,453
Non-current liabilities					
Borrowings	15	**3,108**	3,745	**2,508**	3,015
Derivative financial instruments		**346**	413	**346**	413
Provisions	14	**76**	81	**33**	42
Deferred tax liability	16	**6**	85	**–**	–
Other non-current liabilities		**11**	13	**–**	–
Total non-current liabilities		**3,547**	4,337	**2,887**	3,470
Total liabilities		**7,625**	8,462	**12,181**	12,923
Net assets		**6,748**	6,655	**4,847**	5,039
EQUITY					
Subscribed equity		**5,807**	5,690	**5,807**	5,690
Retained earnings		**1,249**	1,078	**(900)**	(584)
Foreign currency translation reserve		**(266)**	(211)	**–**	–
Cash flow hedge reserve		**(82)**	63	**(60)**	(67)
Total equity attributable to equity holders of the Parent		**6,708**	6,620	**4,847**	5,039
Non-controlling interests		**40**	35	**–**	–
Total equity		**6,748**	6,655	**4,847**	5,039

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JULY 2013

GROUP $ MILLION	SUBSCRIBED EQUITY (ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT)	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION RESERVE	CASH FLOW HEDGE RESERVE	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
As at 1 August 2011	5,261	943	(217)	516	6,503	38	6,541
Profit for the year	–	609	–	–	609	15	624
Other comprehensive income/(expense) for the year	–	1	6	(453)	(446)	1	(445)
Total comprehensive income/(expense) for the year	–	610	6	(453)	163	16	179
Transactions with equity holders in their capacity as equity holders:							
Dividends paid to equity holders of the Parent	–	(475)	–	–	(475)	–	(475)
Equity instruments issued	584	–	–	–	584	–	584
Equity instruments surrendered	(155)	–	–	–	(155)	–	(155)
Dividends paid to non-controlling interests	–	–	–	–	–	(19)	(19)
As at 31 July 2012	5,690	1,078	(211)	63	6,620	35	6,655
As at 1 August 2012	**5,690**	**1,078**	**(211)**	**63**	**6,620**	**35**	**6,655**
Profit for the year	**–**	**718**	**–**	**–**	**718**	**18**	**736**
Other comprehensive (expense)/income for the year	**–**	**(1)**	**(55)**	**(145)**	**(201)**	**1**	**(200)**
Total comprehensive income/(expense) for the year	**–**	**717**	**(55)**	**(145)**	**517**	**19**	**536**
Transactions with equity holders in their capacity as equity holders:							
Dividends paid to equity holders of the Parent	**–**	**(546)**	**–**	**–**	**(546)**	**–**	**(546)**
Equity instruments issued	**611**	**–**	**–**	**–**	**611**	**–**	**611**
Equity instruments cancelled	**(475)**	**–**	**–**	**–**	**(475)**	**–**	**(475)**
Equity instruments surrendered	**(1)**	**–**	**–**	**–**	**(1)**	**–**	**(1)**
Equity transaction costs	**(18)**	**–**	**–**	**–**	**(18)**	**–**	**(18)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(14)**	**(14)**
As at 31 July 2013	**5,807**	**1,249**	**(266)**	**(82)**	**6,708**	**40**	**6,748**

PARENT $ MILLION	SUBSCRIBED EQUITY	ACCUMULATED LOSSES	CASH FLOW HEDGE RESERVE	TOTAL EQUITY
As at 1 August 2011	5,261	(157)	(64)	5,040
Profit for the year	–	48	–	48
Other comprehensive expense for the year	–	–	(3)	(3)
Total comprehensive income/(expense) for the year	–	48	(3)	45
Transactions with equity holders in their capacity as equity holders:				
Dividends paid to equity holders	–	(475)	–	(475)
Equity instruments issued	584	–	–	584
Equity instruments surrendered	(155)	–	–	(155)
As at 31 July 2012	5,690	(584)	(67)	5,039
As at 1 August 2012	**5,690**	**(584)**	**(67)**	**5,039**
Profit for the year	**–**	**230**	**–**	**230**
Other comprehensive income for the year	**–**	**–**	**7**	**7**
Total comprehensive income for the year	**–**	**230**	**7**	**237**
Transactions with equity holders in their capacity as equity holders:				
Dividends paid to equity holders	**–**	**(546)**	**–**	**(546)**
Equity instruments issued	**611**	**–**	**–**	**611**
Equity instruments cancelled	**(475)**	**–**	**–**	**(475)**
Equity instruments surrendered	**(1)**	**–**	**–**	**(1)**
Equity transaction costs	**(18)**	**–**	**–**	**(18)**
As at 31 July 2013	**5,807**	**(900)**	**(60)**	**4,847**

The accompanying notes form part of these financial statements.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 JULY 2013

	GROUP $ MILLION		PARENT $ MILLION	
	31 JULY 2013	31 JULY 2012	31 JULY 2013	31 JULY 2012
Cash flows from operating activities				
Profit/(loss) before net finance costs and tax	937	987	10	(154)
Adjustments for:				
Foreign exchange losses	1	16	–	–
Depreciation and amortisation	530	492	45	41
Movement in provisions	(17)	109	(8)	(9)
Other	(16)	(7)	(264)	(112)
	498	610	(227)	(80)
Increase/(decrease) in working capital:				
Inventories	(43)	307	–	–
Trade and other receivables	38	196	(3)	19
Amounts owing to suppliers	(410)	(567)	(396)	(561)
Payables and accruals	68	(64)	18	(12)
Other movements	(8)	(13)	–	–
Total	(355)	(141)	(381)	(554)
Cash generated from operations	1,080	1,456	(598)	(788)
Net taxes paid	(83)	(66)	–	–
Net cash flows from operating activities	997	1,390	(598)	(788)
Cash flows from investing activities				
Cash was provided from:				
– Proceeds from disposal of property, plant and equipment	22	11	–	–
– Proceeds from settlement of net investment hedges	–	26	–	–
– Proceeds from sale of Group entities and other business operations	5	–	–	–
– Net loans from Group entities	–	–	654	1,435
– Other cash inflow	5	–	–	–
Cash was applied to:				
– Acquisition of property, plant and equipment	(701)	(673)	(27)	(19)
– Acquisition of intangible assets	(147)	(184)	(26)	(25)
– Outflows on settlement of net investment hedges	–	(2)	–	–
– Acquisition of Group entities and other business operations	(49)	–	–	–
– Advances made to equity accounted investees	(2)	(4)	–	–
– Other cash outflow	(1)	–	–	–
Net cash flows from investing activities	(868)	(826)	601	1,391
Cash flows from financing activities				
Cash was provided from:				
– Proceeds from borrowings	3,188	2,215	2,914	1,206
– Proceeds from issue of equity instruments	653	505	611	505
– Proceeds for equity instruments not yet issued	–	44	42	44
– Proceeds from settlement of borrowing derivatives	3	13	–	–
– Interest received	26	31	13	18
Cash was applied to:				
– Interest paid	(334)	(406)	(297)	(309)
– Repayment of borrowings	(3,268)	(2,097)	(2,998)	(1,214)
– Settlement of borrowing derivatives	–	(5)	–	–
– Surrendered/cancelled equity instruments	(475)	(155)	(475)	(155)
– Dividends paid to non-controlling interests	(14)	(19)	–	–
– Dividends paid to equity holders of the Parent	(546)	(475)	(546)	(475)
– Equity transaction costs	(18)	–	(18)	–
– Other cash outflow	(1)	–	–	–
Net cash flows from financing activities	(786)	(349)	(754)	(380)
Net (decrease)/increase in cash and cash equivalents	(657)	215	(751)	223
Cash and cash equivalents at the beginning of the year	991	762	793	570
Effect of exchange rate changes on cash balances	(5)	14	–	–
Cash and cash equivalents at the end of the year	329	991	42	793
Reconciliation of closing cash balances to the statement of financial position:				
Cash and cash equivalents	330	1,033	42	793
Bank overdraft	(1)	(42)	–	–
Closing cash balances	329	991	42	793

Parent undertakes financing activities for the Group. As a result receipts and payments from and to subsidiaries for operating and financing activities (including dividends) are settled on a net basis and presented in investing activities as net loans from Group entities.

The accompanying notes form part of these financial statements.

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 JULY 2013

a) General information

Fonterra Co-operative Group Limited (Fonterra, Parent, the Co-operative or the Company) 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 issuer for the purposes of the Financial Reporting Act 1993. Fonterra is also required to comply with the Dairy Industry Restructuring Act 2001.

The consolidated financial statements are for the Company, its subsidiaries (together referred to as the Group) and the Group's interests in its equity accounted investees.

The Group is primarily involved in the collection, manufacture and sale of milk and milk derived products and is a profit-oriented entity.

In November 2012, Fonterra launched Trading Among Farmers (TAF). TAF enables Farmer Shareholders to trade Shares among themselves and has resulted in permanent capital for Fonterra. Refer to Note 7 Subscribed equity instruments and reserves and Note 22 Group entities for further information.

b) Basis of preparation

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

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

These financial statements are presented in New Zealand dollars ($), which is the Company's functional currency, and rounded to the nearest million.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions of accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty, requiring judgement in applying accounting policies, that have the most significant effect on the amounts recognised in the financial statements, are described below and in the following notes:

Taxation (Note 5 and Note 16)

Judgement is required in determining the provision for taxes as tax treatment is often by its nature complex, and may not be finally determined until a formal resolution has been reached with the relevant tax authority. Estimates are required relating to the amount of tax that will ultimately be payable and the availability and utilisation of losses to be carried forward. Actual results may differ from these estimates as a result of reassessment by management or taxation authorities.

Intangible assets (Note 12)

The recoverability of the carrying value of goodwill and indefinite life brands are assessed at least annually to ensure they are not impaired. Performing this assessment requires management to estimate future cash flows to be generated by the related cash-generating unit or brand. The major inputs and assumptions used in the value in use models include the expected rate of growth of revenues, margins expected to be achieved and the appropriate discount rate to apply.

Provisions and contingent liabilities (Note 14 and Note 19)

Legal counsel or other experts both within and outside the Group are consulted on matters that may give rise to a contingent liability or provision. In respect of all claims and litigation a provision is recognised for anticipated costs where an outflow of resources is considered probable and a reasonable estimate can be made of the likely outcome. The ultimate liability due may vary from the amounts provided and will be dependent upon the eventual outcome of any settlement.

Financial risk management – financial instruments fair values (Note 18)

The fair value of a financial instrument is determined using quoted market prices in an active market where possible. Where there is no active market for a financial instrument, fair value is based on discounting estimated future contractual cash flows back to present value or by using other market accepted valuation techniques. Independently sourced market parameters include foreign exchange rates, interest rate yield curves, commodity prices and option volatilities.

c) Change in accounting policy

Except for the change in accounting policy described below, the accounting policies used are consistent with those used to prepare the consolidated financial statements for the year ended 31 July 2012.

Cash flow statement

Fonterra adopted the Amendments to various existing New Zealand International Financial Reporting Standards (Harmonisation Amendments) during the year ended 31 July 2013. One of the changes the Harmonisation Amendments introduced was the option to use the indirect method of presenting cash flows from operating activities in the cash flow statement. The Board has concluded that the indirect method provides users of the financial statements with more relevant information on the key factors influencing Fonterra's operating cash flows and improves comparability with international peers, and therefore, for the year ended 31 July 2013, Fonterra has changed its accounting policy to use the indirect method of presenting cash flows from operating activities. This change in accounting policy has been applied retrospectively and the comparative figures in the Cash Flow Statement have been updated to use the indirect method. This change in accounting policy is presentational only.

d) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date that control is transferred to the Group. They are de-consolidated from the date control ceases.

The cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition-related costs are expensed as incurred. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised in the income statement.

Non-controlling interests are allocated their share of profit for the year in the income statement and are presented within equity in the statement of financial position separately from equity attributable to equity holders. The effects 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 investees (associates and jointly controlled entities)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. Equity accounted investees are initially recognised at cost (including any goodwill identified on acquisition). Subsequent to initial recognition they are accounted for using the equity method in the consolidated financial statements.

The consolidated financial statements include the Group's share of the profit or loss after tax of equity accounted investees, after adjustments to align to the accounting policies of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. 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. Dividends receivable from equity accounted investees reduce the carrying amount of the investment.

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 calculates the amount of impairment as the difference between the recoverable amount of the investee and its carrying value, and recognises that amount in the income statement.

Transactions eliminated on consolidation

Intra-group transactions, balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

e) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Group's chief operating decision maker has been identified as the Fonterra Management Team.

f) Subscribed equity

Equity instruments comprise Co-operative shares and Units in the Fonterra Shareholders' Fund and are classified as subscribed equity.

Incremental costs directly attributable to equity transactions are recognised as a deduction from subscribed equity.

Co-operative shares may only be held by a Shareholder supplying milk to the Company in a season (Shareholder supplier) and Fonterra Farmer Custodian Limited (the Custodian).

g) Foreign currency

Foreign currency transactions

Foreign currency transactions are translated into the respective functional currencies of Group entities using the exchange rate at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation, using the exchange rates at the balance date, of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow or qualifying net investment hedges.

Translation of the financial statements into the presentation currency

Where the Company's presentation currency differs from the functional currency of an entity, the assets and liabilities of the operation are translated from the functional currency into the presentation currency at the exchange rates at the balance date. The income and expenses of these entities are translated at rates approximating the exchange rates at the dates of the transactions. Exchange differences arising on the translation of the financial statements of these entities and of borrowings and other currency instruments designated as hedges of such investments are recognised directly in the foreign currency translation reserve. When an entity is partially disposed of or sold, the exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

h) Financial assets and liabilities

A financial asset or liability is recognised if the Group becomes a party to the contractual provisions of the asset or liability. A financial asset or liability is recognised initially at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Financial assets and liabilities carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

After initial recognition, financial assets are measured at their fair values except for loans and receivables and held-to-maturity investments, which are measured at amortised cost less any provision for impairment. After initial recognition, financial liabilities are measured at amortised cost method except for financial liabilities at fair value through profit or loss.

In the separate financial statements of the Parent, investments in subsidiaries are stated at cost, less any impairment.

Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

Financial assets are classified on initial recognition into the following categories: at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale. Financial liabilities are classified as either fair value through profit or loss, or financial liabilities measured at amortised cost. The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of its financial assets and liabilities at initial recognition. The Group has not had any held-to-maturity investments or available-for-sale financial assets in the periods covered by these financial statements.

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and liabilities in this category are either designated as fair value through profit or loss, or classified as held for trading. All derivatives are classified as held for trading except when they are in cash flow, fair value, or net investment hedge relationships (refer to accounting policy (n) below). Other financial assets and financial liabilities may be designated at fair value through profit or loss where this eliminates an accounting mismatch, or where they are managed on a fair value basis.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade and other receivables are classified as loans and receivables.

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. Trade and other payables, and debt instruments are classified as financial liabilities measured at amortised cost.

Financial guarantee contracts

Financial guarantee contracts are those contracts that require the issuer to make specific payments to reimburse the holder for a loss it incurs if a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the balance date, and the amount initially recognised less cumulative amortisation.

i) Cash balances

Cash balances include cash and cash equivalents comprising cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

j) Trade receivables

Trade receivables are amounts due from customers for goods or services sold in the ordinary course of business.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

k) Borrowings

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. Changes in fair value of those hedged risks are recognised in the income statement, except where they relate to borrowings classified as net investment hedges and are recorded directly in other comprehensive income.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

l) Trade and other payables

Trade and other payables, excluding amounts owing to Shareholder suppliers and contract milk suppliers, are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade and other payables, excluding amounts owing to Shareholder suppliers and contract milk suppliers, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

m) Amounts owing to suppliers

Amounts owing to suppliers are amounts Fonterra owe to Shareholder suppliers and contract milk suppliers for the collection of milk, which includes end of season adjustments, offset by amounts owing from Shareholder suppliers for services provided to them by Fonterra.

n) Derivative financial instruments and hedging activities

The Group uses derivative financial instruments within predetermined policies and limits in order to reduce its exposure to fluctuations in foreign currency exchange rates and interest rates.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into (the trade date) and transaction costs are expensed immediately. They are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities, or a firm commitment (fair value hedges);
- hedges of a particular risk associated with a recognised liability or a highly probable forecast transaction (cash flow hedges); or
- hedges of a net investment in a foreign operation (net investment hedges).

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when maturity of the hedged item exceeds 12 months. It is classified as a current asset or liability when the maturity of the hedged item is less than 12 months.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement, together with any changes in the fair value of the hedged asset or liability attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised and recognised in the income statement over the period to maturity.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised directly in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are transferred to the income statement when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is recognised immediately in the income statement.

When the forecast transaction that is hedged results in the recognition of a non-financial asset (e.g. inventory or property, plant and equipment) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset.

Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when all or part of a foreign operation is disposed of or sold.

o) Inventories

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

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

The cost of dairy product manufactured from milk supplied in New Zealand is established by using the monthly Farmgate Milk Price as the cost for raw milk supplied. In the case of manufactured inventories and work in progress, cost includes all direct costs plus that portion of the fixed and variable production overhead incurred in bringing inventories into their present location and condition.

p) Property, plant and equipment

Owned assets

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. Costs cease to be capitalised when substantially all the activities necessary to bring an asset to the location and condition for its intended use are complete. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, 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 are charged to the income statement during the financial period in which they are incurred.

Finance costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each financial year end.

Gains and losses on disposals are determined by comparing the 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 – 50 years
– Plant, vehicles and equipment	3 – 25 years

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 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 term of the lease.

q) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or equity accounted investee at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of equity accounted investees is included in equity accounted investments and is tested for impairment as part of the overall balance.

Goodwill is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Goodwill is tested annually for impairment or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Brands and other identifiable intangible assets

Brands and other intangible assets purchased by the Group are recognised if the asset is controlled through custody or legal rights and could be sold separately from the rest of the business. Brands and other intangible assets have a combination of both indefinite and finite useful lives. Items with indefinite useful lives carried at cost less accumulated impairment losses are tested for impairment annually or whenever there is an indication that an asset may be impaired. Items with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses, and are amortised on a straight line basis to allocate the cost over their licence period (25 – 28 years). Assets that have been impaired are reviewed for possible reversal of impairment at each balance date.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software licences and development costs recognised as assets are amortised on a straight line basis over their estimated useful lives, being three to eight years.

Research and development expenditure

All research expenditure is recognised in the income statement as incurred. Significant development expenditure is recognised as an asset when it can be demonstrated that the commercial production of the material or product, or use of the process, will commence.

Development expenditure recognised as an asset is stated at cost and amortised over the period of expected benefits on a straight line basis, not exceeding five years. Amortisation begins at the time that commercial production or use of the process commences. All other development expenditure is recognised in the income statement as incurred.

r) Impairment of financial assets

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the customer;
- a breach of contract, such as a default or delinquency in payments;
- for economic or legal reasons relating to the customer's financial difficulty, granting to the customer a concession that the Group would not otherwise consider;
- it becomes probable that the customer will enter bankruptcy or other financial reorganisation.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate and is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

s) Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually or whenever there is an indication that an asset may be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the income statement. The recoverable amount of an asset is the higher of its fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows (cash-generating units).

Non-financial assets, other than goodwill, that have been impaired are reviewed for possible reversal of the impairment at each balance date.

t) Provisions

Provisions are recognised only in those circumstances 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost in the income statement.

u) Revenue recognition

Revenue from the 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 of revenue can be reliably measured, significant risks and rewards of ownership of the inventory items 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.

Dividend income is recognised when the right to receive payment is established.

v) New Zealand sourced cost of milk

New Zealand sourced cost of milk includes milk supplied by Shareholder suppliers, Supplier Premiums paid, and milk purchased from contract suppliers during the financial year. New Zealand sourced cost of milk is recognised in cost of goods sold.

New Zealand sourced cost of milk supplied by Shareholder suppliers comprises the volume of milk solids supplied at the Farmgate Milk Price for the relevant season. The Farmgate Milk Price for each season is calculated in accordance with the principles set out in the Milk Price Manual and is independently audited. The Farmgate Milk Price broadly represents the maximum sustainable amount a New Zealand based manufacturer of milk powders could afford to pay for milk and still make an adequate return on capital.

w) Dividends

All Co-operative shares, including those held by the Custodian on trust for the benefit of the Fund, are eligible to receive dividends if declared by the Board. Dividends are recognised as a liability in the Group's financial statements in the period in which they are declared by the Board.

x) Employee benefits

Employee benefits primarily include short-term employee benefits, long-term employee benefits and defined contribution pension plans.

Short-term employee benefits include salaries, wages, annual leave and sick leave, and are expensed on an undiscounted basis as the relevant service is provided.

Long-term employee benefits are measured at the present value of expected payments required using an appropriate pre-tax discount rate.

Contributions to defined contribution pension plans are recognised as an expense in the period they are due. The Group has no further payment obligations once the contributions have been paid.

y) Finance income and costs

Finance income comprises interest income on funds on deposit. Interest income is recognised as it accrues using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, gains and losses on the revaluation of debt hedges and the hedged risks on certain debt instruments, and gains and losses relating to translation forward points on forward exchange contracts where revaluation gains and losses on those contracts are included within finance costs. Interest expense and the unwinding of the discount on provisions are recognised in the income statement using the effective interest method. Finance costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

z) Tax

Tax expense comprises current and deferred tax. Tax expense, including the tax consequences of distributions to Shareholder suppliers is recognised in the income statement. The tax consequences of distributions to Shareholder suppliers are recognised in the year to which the distribution relates. Other than distributions to Shareholder suppliers, 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 is recognised, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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.

aa) Earnings per share

The Group presents basic and diluted earnings per share for its Co-operative shares. Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company 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 Company and the weighted average number of Co-operative shares outstanding for the effects of all dilutive potential Co-operative shares.

bb) Comparative figures

Where a change in the presentational format of the financial statements has been made during the period, comparative figures have been restated accordingly. Where material, additional disclosure has been provided in the notes to the financial statements.

cc) New and amended International Financial Reporting Standards

i) New and amended standards adopted by the Group

The Group adopted the amendments to NZ IAS 1: Presentation of Financial Statements during the period. This has resulted in a change in presentation in the Statement of Comprehensive Income to show whether items of other comprehensive income are subsequently reclassified to profit or loss.

ii) New and amended standards issued but not yet effective

New and amended standards which 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. At this time it is not possible to reasonably estimate the impact of adoption of these standards.

- NZ IFRS 9: Financial Instruments: Classification and Measurement is the first phase of the NZ IAS 39 replacement project and specifies how an entity should classify and measure financial assets and liabilities.
- NZ IFRS 10: Consolidated Financial Statements replaces the guidance on control and consolidation in NZ IAS 27 Consolidated and Separate Financial Statements.
- NZ IFRS 11: Joint Arrangements introduces criteria for determining the type of joint arrangement which focuses on the rights and obligations of the arrangement rather than the legal form.
- NZ IFRS 12: Disclosure of Interest in Other Entities introduces amended and additional disclosures about interests in other entities.
- NZ IFRS 13: Fair Value Measurement explains how to measure fair value and enhances fair value disclosures.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2013

1 COST OF GOODS SOLD

	GROUP $ MILLION		PARENT $ MILLION	
	31 JULY 2013	31 JULY 2012	**31 JULY 2013**	31 JULY 2012
Opening inventory	**2,981**	3,277	**–**	–
Cost of Milk:				
– New Zealand sourced	**8,635**	9,033	**8,649**	9,050
– Non-New Zealand sourced	**996**	1,148	**–**	–
Other purchases	**6,077**	6,244	**–**	–
Closing inventory	**(3,078)**	(2,981)	**–**	–
Total cost of goods sold	**15,611**	16,721	**8,649**	9,050

Parent Cost of Milk – New Zealand sourced includes milk purchased from Fonterra Group companies of $14 million (2012: $17 million).

2 PROFIT/(LOSS) BEFORE NET FINANCE COSTS AND TAX

		GROUP $ MILLION		PARENT $ MILLION	
	NOTES	**31 JULY 2013**	31 JULY 2012	**31 JULY 2013**	31 JULY 2012
The following items have been included in arriving at profit/(loss) before net finance costs and tax:					
Auditors' remuneration:					
– Fees paid for the audit or review of financial statements		**4**	4	**2**	2
– Fees paid for other services[1]		**2**	2	**–**	–
Operating lease expense		**72**	73	**–**	–
Depreciation of property, plant and equipment	10	**444**	410	**21**	20
Amortisation of intangible assets	12	**86**	82	**24**	21
Research and development costs		**94**	93	**29**	11
Net loss on disposal of property, plant and equipment		**5**	2	**–**	1
Net loss on derecognition of software		**–**	9	**–**	1
Donations		**2**	3	**2**	3
Research and development grants received from government		**(4)**	(9)	**(3)**	(4)
Total employee benefits expense		**1,735**	1,704	**124**	134
Included in employee benefits expense are:					
– Contributions to defined contribution plans		**58**	54	**2**	2

1 Other services include financial reporting, advisory services, financial and information technology controls assurance and other attest services.

3 NET FOREIGN EXCHANGE LOSSES

	GROUP $ MILLION		PARENT $ MILLION	
	31 JULY 2013	31 JULY 2012	31 JULY 2013	31 JULY 2012
Net foreign exchange gains/(losses) on debt instruments designated in a fair value hedge relationship	36	(75)	–	–
Net foreign exchange (losses)/gains on derivative instruments designated as a fair value hedge	(37)	71	–	–
Net foreign exchange gains/(losses) on financial instruments classified as held for trading	76	(56)	–	–
Net foreign exchange (losses)/gains on financial assets classified as loans and receivables	(76)	137	–	–
Net foreign exchange losses on financial liabilities measured at amortised cost	(6)	(77)	–	–
Other net foreign exchange losses	–	(7)	–	–
Net foreign exchange losses	(7)	(7)	–	–

4 NET FINANCE COSTS

	GROUP $ MILLION		PARENT $ MILLION	
	31 JULY 2013	31 JULY 2012	31 JULY 2013	31 JULY 2012
Finance income	25	30	276	263
Interest expense on financial liabilities measured at amortised cost	(299)	(333)	(256)	(280)
Interest expense on derivatives classified as held for trading	(25)	(31)	(25)	(31)
Total interest expense calculated on an amortised cost basis	(324)	(364)	(281)	(311)
Change in fair value of hedged risks on debt instruments designated in a fair value hedge relationship	95	(62)	95	(62)
Change in fair value of derivative instruments designated as a fair value hedge[1]	(103)	91	(103)	91
Change in fair value of financial instruments classified as held for trading	38	(5)	38	(5)
Finance costs	(294)	(340)	(251)	(287)
Net finance costs	(269)	(310)	25	(24)

1 This includes the fair value impact of the basis risk adjustment inherent in the valuation of cross currency interest rate swaps that does not form part of the debt instrument hedging relationship.

5 TAX (CREDIT)/EXPENSE

		GROUP $ MILLION		PARENT $ MILLION	
	NOTES	31 JULY 2013	31 JULY 2012	31 JULY 2013	31 JULY 2012
Current tax expense/(credit)		83	53	(132)	(227)
Prior period adjustments to current tax		(11)	1	(1)	(17)
Deferred tax movements:					
– Origination and reversal of temporary differences	16	(140)	(1)	(62)	18
Tax (credit)/expense		(68)	53	(195)	(226)
Profit/(loss) before tax		668	677	35	(178)
Prima facie tax expense/(credit) at 28%		187	190	10	(50)
Add/(deduct) tax effect of:					
– Effect of tax rates in foreign jurisdictions		(18)	(11)	–	–
– Non-deductible expenses/additional assessable income		25	21	1	3
– Non-assessable income/additional deductible expenses		(29)	(38)	(77)	(68)
– Prior year (over)/under provision		(11)	1	(3)	17
Tax expense/(credit) before distributions and deferred tax		154	163	(69)	(98)
Effective tax rate before distributions and deferred tax[1]		23.1%	24.1%		
Tax effect of distributions to Shareholder suppliers		(126)	(128)	(126)	(128)
Tax expense/(credit) before deferred tax		28	35	(195)	(226)
Effective tax rate before deferred tax[1]		4.2%	5.2%		
Add/(deduct) tax effect of:					
– Origination and reversal of other temporary differences		(40)	14	–	–
– Change in estimate of benefits of tax losses recognised		(70)	–	–	–
– Losses of overseas Group entities not recognised		14	4	–	–
Tax (credit)/expense		(68)	53	(195)	(226)
Effective tax rate[1]		(10.2%)	7.8%		
Imputation credits					
Imputation credits available for use in subsequent reporting periods		20	20	9	9
Tax losses					
Gross tax losses available for which no deferred tax asset has been recognised		109	63	–	–

1 Parent manages taxation for the Group. As a result, the effective tax rate for Parent is not a meaningful measure and therefore has not been disclosed.

6 SEGMENT REPORTING

The Group operates predominantly in the international dairy industry.

The Group has four reportable segments that are defined by product type and geographic area to reflect how the Group's operations are managed.

The reportable segments presented reflect the Group's management and reporting structure as viewed by the Fonterra Management Team, which is the Group's chief operating decision maker.

Transactions between segments are based on estimated market prices.

On 1 August 2012, Fonterra's organisational structure was re-aligned. As a result, certain operations were placed under the control of different business units. The most significant changes impacting reported segment earnings were:

- RD1 has been moved from NZMP to ANZ;
- International farming ventures has been moved from NZMP to Asia/AME (international farming ventures in China) and Latam (international farming ventures in South America).

Certain functions within NZMP have also been renamed.

Comparatives have been restated to reflect these changes.

REPORTABLE SEGMENT	DESCRIPTION
New Zealand Milk Products (NZMP)	Represents the collection, processing and distribution of New Zealand milk, global sales and marketing of New Zealand and non-New Zealand milk products, Fonterra Nutrition, Group Strategy & Optimisation, Co-operative Affairs and Group Services.
Australia/New Zealand (ANZ)	Represents Fast Moving Consumer Goods (FMCG) operations in New Zealand (including export to the Pacific Islands) and all FMCG and Ingredients operations in Australia (including Milk Supply and Manufacturing). It includes foodservice sales in Australia and New Zealand (except for foodservice sales to Quick Service Restaurants), and RD1.
Asia/Africa and Middle East (Asia/AME)	Represents FMCG operations in Asia (excluding North Asia), Africa and the Middle East, and foodservices sales in Asia/AME and China. It includes international farming ventures in China.
Latin America (Latam)	Represents FMCG operations in Chile and equity accounted investments in South America. It includes international farming ventures in South America.

In April 2013, Fonterra announced a new Asia Pacific Middle East Africa (APMEA) business unit combining ANZ and Asia/AME. No changes to internal reporting or decision making have occurred during the year ended 31 July 2013, therefore no change has been reflected in the reportable segments.

6 SEGMENT REPORTING CONTINUED

a) Segment income

	GROUP $ MILLION					
	NZMP	ANZ	ASIA/AME	LATAM	ELIMINATIONS	TOTAL GROUP
Segment income statement						
Year ended 31 July 2013						
External revenue	12,358	3,101	2,057	1,127	–	18,643
Inter-segment revenue	1,559	644	2	8	(2,213)	–
Revenue from sale of goods	13,917	3,745	2,059	1,135	(2,213)	18,643
Segment gross profit	1,251	756	702	303	20	3,032
Selling and marketing expenses	(89)	(150)	(324)	(59)	–	(622)
Distribution expenses	(188)	(203)	(42)	(81)	–	(514)
Administrative and other operating expenses	(615)	(324)	(153)	(51)	23	(1,120)
Segment operating expenses	(892)	(677)	(519)	(191)	23	(2,256)
Net other operating income	69	11	24	24	(23)	105
Net foreign exchange losses	(7)	–	–	–	–	(7)
Share of profit of equity accounted investees	59	3	–	1	–	63
Segment earnings before net finance costs and tax	480	93	207	137	20	937
Normalisation adjustments	14	49	2	–	–	65
Normalised segment earnings before net finance costs and tax	494	142	209	137	20	1,002
Normalisation adjustments						(65)
Finance income						25
Finance costs						(294)
Profit before tax for the year						668
Profit before tax for the year includes the following amounts:						
Depreciation	(320)	(83)	(14)	(27)	–	(444)
Amortisation	(68)	(13)	(4)	(1)	–	(86)
Other income from equity accounted investees	3	2	–	24	–	29
Normalisation adjustments consist of the following amounts:						
Costs associated with closure of Cororooke plant in Australia	–	30	–	–	–	30
Costs associated with the Group Strategy Right-Sizing	14	19	5	–	–	38
Other	–	–	(3)	–	–	(3)
Total normalisation adjustments[1]	14	49	2	–	–	65
Segment asset information:						
As at and for the year ended 31 July 2013						
Equity accounted investments	218	31	–	200	–	449
Capital expenditure	683	144	70	29	–	926

1 Of the $65 million normalisation adjustments, $47 million related to operating expenses and $18 million to cost of goods sold.

a) Segment income CONTINUED

	GROUP $ MILLION					
	NZMP	ANZ	ASIA/AME	LATAM	ELIMINATIONS	TOTAL GROUP
Segment income statement						
Year ended 31 July 2012						
External revenue	13,228	3,538	1,998	1,005	–	19,769
Inter-segment revenue	1,764	761	3	5	(2,533)	–
Revenue from sale of goods	14,992	4,299	2,001	1,010	(2,533)	19,769
Segment gross profit	1,285	869	648	260	(14)	3,048
Selling and marketing expenses	(81)	(144)	(288)	(55)	–	(568)
Distribution expenses	(188)	(215)	(37)	(61)	–	(501)
Administrative and other operating expenses	(665)	(313)	(148)	(60)	17	(1,169)
Segment operating expenses	(934)	(672)	(473)	(176)	17	(2,238)
Net other operating income	78	17	17	37	(17)	132
Net foreign exchange gains/(losses)	8	(5)	(10)	–	–	(7)
Share of profit of equity accounted investees	40	9	–	3	–	52
Segment earnings before net finance costs and tax	477	218	182	124	(14)	987
Normalisation adjustments	24	9	–	8	–	41
Normalised segment earnings before net finance costs and tax	501	227	182	132	(14)	1,028
Normalisation adjustments						(41)
Finance income						30
Finance costs						(340)
Profit before tax for the year						677
Profit before tax for the year includes the following amounts:						
Depreciation	(304)	(72)	(10)	(24)	–	(410)
Amortisation	(66)	(12)	(3)	(1)	–	(82)
Other income from equity accounted investees	1	–	–	38	–	39
Normalisation adjustments consist of the following amounts:						
Impairment losses recorded in equity accounted investees	–	–	–	8	–	8
Restructuring costs associated with the Group Strategy Refresh	23	7	–	–	–	30
Other	1	2	–	–	–	3
Total normalisation adjustments[1]	24	9	–	8	–	41
Segment asset information:						
As at and for the year ended 31 July 2012						
Equity accounted investments	196	29	–	214	–	439
Capital expenditure	586	192	57	53	–	888

1 Of the $41 million normalisation adjustment, $19 million related to operating expenses, $14 million to cost of goods sold and $8 million of impairment losses were recognised in share of profit of equity accounted investees.

6 SEGMENT REPORTING CONTINUED

b) Revenue

	GROUP $ MILLION	
	31 JULY 2013	31 JULY 2012
Entity wide products and services:		
Consumer goods	**4,717**	4,945
Ingredients and other revenue	**13,926**	14,824
Revenue from sale of goods	**18,643**	19,769

	GROUP $ MILLION							
	EUROPE	CHINA	REST OF ASIA	AUSTRALIA	NEW ZEALAND	USA	REST OF WORLD	TOTAL
Geographical segment external revenue:								
Year ended 31 July 2013	**1,096**	**2,500**	**5,216**	**1,850**	**1,986**	**1,415**	**4,580**	**18,643**
Year ended 31 July 2012	1,169	2,031	5,676	2,300	1,928	1,445	5,220	19,769

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

c) Non-current assets

	GROUP $ MILLION						
	NZMP		ANZ		ASIA/AME	LATAM	TOTAL
	NEW ZEALAND	REST OF WORLD	NEW ZEALAND	AUSTRALIA			
Geographical segment reportable non-current assets:							
As at 31 July 2013	**4,199**	**303**	**1,350**	**1,047**	**940**	**544**	**8,383**
As at 31 July 2012	3,950	267	1,394	1,087	858	572	8,128

	GROUP $ MILLION	
	AS AT 31 JULY 2013	AS AT 31 JULY 2012
Reconciliation of geographical segment non-current assets to total non-current assets:		
Geographical segment non-current assets	**8,383**	8,128
Deferred tax asset	**217**	99
Derivative financial instruments	**127**	198
Total non-current assets	**8,727**	8,425

7 SUBSCRIBED EQUITY INSTRUMENTS AND RESERVES

Subscribed equity instruments include Co-operative shares and Units in the Fonterra Shareholders' Fund (the Fund).

Co-operative shares, including shares held within the Group

	CO-OPERATIVE SHARES (THOUSANDS)
Balance at 1 August 2011	1,406,945
Shares issued	129,157
Shares surrendered	(34,318)
Balance at 31 July 2012	1,501,784
Balance at 1 August 2012	**1,501,784**
Shares issued prior to the launch of TAF	25,886
Shares surrendered prior to the launch of TAF	(99)
Total number of shares on issue prior to the launch of TAF	**1,527,571**
Shares issued on the launch of TAF	89,809
Bonus issue[1]	40,427
Shares cancelled[2]	(59,973)
Balance at 31 July 2013	**1,597,834**

1 On 27 February 2013, Fonterra announced a non-cash Bonus issue of one share for every 40 shares held. The Bonus issue increased the number of shares on issue by 40.4 million. The record date for the Bonus issue was 12 April 2013 and the issue date was 24 April 2013.

2 Shares cancelled following the Supply Offer (refer to Fonterra Shareholder suppliers Supply Offer below).

Co-operative shares may only be held by a Shareholder supplying milk to the Company in a season (Shareholder supplier) and Fonterra Farmer Custodian Limited (the Custodian). Rights attaching to Co-operative shares[3] include:

- voting rights when backed by milk supply;
- the right to receive the share-backed milk price on each kilogram of milksolids produced by the Shareholder supplier;
- rights to any distributions declared by the Board; and
- rights to share in any surplus on liquidation of the Company.

Shareholder suppliers

The Company maintains a share standard that requires a Shareholder supplier to hold one Co-operative share for each kilogram of milksolids supplied to the Company by that Shareholder supplier. This is measured as an average over the three preceding seasons[4] production (excluding milk supplied under contract supply in that season)[5]. Shareholder suppliers are permitted to hold more or fewer Co-operative shares than required by the share standard in certain circumstances. Shareholder suppliers supplying under contract must hold at least 1,000 Co-operative shares.

In addition to Co-operative shares held under the share standard, Shareholder suppliers are able to hold further Co-operative shares up to 100% of production (where production is defined as the minimum number of Co-operative shares a Shareholder supplier is required to hold under the share standard). No Shareholder supplier (including its related parties) is allowed to hold interests in Co-operative shares, not backed by milk supply, exceeding 5% of the total number of Co-operative shares on issue.

New Shareholder suppliers have a number of alternatives in meeting the requirements of the share standard. This includes purchasing the required shares over a three year period, with one third of the required holding of Co-operative shares to be held in the first Season, two thirds in the second Season, with the share standard to be met in the third Season.

Voting rights in the Company are dependent on milk supply supported by Co-operative shares or vouchers held. A Shareholder supplier is entitled on a poll or postal vote, to one vote per 1,000 kilograms of milksolids if that Shareholder supplier holds a Co-operative share or a voucher for each of those kilograms of milksolids. The amount of milksolids that support voting rights are measured at 31 May, the season end date[6]. As at the season end date, 31 May 2013, the aggregate milksolids eligible for voting was 1,424,000,000 kilograms of milksolids (31 May 2012: 1,463,000,000 kilograms of milksolids).

Shareholder suppliers are able to buy and sell Co-operative shares directly on the Fonterra Shareholders' Market. Shareholders may elect to sell the economic rights of some of their Co-operative shares to the Fund, subject to an individual limit set by the Board within an overall individual limit set out in the Company's constitution. On the sale of an economic right of a Co-operative share to the Fund, a Shareholder supplier transfers the legal title to the Co-operative share to the Custodian. Where the Co-operative share transferred was backed by milk supply, the Shareholder supplier is issued a voucher by the Custodian (subject to limits).

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

4 This requirement commences from 1 June 2013. Prior to this date, the requirement is based on kilograms of milksolids supplied for the previous season.

5 The Fonterra Board may permit the share standard to be satisfied through the holding of both Co-operative shares and vouchers.

6 Aggregate milksolids eligible for voting at season end date are adjusted for Shareholder suppliers who have joined the Co-operative or are no longer supplying milk to the Co-operative in the period between the season end date and the record date for the meeting at which the vote is to be held.

7 SUBSCRIBED EQUITY INSTRUMENTS AND RESERVES CONTINUED

Fonterra Shareholder suppliers Supply Offer

In May 2013, Fonterra provided its Shareholder suppliers with an opportunity to sell economic rights of shares backed by milk supply to the Fund, and to sell to Fonterra the resulting Units (Supply Offer).

Under this Supply Offer, Shareholder suppliers sold the economic rights of 60 million Co-operative shares to the Custodian, resulting in the issuance of 60 million Units in the Fund. Fonterra acquired the 60 million Units via the New Zealand Stock Exchange (NZX) and immediately redeemed these, resulting in the transfer of 60 million Co-operative shares to Fonterra by the Custodian. Fonterra subsequently cancelled these shares. As a result of this redemption, the Supply Offer did not ultimately affect the total number of Units on issue.

The Custodian

The Custodian holds legal title of Co-operative shares of which the economic rights have been sold to the Fund on trusts for the benefit of the Fund. At 31 July 2013, 107,969,310 Co-operative shares were legally owned by the Custodian, on trusts for the benefit of the Fund.

UNITS	UNITS (THOUSANDS)
Balance at 31 July 2012[1]	–
Units issued[2]	**169,470**
Units surrendered[3]	**(61,501)**
Balance at 31 July 2013	**107,969**

1 The Fund commenced issuing Units on 30 November 2012.
2 Includes 60 million Units issued under the Supply Offer.
3 Includes 60 million Units redeemed by Fonterra under the Supply Offer.

Units are issued by the Fund. In respect of the Co-operative shares which it holds, the Custodian is required under trust to pass to the Fund the following rights of those Co-operative shares:

- the right to receive any dividends declared by the Fonterra Board;
- the right to any other distributions made in respect of Co-operative shares; and
- rights to share in any surplus on liquidation of Fonterra.

The Fund then attaches these rights to Units it issues.

A Shareholder supplier who holds a Unit can require the Fund to effectively exchange it for a Co-operative share held by the Custodian. The Custodian relinquishes legal ownership of that Co-operative share (provided that completion of this transaction would not put that Shareholder supplier in breach of the limits on Co-operative share ownership explained above). A Unit is cancelled by the Fund, as all Units in the Fund must be backed by a Co-operative share held by the Custodian.

Equity transaction costs

During the year, the Group incurred transaction costs of $18 million, which were directly attributable to the issue of shares and Units as a part of the launch of Trading Among Farmers. These costs have been treated as a deduction against subscribed equity.

Dividends paid

All Co-operative shares, including those held by the Custodian on trusts for the benefit of the Fund, are eligible to receive a dividend if declared by the Board.

On 25 September 2012, the Board declared a dividend of 20 cents per Co-operative share (totalling $287 million), paid on 20 October 2012 to all Co-operative shares on issue at 31 May 2012.

On 26 March 2013, the Board declared an interim dividend of 16 cents per share (totalling $256 million), paid on 19 April 2013 to all Co-operative shares on issue at 12 April 2013.

The dividend declared after balance date is explained in Note 23.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the effective portion of translation or fair value changes of instruments that hedge the Group's net investment in foreign operations.

Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

8 TRADE AND OTHER RECEIVABLES

	GROUP $ MILLION		PARENT $ MILLION	
	AS AT 31 JULY 2013	AS AT 31 JULY 2012	AS AT 31 JULY 2013	AS AT 31 JULY 2012
Trade receivables	1,870	2,176	2	2
Less: provision for impairment of trade receivables	(12)	(29)	–	–
Trade receivables net of provision for impairment	1,858	2,147	2	2
Receivables from related parties[1]	46	21	9,089	9,103
Other receivables	77	61	–	2
Total receivables	1,981	2,229	9,091	9,107
Prepayments	73	73	21	18
Total trade and other receivables	2,054	2,302	9,112	9,125

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

	GROUP $ MILLION		PARENT $ MILLION	
	31 JULY 2013	31 JULY 2012	31 JULY 2013	31 JULY 2012
Movement in the provision for impairment of trade receivables:				
Opening balance	29	21	–	–
Additional provisions	3	17	–	–
Utilised during the year	(2)	(2)	–	–
Unused amounts reversed	(18)	(8)	–	–
Foreign currency translation	–	1	–	–
Closing balance	12	29	–	–

9 INVENTORIES

	GROUP $ MILLION		PARENT $ MILLION	
	AS AT 31 JULY 2013	AS AT 31 JULY 2012	AS AT 31 JULY 2013	AS AT 31 JULY 2012
Raw materials	630	603	–	–
Finished goods	2,506	2,492	–	–
Impairment of finished goods	(58)	(114)	–	–
Total inventories	3,078	2,981	–	–
Other disclosures:				
Inventories stated at net realisable value	467	1,679	–	–
Amount of inventories pledged as security for liabilities	10	8	–	–
Amount of inventories recognised in cost of goods sold during the year	15,611	16,721	–	–

10 PROPERTY, PLANT AND EQUIPMENT

		GROUP $ MILLION				
	NOTES	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	PLANT, VEHICLES AND EQUIPMENT	CAPITAL WORK IN PROGRESS	TOTAL
As at 31 July 2011						
Cost		299	1,570	5,028	342	7,239
Accumulated depreciation and impairment		–	(492)	(2,421)	–	(2,913)
Net book value		299	1,078	2,607	342	4,326
Net book value						
As at 1 August 2011		299	1,078	2,607	342	4,326
Additions[1]		7	10	19	668	704
Transfer from capital work in progress		13	75	357	(445)	–
Transfer to intangible assets	12	–	–	–	(12)	(12)
Depreciation charge		–	(70)	(340)	–	(410)
Impairment losses		–	(8)	(29)	–	(37)
Disposals		–	(2)	(20)	–	(22)
Foreign currency translation		1	5	10	4	20
As at 31 July 2012		320	1,088	2,604	557	4,569
As at 31 July 2012						
Cost		320	1,652	5,322	557	7,851
Accumulated depreciation and impairment		–	(564)	(2,718)	–	(3,282)
Net book value		320	1,088	2,604	557	4,569
Net book value						
As at 1 August 2012		**320**	**1,088**	**2,604**	**557**	**4,569**
Additions[1]		**2**	**23**	**50**	**701**	**776**
Transfer from capital work in progress		**2**	**193**	**505**	**(700)**	**–**
Depreciation charge		**–**	**(81)**	**(363)**	**–**	**(444)**
Impairment losses		**–**	**–**	**(10)**	**–**	**(10)**
Disposals		**(2)**	**(3)**	**(17)**	**–**	**(22)**
Foreign currency translation		**(4)**	**(14)**	**(40)**	**(4)**	**(62)**
As at 31 July 2013		**318**	**1,206**	**2,729**	**554**	**4,807**
As at 31 July 2013						
Cost		**318**	**1,838**	**5,684**	**554**	**8,394**
Accumulated depreciation and impairment		**–**	**(632)**	**(2,955)**	**–**	**(3,587)**
Net book value		**318**	**1,206**	**2,729**	**554**	**4,807**

1 Additions include borrowing costs of $13 million (2012: $10 million) capitalised using a rate of 6.86% (2012: 6.94%).

An impairment loss of $7 million was recognised due to the adoption of an improved effluent system by our China Farms operation. This impairment loss relates to the Asia/AME segment, and was recognised in cost of goods sold in the income statement. The remaining impairment loss of $3 million arose from the Group's Strategy Right-Sizing. This loss relates to the ANZ segment, and was recognised in other operating expenses in the income statement.

Impairment losses of $37 million recognised in the prior year relate to the New Zealand Milk Products segment. $29 million was recognised within cost of goods sold, and $8 million was recognised within distribution expenses in the income statement.

The net book value of property, plant and equipment subject to finance leases for the Group is $144 million (31 July 2012: $146 million). Of that balance $5 million relates to land (31 July 2012: $5 million), $110 million relates to building and leasehold improvements (31 July 2012: $115 million), and $28 million relates to plant and equipment (31 July 2012: $26 million).

10 PROPERTY, PLANT AND EQUIPMENT CONTINUED

		PARENT $ MILLION				
	NOTES	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	PLANT, VEHICLES AND EQUIPMENT	CAPITAL WORK IN PROGRESS	TOTAL
As at 31 July 2011						
Cost		5	151	124	16	296
Accumulated depreciation and impairment		–	(16)	(58)	–	(74)
Net book value		5	135	66	16	222
Net book value						
As at 1 August 2011		5	135	66	16	222
Additions[1]		–	1	–	18	19
Transfer from capital work in progress		–	1	20	(21)	–
Transfer to intangible assets	12	–	–	–	(8)	(8)
Depreciation charge		–	(5)	(15)	–	(20)
Impairment losses		–	–	(1)	–	(1)
Disposals		–	–	(2)	–	(2)
As at 31 July 2012		5	132	68	5	210
As at 31 July 2012						
Cost		5	153	141	5	304
Accumulated depreciation and impairment		–	(21)	(73)	–	(94)
Net book value		5	132	68	5	210
Net book value						
As at 1 August 2012		**5**	**132**	**68**	**5**	**210**
Additions[1]		**–**	**–**	**1**	**16**	**17**
Transfer from capital work in progress		**–**	**–**	**20**	**(20)**	**–**
Transfer to intangible assets	12	**–**	**–**	**–**	**3**	**3**
Depreciation charge		**–**	**(5)**	**(16)**	**–**	**(21)**
Disposals		**–**	**(1)**	**–**	**–**	**(1)**
As at 31 July 2013		**5**	**126**	**73**	**4**	**208**
As at 31 July 2013						
Cost		**5**	**152**	**159**	**4**	**320**
Accumulated depreciation and impairment		**–**	**(26)**	**(86)**	**–**	**(112)**
Net book value		**5**	**126**	**73**	**4**	**208**

1 Additions include borrowing costs of nil (2012: nil) capitalised using a rate of nil (2012: nil).

The net book value of property, plant and equipment subject to finance leases for the Parent is $137 million (31 July 2012: $143 million). Of that balance $5 million relates to land (31 July 2012: $5 million), $111 million relates to building and leasehold improvements (31 July 2012: $115 million), and $21 million relates to plant and equipment (31 July 2012: $23 million).

11 EQUITY ACCOUNTED INVESTMENTS

A list of significant equity accounted investees is included in Note 22.

The Group has provided financial guarantees to certain equity accounted investees as set out in Notes 18 and 21.

The Group's equity accounted investees have entered into non-cancellable operating leases, and the Group's share of the future aggregate minimum lease payments under these leases is $7 million (2012: $8 million).

The Group's share of capital expenditure contracted for at balance date but not recognised by equity accounted investees is $16 million (2012: $14 million).

The following amounts represent the aggregate assets, liabilities, revenue and profit of equity accounted investees:

	GROUP $ MILLION	
	AS AT AND FOR THE YEAR ENDED 31 JULY 2013	AS AT AND FOR THE YEAR ENDED 31 JULY 2012
Assets:		
Non-current assets	**599**	566
Current assets	**889**	859
Total assets	**1,488**	1,425
Liabilities:		
Non-current liabilities	**(214)**	(210)
Current liabilities	**(761)**	(722)
Total liabilities	**(975)**	(932)
Net assets	**513**	493
Revenue	**2,343**	2,632
Expenses (including interest and tax)	**(2,215)**	(2,557)
Profit after tax	**128**	75

12 INTANGIBLE ASSETS

	NOTES	GOODWILL	BRANDS	SOFTWARE	SOFTWARE WIP	OTHER	TOTAL INTANGIBLES	SOFTWARE
		GROUP $ MILLION						PARENT $ MILLION
As at 31 July 2011								
Cost		1,001	1,532	664	101	122	3,420	181
Accumulated amortisation and impairment		(2)	(99)	(480)	–	(91)	(672)	(115)
Net book value		999	1,433	184	101	31	2,748	66
Net book value								
As at 1 August 2011		999	1,433	184	101	31	2,748	66
Additions[1]		–	–	–	166	18	184	25
Transfer from property, plant and equipment	10	–	–	12	–	–	12	8
Transfer from work in progress		–	–	50	(50)	–	–	–
Amortisation		–	(6)	(70)	–	(6)	(82)	(21)
Disposals		–	–	(6)	–	(7)	(13)	(1)
Foreign currency translation		9	22	1	1	–	33	–
As at 31 July 2012		1,008	1,449	171	218	36	2,882	77
As at 31 July 2012								
Cost		1,010	1,555	672	218	133	3,588	211
Accumulated amortisation and impairment		(2)	(106)	(501)	–	(97)	(706)	(134)
Net book value		1,008	1,449	171	218	36	2,882	77
Net book value								
As at 1 August 2012		**1,008**	**1,449**	**171**	**218**	**36**	**2,882**	**77**
Additions[1]		**–**	**–**	**2**	**141**	**6**	**149**	**36**
Transfer from work in progress		**–**	**–**	**123**	**(123)**	**–**	**–**	**(3)**
Transfer from other Group entities		**–**	**–**	**–**	**–**	**–**	**–**	**1**
Amortisation		**–**	**(6)**	**(74)**	**–**	**(6)**	**(86)**	**(24)**
Impairment loss		**–**	**(11)**	**–**	**–**	**–**	**(11)**	**–**
Impairment loss reversal		**–**	**10**	**–**	**–**	**–**	**10**	**–**
Disposals		**(1)**	**(3)**	**(1)**	**–**	**(3)**	**(8)**	**–**
Foreign currency translation		**(37)**	**(22)**	**–**	**(19)**	**–**	**(78)**	**–**
As at 31 July 2013		**970**	**1,417**	**221**	**217**	**33**	**2,858**	**87**
As at 31 July 2013								
Cost		**972**	**1,530**	**784**	**217**	**91**	**3,594**	**245**
Accumulated amortisation and impairment		**(2)**	**(113)**	**(563)**	**–**	**(58)**	**(736)**	**(158)**
Net book value		**970**	**1,417**	**221**	**217**	**33**	**2,858**	**87**

1 The Group has capitalised borrowing costs of $10 million (2012: $9 million) using a rate of 6.86% (2012: 6.94%). There have been no borrowing costs capitalised by the Parent (2012: nil). The Parent has capitalised borrowing costs of nil (2012: nil).

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

One-off net impairment losses were $1 million.

An impairment loss of $11 million was recognised as a result of certain brands being discontinued due to the Group's strategy review. $7 million of this impairment relates to the ANZ segment, $4 million relates to the Asia/AME segment. This impairment was recognised in selling and marketing expenses in the income statement.

This was offset by a reversal of impairment losses recognised in previous accounting periods of $10 million which was recognised as a result of improved performance of one of the Group's brands. This reversal of impairment losses relates to the Asia/AME segment, and was recognised in selling and marketing expenses in the income statement.

12 INTANGIBLE ASSETS CONTINUED

Goodwill and other indefinite life intangibles

Goodwill

Goodwill for each cash-generating unit (CGU) has been tested for impairment on a value in use basis. Testing was undertaken at 31 May 2013, using external sources of information where appropriate. Cash flow forecasts used as inputs to determine value in use are based on the Group's three year business plans, applying a long term growth rate.

The discount rates applied to the future cash flows are between 6.6% and 8.4% (31 July 2012: 9.0%) and long term growth rates applied to future cash flows are between 2.0% and 3.0% (31 July 2012: between 2.0% and 3.0%).

There was headroom between the recoverable amount and the carrying value of goodwill by CGU and no impairment was recognised. No reasonably possible change in any of these assumptions would cause the carrying value of goodwill allocated to a CGU to exceed its recoverable amount.

Of those CGUs tested, the goodwill of the Fonterra Brands New Zealand CGU is considered significant in the context of the carrying value of goodwill for the Group. For the Fonterra Brands New Zealand CGU the carrying value of goodwill is $618 million (31 July 2012: $618 million) and the carrying value of indefinite life brands attributable to the CGU is $299 million (31 July 2012: $307 million). These brands are tested for impairment on an individual asset basis (see below).

Indefinite life brands

Of the total brands held, 92% ($1,310 million) have indefinite useful lives (31 July 2012: 91%, $1,320 million). In concluding that a brand has an indefinite life, management considers its intention to acquire, hold and support brands through advertising and promotional spending for an indefinite period.

Individual indefinite life brands are tested annually for impairment through a value in use test using a discounted cash flow methodology, using the same assumptions as those for goodwill impairment testing.

There was headroom between the recoverable amount and the carrying value of indefinite life brands and no impairment was recognised. No reasonably possible change in any of these assumptions would cause the carrying value of the indefinite life brands to exceed its recoverable amount.

13 TRADE AND OTHER PAYABLES

	GROUP $ MILLION		PARENT $ MILLION	
	AS AT 31 JULY 2013	AS AT 31 JULY 2012	**AS AT 31 JULY 2013**	AS AT 31 JULY 2012
Trade payables	**1,154**	1,064	**89**	62
Amounts due to related parties	**15**	9	**6,889**	6,929
Other payables	**84**	66	**37**	40
Total trade and other payables (excluding employee entitlements)	**1,253**	1,139	**7,015**	7,031
Employee entitlements	**238**	247	**18**	22
Total trade and other payables	**1,491**	1,386	**7,033**	7,053

14 PROVISIONS

	GROUP $ MILLION		PARENT $ MILLION	
	31 JULY 2013	31 JULY 2012	31 JULY 2013	31 JULY 2012
Restructuring and rationalisation provisions				
Opening balance	**21**	7	**11**	1
Additional provisions	**46**	19	**13**	10
Unused amounts reversed	**(10)**	(1)	**(9)**	–
Charged to income statement	**36**	18	**4**	10
Foreign currency translation	**(2)**	–	**–**	–
Utilised during the year	**(15)**	(4)	**(4)**	–
Closing balance	**40**	21	**11**	11
Legal claims provisions				
Opening balance	**46**	83	**46**	83
Additional provisions	**–**	–	**–**	–
Unused amounts reversed	**(14)**	(16)	**(14)**	(16)
Charged to income statement	**(14)**	(16)	**(14)**	(16)
Foreign currency translation	**–**	–	**–**	–
Utilised during the year	–	(21)	**–**	(21)
Closing balance	**32**	46	**32**	46
Other provisions				
Opening balance	**97**	83	**5**	24
Additional provisions	**37**	57	**4**	3
Unused amounts reversed	**(30)**	(13)	**(2)**	(6)
Charged to income statement	**7**	44	**2**	(3)
Foreign currency translation	**(1)**	7	**–**	–
Utilised during the year	**(17)**	(37)	**(3)**	(16)
Closing balance	**86**	97	**4**	5
Total provisions	**158**	164	**47**	62
Included within the statement of financial position as follows:				
Current liabilities	**82**	83	**14**	20
Non-current liabilities	**76**	81	**33**	42
Total provisions	**158**	164	**47**	62

The nature of the provisions are as follows:

- the provision for restructuring and rationalisation includes obligations relating to planned changes throughout the business to improve efficiencies and reduce costs. None of the provisions are individually significant. The value of the obligation is based on project plans, and 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. None of the provisions are individually significant. The timing and amount of the future obligations are uncertain, as they are contingent on the outcome of a number of judicial proceedings. The amount recognised has been based on management's best estimate of the amount that will be required to settle the obligation. The outcome of most of the obligations is not expected to be determined within the next year, and therefore most of the provisions are classified as non-current.
- other provisions arise in the normal course of business. None of the provisions are individually significant. The value of the obligation is based on management's best estimate of the amount that will be required to settle the obligation. All of the Parent's provisions are expected to be utilised in the next year, whereas a portion of Group's provisions are classified as non-current.

15 BORROWINGS

	GROUP $ MILLION		PARENT $ MILLION	
	AS AT 31 JULY 2013	AS AT 31 JULY 2012	AS AT 31 JULY 2013	AS AT 31 JULY 2012
Current				
Commercial paper	431	198	431	198
Bank loans	516	150	301	1
Finance leases	8	8	4	3
Medium-term notes	614	848	585	797
Total current borrowings	1,569	1,204	1,321	999
Non-current				
Bank loans	198	124	130	–
Finance leases	165	169	140	144
Capital notes	35	35	35	35
Retail bonds	945	943	945	943
Medium-term notes	1,765	2,474	1,258	1,893
Total non-current borrowings	3,108	3,745	2,508	3,015
Total borrowings	4,677	4,949	3,829	4,014

- Finance leases are secured over the related item of property, plant and equipment (Note 10).
- Included within bank loans is $10 million (31 July 2012: $8 million) of borrowings secured over inventories (Note 9).
- Capital notes are unsecured subordinated borrowings.
- All other borrowings are unsecured and unsubordinated.

Movements in borrowings

	GROUP $ MILLION		PARENT $ MILLION	
	AS AT 31 JULY 2013	AS AT 31 JULY 2012	AS AT 31 JULY 2013	AS AT 31 JULY 2012
Opening balance	4,949	4,650	4,014	3,852
New issues				
Bank loans	2,386	1,394	2,081	580
Finance leases	–	2	–	–
Commercial paper	834	626	834	626
Retail bonds	–	–	–	–
Medium-term notes	–	193	–	–
	3,220	2,215	2,915	1,206
Repayments				
Bank loans	(1,937)	(1,606)	(1,650)	(731)
Finance leases	(4)	(7)	(3)	(3)
Commercial paper	(611)	(480)	(611)	(480)
Medium-term notes	(751)	(4)	(734)	–
	(3,303)	(2,097)	(2,998)	(1,214)
Other movements				
Amortisation of discount	18	7	17	7
Changes in fair value	(95)	62	(95)	62
Changes due to foreign currency translation	(112)	112	(24)	101
	(189)	181	(102)	170
Closing balance	4,677	4,949	3,829	4,014

15 BORROWINGS CONTINUED

	GROUP $ MILLION	
	AS AT 31 JULY 2013	AS AT 31 JULY 2012
Net interest bearing debt position		
Total borrowings	4,677	4,949
Cash and cash equivalents	(330)	(1,033)
Interest bearing advances included in other non-current assets	(121)	(125)
Bank overdraft	1	42
Net interest bearing debt	4,227	3,833
Value of derivatives used to manage changes in hedged risks and other foreign exchange movements on debt	240	396
Economic net interest bearing debt[1]	4,467	4,229

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

Net interest bearing debt is managed on a Group basis.

	GROUP	
	AS AT 31 JULY 2013	AS AT 31 JULY 2012
Net tangible assets per security[2]		
$ per listed debt security on issue	3.70	3.58
$ per equity instrument on issue	2.43	2.51
Listed debt securities on issue (million)	1,053	1,053
Equity instruments on issue (million)	1,598	1,502

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

	GROUP $ MILLION		PARENT $ MILLION	
	AS AT 31 JULY 2013	AS AT 31 JULY 2012	AS AT 31 JULY 2013	AS AT 31 JULY 2012
Finance leases – minimum lease payments				
Not later than one year	20	20	15	15
Later than one year and not later than five years	82	92	59	65
Later than five years	142	148	139	147
	244	260	213	227
Future finance charges on finance leases	(71)	(83)	(69)	(80)
Present value of finance leases	173	177	144	147
The present value of finance leases is as follows:				
Not later than one year	8	8	4	3
Later than one year and not later than five years	41	41	18	18
Later than five years	124	128	122	126
Total present value of finance leases	173	177	144	147

16 DEFERRED TAX

	NOTES	GROUP $ MILLION AS AT 31 JULY 2013	GROUP $ MILLION AS AT 31 JULY 2012	PARENT $ MILLION AS AT 31 JULY 2013	PARENT $ MILLION AS AT 31 JULY 2012
Deferred tax					
Property, plant and equipment		(67)	(108)	11	9
Intangible assets		(412)	(364)	(24)	(22)
Derivative financial instruments		16	(40)	23	26
Employee entitlements		58	59	5	6
Inventories		28	37	–	–
Receivables, payables and provisions		48	42	8	9
New Zealand tax losses		421	357	421	357
Offshore tax losses		161	76	–	–
Other		(42)	(45)	–	–
Total deferred tax		211	14	444	385
Movements for the year					
Opening balance		14	(179)	385	403
Recognised in the income statement	5	140	1	62	(18)
Recognised directly in other comprehensive income		58	187	(3)	–
Foreign currency translation		(1)	5	–	–
Closing balance		211	14	444	385
Included within the statement of financial position as follows:					
Deferred tax assets		217	99	444	385
Deferred tax liabilities		(6)	(85)	–	–
Total deferred tax		211	14	444	385
Balance expected to be recovered or settled:					
Within the next 12 months		158	104	37	41
After the next 12 months		53	(90)	407	344
Total deferred tax		211	14	444	385

17 BUSINESS COMBINATIONS

There were no material business combinations during the year ended 31 July 2013 or 31 July 2012.

18 FINANCIAL RISK MANAGEMENT

Overview

Global financial and commodity markets remain volatile. The nature of Fonterra's business is such that managing risks in the foreign exchange, interest rate, commodity, credit and liquidity markets is critical to minimising the volatility in returns to equity holders.

The Board has overall responsibility for the establishment and oversight of the Group's financial risk management framework. The Board:

- has established risk management policies and procedures to identify, analyse and, where appropriate, manage the risks faced by the Group;
- has approved a Treasury Policy that covers appropriate risk limits and controls (including, but not limited to, delegated authority levels and authorised use of various financial instruments); and
- monitors risks and adherence to approved limits.

The Group's overall financial risk management programme focuses primarily on maintaining a prudent risk profile that provides flexibility to implement the Group's strategies, while ensuring the optimisation of the return on assets. Risk management is predominantly carried out by a central treasury department (Group Treasury), which ensures compliance with the risk management policies and procedures set by the Board.

During the year in order to manage financial risks, the key risk management activities undertaken by the Group included, but were not limited to, the following:

Capital structure

Fonterra launched Trading Among Farmers (TAF) in November 2012. A key objective in establishing TAF was to support the establishment of the Fonterra Shareholders' Market in order to eliminate redemption risk and provide a permanent capital base for the Co-operative. Equity instruments comprise Co-operative shares and Units in the Fonterra Shareholders' Fund. These are classified as subscribed equity. Further detail is given in Note 7 and the capital management section below.

18 FINANCIAL RISK MANAGEMENT CONTINUED

Bank facility renewal

Fonterra's banking facilities are renewed at least annually with the exception of certain facilities where renewals are required at agreed periods of over one year. On 31 July 2013, Fonterra had $3,289 million (31 July 2012: $3,565 million) of undrawn committed facilities. For further details refer to liquidity risk below in Note 18(d).

Economic debt to debt plus equity ratio

As a result of the above activities and close management of the financial risks faced by Fonterra, the economic debt to debt plus equity ratio has increased from 39.1% at 31 July 2012 to 39.6% at 31 July 2013. For more details refer to the capital management section below in Note 18(e).

a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk on sales, purchases, investments and borrowings that are denominated in foreign currencies. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The main impacts of foreign exchange movements on the Group arise from:

- transaction risk: variations in the New Zealand dollar value of the Group's sales receipts and other cash flows; and
- translation risk: the value of the Group's investment in foreign operations and the Group's foreign currency debt.

Approximately 69% (31 July 2012: 65%) of the Group's net foreign exchange exposure is against the United States dollar.

The Group's objective is to ensure foreign exchange exposure is managed in a prudent manner in order to reduce volatility on the returns to equity holders and Shareholder suppliers.

In respect of transaction hedging, the Group's policy is to hedge 100% of the net recognised foreign currency trade receivables and foreign currency trade payables, and up to 100% of forecast cash receipts from sales for a period of up to 18 months. The level of hedging undertaken is influenced by current exchange rates and the time until the expected cash flows occur, within the limits approved by the Board. The Group seeks to designate items in a hedge relationship where it is practical to do so; therefore some derivative instruments entered into as economic hedges may not be in a designated hedge relationship for accounting purposes.

In respect of translation hedging, the Group's policy is to hedge between nil and 100% of material net translation exposures. Group Treasury uses forward foreign exchange contracts, currency options and cross currency interest rate swaps to hedge its foreign exchange risk. The Group's investments in foreign operations can be hedged by a combination of derivative instruments and borrowings in the relevant currencies.

Exposure to foreign currency risk

The significant notional unhedged exposures to foreign currencies are as follows:

		GROUP $ MILLION		PARENT $ MILLION	
		AS AT 31 JULY 2013	AS AT 31 JULY 2012	**AS AT 31 JULY 2013**	AS AT 31 JULY 2012
USD	United States dollar	**82**	115	**(10,615)**	(8,264)
EUR	Euro	**280**	291	**(174)**	(123)
AUD	Australian dollar	**1,738**	2,005	**–**	(13)
GBP	Great Britain pound	**9**	2	**(2)**	(19)
JPY	Japanese yen	**100**	117	**(1)**	(1)
BRL	Brazilian real	**163**	158	**–**	–
CLP	Chilean peso	**346**	427	**–**	–
CNY	Chinese yuan	**44**	55	**(60)**	(51)
SGD	Singapore dollar	**993**	788	**–**	(3)

Parent carries economic hedge derivative contracts for risks that sit elsewhere in the Group.

Included in the analysis above are derivative contracts with notional balances of $9,022 million (31 July 2012: $6,429 million) in respect of forecast and actual sale transactions.

Foreign exchange sensitivity

A 10% movement in the value of the New Zealand dollar against the key currencies to which the Group is exposed would result in the following post-tax (using appropriate tax rates) increase/(decrease) to equity and profit. A 10% movement in exchange rates is considered reasonably possible over the short term given historical fluctuations in the value of the New Zealand dollar.

18 FINANCIAL RISK MANAGEMENT CONTINUED

	GROUP $ MILLION				PARENT $ MILLION			
	31 JULY 2013		31 JULY 2012		31 JULY 2013		31 JULY 2012	
	EQUITY	PROFIT	EQUITY	PROFIT	EQUITY	PROFIT	EQUITY	PROFIT
Impact of a 10% strengthening of the NZD	146	(21)	13	(9)	(19)	–	(19)	–
Impact of a 10% weakening of the NZD	(138)	25	35	(10)	23	–	23	–

The Parent has no sensitivity to foreign exchange movements in the income statement as gains and losses are passed to a subsidiary through a novation agreement.

b) Interest rate risk

The Group's interest rate risk arises from its borrowings and funds on deposit. Borrowings issued and funds on deposit held at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group borrows a mixture of fixed and variable rate debt in a range of currencies. The Group actively hedges its repricing profile using interest rate swaps in accordance with its Treasury Policy in order to manage the volatility of finance costs. The Group's benchmark is to ensure between 50% and 70% of interest payments are fixed depending upon the maturity of the debt.

Exposure to interest rate risk

Sensitivities to interest rate risk have been assessed on the basis of a 100 basis point movement in interest rates. A 100 basis point movement is considered reasonably possible over the short term. Sensitivities are presented net of tax, using appropriate tax rates.

Fair value sensitivity analysis

A change in interest rates impacts the fair value of the Group's interest rate derivatives and where changes in hedged risks on certain debt instruments are recognised at fair value. The fair value sensitivity to a 100 basis point movement in interest rates (based on financial assets and liabilities held at the balance date) is as follows:

	GROUP $ MILLION		PARENT $ MILLION	
	31 JULY 2013	31 JULY 2012	31 JULY 2013	31 JULY 2012
Fair value gain/(loss) from 100 bp increase	50	8	50	8
Fair value gain/(loss) from 100 bp decrease	(54)	(9)	(54)	(9)

Cash flow sensitivity analysis

A change in the interest rates would also impact on interest payments and receipts on the Group's floating rate debt instruments (including the floating leg of any interest rate derivatives). The cash flow sensitivity to a 100 basis point movement in interest rates (based on financial assets and liabilities held at the balance date) is as follows:

	GROUP $ MILLION		PARENT $ MILLION	
	31 JULY 2013	31 JULY 2012	31 JULY 2013	31 JULY 2012
One year cash flow impact of 100 bp increase	(9)	(13)	(8)	(13)
One year cash flow impact of 100 bp decrease	9	13	8	12

c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and derivative financial instruments.

The Group operates a policy of only entering into contracts for sale with customers whose credit limits are in accordance with the Group's delegated authorities approved by the Board. For export customers located outside of New Zealand credit risk mitigant tools such as letters of credit may be utilised in conjunction with credit limits.

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

		PAST DUE BUT NOT IMPAIRED			
$ MILLION	NEITHER PAST DUE NOR IMPAIRED	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 2013	**1,689**	**192**	**47**	**53**	**1,981**
As at 31 July 2012	1,859	238	84	48	2,229

Parent has no trade and other receivables that are past due (31 July 2012: nil).

The Group does not hold collateral or security in relation to credit risk and has no undue concentrations of credit risk.

The Group has a policy to limit its exposure to credit risk by entering into transactions only with financial counterparties that have a credit rating of at least 'A-' from Standard & Poor's or equivalent. Given this high credit rating threshold, management does not expect these counterparties to fail to meet their obligations. Exceptions to this policy are authorised in accordance with the Board-approved Financial Risk Management Standard.

The Group has assessed trade and other receivables requiring specific impairment at balance date. As a result $12 million (31 July 2012: $29 million) has been provided against these balances. This represents 0.06% (31 July 2012: 0.15%) of the total revenue from sale of goods.

The maximum credit risk on cash and cash equivalents, trade and other receivables, derivative financial instruments and other investments is best represented by their carrying values.

d) 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 is to ensure that it will always have sufficient liquidity 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 Shareholder suppliers if necessary.

Group Treasury manages the Group's 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. At balance date the Group had undrawn lines of credit totalling $3,289 million (31 July 2012: $3,565 million), and the Parent had undrawn lines of credit of $2,000 million (31 July 2012: $2,080 million). The 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.

18 FINANCIAL RISK MANAGEMENT CONTINUED

Exposure to liquidity risk

	GROUP $ MILLION					
	AS AT 31 JULY 2013					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	3 MONTHS OR LESS	3–12 MONTHS	1–5 YEARS	MORE THAN 5 YEARS
Non-derivative financial assets						
Cash and cash equivalents	330	330	330	–	–	–
Trade and other receivables (excluding prepayments)	1,981	1,981	1,981	–	–	–
Long-term advances	121	137	–	10	69	58
Total non-derivative financial assets	2,432	2,448	2,311	10	69	58
Non-derivative financial liabilities						
Borrowings						
– Commercial paper	(431)	(432)	(280)	(152)	–	–
– Bank loans	(714)	(731)	(414)	(203)	(114)	–
– Finance leases	(173)	(244)	(5)	(15)	(82)	(142)
– Capital notes	(35)	(42)	–	(1)	(6)	(35)
– Retail bonds	(945)	(1,090)	(21)	(52)	(1,017)	–
– Medium-term notes	(2,379)	(3,088)	(45)	(708)	(1,294)	(1,041)
Bank overdraft	(1)	(1)	(1)	–	–	–
Owing to suppliers	(711)	(711)	(711)	–	–	–
Trade and other payables (excluding employee entitlements)	(1,253)	(1,212)	(1,212)	–	–	–
Financial guarantees issued[1]	–	(100)	(100)	–	–	–
Total non-derivative financial liabilities	(6,642)	(7,651)	(2,789)	(1,131)	(2,513)	(1,218)
Derivative financial instruments						
Gross settled derivatives						
– Inflow		19,776	9,239	8,566	1,375	596
– Outflow		(20,312)	(9,240)	(8,565)	(1,539)	(968)
Total gross settled derivative financial instruments	(325)	(536)	(1)	1	(164)	(372)
Net settled derivatives	57	(161)	(3)	30	28	106
Total financial instruments	(4,478)	(5,578)	(482)	(1,090)	(2,580)	(1,426)

1 Maximum cash flows under guarantees provided by the Group.

18 FINANCIAL RISK MANAGEMENT CONTINUED

Exposure to liquidity risk

	GROUP $ MILLION					
	AS AT 31 JULY 2012					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	3 MONTHS OR LESS	3–12 MONTHS	1–5 YEARS	MORE THAN 5 YEARS
Non-derivative financial assets						
Cash and cash equivalents	1,033	1,033	1,033	–	–	–
Trade and other receivables (excluding prepayments)	2,229	2,229	2,229	–	–	–
Long-term advances	125	149	1	15	97	36
Total non-derivative financial assets	3,387	3,411	3,263	15	97	36
Non-derivative financial liabilities						
Borrowings						
– Commercial paper	(198)	(199)	(199)	–	–	–
– Bank loans	(274)	(305)	(69)	(94)	(142)	–
– Finance leases	(177)	(259)	(5)	(15)	(85)	(154)
– Capital notes	(35)	(42)	–	(1)	(6)	(35)
– Retail bonds	(943)	(1,162)	(21)	(52)	(1,089)	–
– Medium-term notes	(3,322)	(4,165)	(72)	(938)	(1,653)	(1,502)
Bank overdraft	(42)	(42)	(42)	–	–	–
Owing to suppliers	(1,083)	(1,083)	(1,083)	–	–	–
Trade and other payables (excluding employee entitlements)	(1,139)	(1,093)	(1,093)	–	–	–
Financial guarantees issued[1]	–	(100)	(100)	–	–	–
Total non-derivative financial liabilities	(7,213)	(8,450)	(2,684)	(1,100)	(2,975)	(1,691)
Derivative financial instruments						
Gross settled derivatives						
– Inflow		17,709	9,343	5,124	2,282	960
– Outflow		(18,274)	(9,290)	(5,167)	(2,458)	(1,359)
Total gross settled derivative financial instruments	(228)	(565)	53	(43)	(176)	(399)
Net settled derivatives	33	225	(7)	27	83	122
Total financial instruments	(4,021)	(5,379)	625	(1,101)	(2,971)	(1,932)

1 Maximum cash flows under guarantees provided by the Group.

18 FINANCIAL RISK MANAGEMENT CONTINUED

Exposure to liquidity risk

	PARENT $ MILLION					
	AS AT 31 JULY 2013					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	3 MONTHS OR LESS	3–12 MONTHS	1–5 YEARS	MORE THAN 5 YEARS
Non-derivative financial assets						
Cash and cash equivalents	42	42	42	–	–	–
Trade and other receivables (excluding prepayments)	2	2	2	–	–	–
Long-term advances	3	3	–	–	3	–
Total non-derivative financial assets	47	47	44	–	3	–
Non-derivative financial liabilities						
Borrowings						
– Commercial paper	(431)	(432)	(280)	(152)	–	–
– Bank loans	(431)	(434)	(302)	(132)	–	–
– Finance leases	(144)	(213)	(4)	(11)	(59)	(139)
– Capital notes	(35)	(42)	–	(1)	(6)	(35)
– Retail bonds	(945)	(1,090)	(21)	(52)	(1,017)	–
– Medium-term notes	(1,843)	(2,405)	(17)	(677)	(876)	(835)
Owing to suppliers	(780)	(780)	(780)	–	–	–
Trade and other payables (excluding employee entitlements)	(126)	(92)	(92)	–	–	–
Financial guarantees issued[1]	–	(1,719)	(1,719)	–	–	–
Total non-derivative financial liabilities	(4,735)	(7,207)	(3,215)	(1,025)	(1,958)	(1,009)
Derivative financial instruments						
Gross settled derivatives						
– Inflow		17,858	8,215	7,672	1,375	596
– Outflow		(18,420)	(8,232)	(7,681)	(1,539)	(968)
Total gross settled derivative financial instruments	(321)	(562)	(17)	(9)	(164)	(372)
Net settled derivatives	59	163	(1)	30	28	106
Total financial instruments	(4,950)	(7,559)	(3,189)	(1,004)	(2,091)	(1,275)

1 Maximum cash flows under guarantees provided by the Parent.

Amounts due to and from consolidated Group entities that are repayable on demand (refer to Notes 8, 13 and 21) have been excluded from the above table.

18 FINANCIAL RISK MANAGEMENT CONTINUED

Exposure to liquidity risk

	PARENT $ MILLION					
	AS AT 31 JULY 2012					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	3 MONTHS OR LESS	3–12 MONTHS	1–5 YEARS	MORE THAN 5 YEARS
Non-derivative financial assets						
Cash and cash equivalents	793	793	793	–	–	–
Trade and other receivables (excluding prepayments)	4	4	4	–	–	–
Long-term advances	3	4	–	–	1	3
Total non-derivative financial assets	800	801	797	–	1	3
Non-derivative financial liabilities						
Borrowings						
– Commercial paper	(198)	(199)	(199)	–	–	–
– Bank loans	(1)	(1)	(1)	–	–	–
– Finance leases	(147)	(228)	(4)	(11)	(59)	(154)
– Capital notes	(35)	(42)	–	(1)	(6)	(35)
– Retail bonds	(943)	(1,162)	(21)	(52)	(1,089)	–
– Medium-term notes	(2,690)	(3,328)	(19)	(904)	(1,149)	(1,256)
Owing to suppliers	(1,134)	(1,134)	(1,134)	–	–	–
Trade and other payables (excluding employee entitlements)	(102)	(63)	(63)	–	–	–
Financial guarantees issued[1]	–	(1,980)	(1,980)	–	–	–
Total non-derivative financial liabilities	(5,250)	(8,137)	(3,421)	(968)	(2,303)	(1,445)
Derivative financial instruments						
Gross settled derivatives						
– Inflow		16,774	8,893	5,029	1,892	960
– Outflow		(17,345)	(8,837)	(5,071)	(2,078)	(1,359)
Total gross settled derivative financial instruments	(226)	(571)	56	(42)	(186)	(399)
Net settled derivatives	34	226	(7)	28	83	122
Total financial instruments	(4,642)	(7,681)	(2,575)	(982)	(2,405)	(1,719)

1 Maximum cash flows under guarantees provided by the Parent.

Amounts due to and from consolidated Group entities that are repayable on demand (refer to Notes 8, 13 and 21) have been excluded from the above table.

e) Capital management

The Board's objective is to maximise equity holder returns over time by maintaining an optimal capital structure. Fonterra launched TAF in November 2012. A key objective in establishing TAF was to support the establishment of the Fonterra Shareholders' Market in order to eliminate redemption risk under the Dairy Industry Restructuring Act 2001 and provide a permanent capital base for the Co-operative. Equity instruments comprise Co-operative shares and Units in Fonterra Shareholders' Fund.

The Group provides returns to Shareholder suppliers 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 Shareholder suppliers. 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 introducing new Shares.

The Board closely monitors the Group's economic debt to debt plus equity ratio. This ratio is calculated as economic net interest bearing debt divided by total capital. Economic net interest bearing debt is calculated as disclosed in Note 15. Total capital is calculated as equity, as presented on the statement of financial position (excluding the cash flow hedge reserve), plus net economic interest bearing debt. The economic debt to debt plus equity ratio as at 31 July 2013 was 39.6% (31 July 2012: 39.1%), which is below the Board's target of 45%-50%.

The Group is not subject to externally imposed capital requirements.

18 FINANCIAL RISK MANAGEMENT CONTINUED

f) Dairy commodity price risk

Dairy commodity price risk is the risk of volatility in profit or loss from a movement in dairy commodity prices to which the Group may be exposed.

Dairy commodity price risk arises from transactions for the sale and purchase of a variety of milk and milk derived products.

The Group manages its dairy commodity price risk by adopting a product mix that management considers best reflects the demand trends in dairy product markets globally. Sales contracts for future production of varying lengths are also used to enable the Group to sell its products at prices and times that management considers will maximise revenue.

The Group has, on a limited scale, direct trading in dairy commodity derivatives. Due to the limited market for the types of dairy commodity derivatives, such activity is only a small component of management's strategy for managing commodity price risk. Fonterra aims to use its industry knowledge to obtain the best price for future sales, so as markets for such derivatives grows, the scope of such commodity risk management activities may increase.

Commodity price risk sensitivity analysis

The table below summarises the impact on dairy commodity derivatives for increases/decreases of dairy commodity prices on the Group's post-tax profit for the year. The analysis is based on the assumption that dairy based commodity derivative prices had increased/decreased by 10% with all other variables held constant:

	GROUP $ MILLION	
	31 JULY 2013 PROFIT	31 JULY 2012 PROFIT
Impact of 10% increase in quoted dairy commodity prices	–	(1)
Impact of 10% decrease in quoted dairy commodity prices	–	1

The Parent does not trade in dairy commodity derivatives.

g) Financial instrument fair values and classifications

Basis for determining fair values

The fair value of interest rate swaps and cross currency interest rate swaps is based on accepted valuation methodologies. The fair value of these instruments is calculated by discounting estimated future cash flows based on the terms and maturity of each contract, at market interest rates.

The fair values of financial liabilities are calculated by discounting the future contractual cash flows at current market interest rates that are available for similar financial instruments.

Fair values at balance date have been assessed using a range of market interest rates between 0.01% and 6.15% (31 July 2012: 0.01% and 5.62%) across all currencies in which the Group holds financial instruments.

Fair values are allocated to a fair value hierarchy based on the following:

- 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); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	GROUP $ MILLION					
	AS AT 31 JULY 2013					
	LOANS AND RECEIVABLES	OTHER AMORTISED COST	HELD FOR TRADING	DERIVATIVES IN HEDGE RELATIONSHIPS	CARRYING VALUE	FAIR VALUE
Financial assets						
Cash and cash equivalents	330	–	–	–	330	330
Trade and other receivables (excluding prepayments)	1,981	–	–	–	1,981	1,981
Long-term advances	121	–	–	–	121	126
Derivative assets – current	–	–	63	37	100	100
Derivative assets – non-current	–	–	74	53	127	127
Total financial assets	2,432	–	137	90	2,659	2,664
Financial liabilities						
Bank overdraft	–	(1)	–	–	(1)	(1)
Owing to suppliers	–	(711)	–	–	(711)	(711)
Total payables and accruals (excluding employee entitlements)	–	(1,253)	–	–	(1,253)	(1,253)
Borrowings						
– Commercial paper	–	(431)	–	–	(431)	(431)
– Bank loans	–	(714)	–	–	(714)	(714)
– Finance leases	–	(173)	–	–	(173)	(197)
– Retail bonds	–	(945)	–	–	(945)	(1,014)
– Medium-term notes	–	(2,379)	–	–	(2,379)	(2,676)
– Capital notes	–	(35)	–	–	(35)	(34)
Derivative liabilities – current	–	–	(61)	(88)	(149)	(149)
Derivative liabilities – non-current	–	–	(77)	(269)	(346)	(346)
Total financial liabilities	–	(6,642)	(138)	(357)	(7,137)	(7,526)
Total financial instruments	2,432	(6,642)	(1)	(267)	(4,478)	(4,862)
Included in the table above are the following instruments that have fair value changes recognised in the statement of financial position:						
Level 1 fair value hierarchy						
Derivative assets	–	–	–	–	–	–
Derivative liabilities	–	–	(1)	–	(1)	(1)
Total level 1 fair value hierarchy	–	–	(1)	–	(1)	(1)
Level 2 fair value hierarchy						
Derivative assets	–	–	137	90	227	227
Derivative liabilities	–	–	(137)	(357)	(494)	(494)
Total level 2 fair value hierarchy	–	–	–	(267)	(267)	(267)
Total instruments recognised in the statement of financial position at fair value	–	–	(1)	(267)	(268)	(268)

18 FINANCIAL RISK MANAGEMENT CONTINUED

	GROUP $ MILLION					
	AS AT 31 JULY 2012					
	LOANS AND RECEIVABLES	OTHER AMORTISED COST	HELD FOR TRADING	DERIVATIVES IN HEDGE RELATIONSHIPS	CARRYING VALUE	FAIR VALUE
Financial assets						
Cash and cash equivalents	1,033	–	–	–	1,033	1,033
Trade and other receivables (excluding prepayments)	2,229	–	–	–	2,229	2,229
Long-term advances	125	–	–	–	125	133
Derivative assets – current	–	–	87	188	275	275
Derivative assets – non-current	–	–	117	81	198	198
Total financial assets	3,387	–	204	269	3,860	3,868
Financial liabilities						
Bank overdraft	–	(42)	–	–	(42)	(42)
Owing to suppliers	–	(1,083)	–	–	(1,083)	(1,083)
Total payables and accruals (excluding employee entitlements)	–	(1,139)	–	–	(1,139)	(1,139)
Borrowings						
– Commercial paper	–	(198)	–	–	(198)	(198)
– Bank loans	–	(274)	–	–	(274)	(274)
– Finance leases	–	(177)	–	–	(177)	(208)
– Retail bonds	–	(943)	–	–	(943)	(1,053)
– Medium-term notes	–	(3,322)	–	–	(3,322)	(3,659)
– Capital notes	–	(35)	–	–	(35)	(28)
Derivative liabilities – current	–	–	(37)	(218)	(255)	(255)
Derivative liabilities – non-current	–	–	(166)	(247)	(413)	(413)
Total financial liabilities	–	(7,213)	(203)	(465)	(7,881)	(8,352)
Total financial instruments	3,387	(7,213)	1	(196)	(4,021)	(4,484)

Included in the table above are the following instruments that have fair value changes recognised in the statement of financial position:

	LOANS AND RECEIVABLES	OTHER AMORTISED COST	HELD FOR TRADING	DERIVATIVES IN HEDGE RELATIONSHIPS	CARRYING VALUE	FAIR VALUE
Level 1 fair value hierarchy						
Derivative assets	–	–	1	–	1	1
Derivative liabilities	–	–	–	–	–	–
Total level 1 fair value hierarchy	–	–	1	–	1	1
Level 2 fair value hierarchy						
Derivative assets	–	–	203	269	472	472
Derivative liabilities	–	–	(203)	(465)	(668)	(668)
Total level 2 fair value hierarchy	–	–	–	(196)	(196)	(196)
Total instruments recognised in the statement of financial position at fair value	–	–	1	(196)	(195)	(195)

	PARENT $ MILLION					
	AS AT 31 JULY 2013					
	LOANS AND RECEIVABLES	OTHER AMORTISED COST	HELD FOR TRADING	DERIVATIVES IN HEDGE RELATIONSHIPS	CARRYING VALUE	FAIR VALUE
Financial assets						
Cash and cash equivalents	42	–	–	–	42	42
Trade and other receivables (excluding prepayments)	9,091	–	–	–	9,091	9,091
Long-term advances	3	–	–	–	3	3
Derivative assets – current	–	–	100	3	103	103
Derivative assets – non-current	–	–	84	43	127	127
Total financial assets	9,136	–	184	46	9,366	9,366
Financial liabilities						
Owing to suppliers	–	(780)	–	–	(780)	(780)
Total payables and accruals (excluding employee entitlements)	–	(7,015)	–	–	(7,015)	(7,015)
Borrowings						
– Commercial paper	–	(431)	–	–	(431)	(431)
– Bank loans	–	(431)	–	–	(431)	(431)
– Finance leases	–	(144)	–	–	(144)	(165)
– Retail bonds	–	(945)	–	–	(945)	(1,014)
– Medium-term notes	–	(1,843)	–	–	(1,843)	(2,108)
– Capital notes	–	(35)	–	–	(35)	(34)
Derivative liabilities – current	–	–	(118)	(28)	(146)	(146)
Derivative liabilities – non-current	–	–	(91)	(255)	(346)	(346)
Total financial liabilities	–	(11,624)	(209)	(283)	(12,116)	(12,470)
Total financial instruments	9,136	(11,624)	(25)	(237)	(2,750)	(3,104)

Included in the table above are the following instruments that have fair value changes recognised in the statement of financial position:

Level 2 fair value hierarchy						
Derivative assets	–	–	184	46	230	230
Derivative liabilities	–	–	(209)	(283)	(492)	(492)
Total level 2 fair value hierarchy	–	–	(25)	(237)	(262)	(262)
Total instruments recognised in the statement of financial position at fair value	–	–	(25)	(237)	(262)	(262)

18 FINANCIAL RISK MANAGEMENT CONTINUED

	PARENT $ MILLION					
	AS AT 31 JULY 2012					
	LOANS AND RECEIVABLES	OTHER AMORTISED COST	HELD FOR TRADING	DERIVATIVES IN HEDGE RELATIONSHIPS	CARRYING VALUE	FAIR VALUE
Financial assets						
Cash and cash equivalents	793	–	–	–	793	793
Trade and other receivables (excluding prepayments)	9,107	–	–	–	9,107	9,107
Long-term advances	3	–	–	–	3	3
Derivative assets – current	–	–	263	7	270	270
Derivative assets – non-current	–	–	137	61	198	198
Total financial assets	9,903	–	400	68	10,371	10,371
Financial liabilities						
Owing to suppliers	–	(1,134)	–	–	(1,134)	(1,134)
Total payables and accruals (excluding employee entitlements)	–	(7,031)	–	–	(7,031)	(7,031)
Borrowings						
– Commercial paper	–	(198)	–	–	(198)	(198)
– Bank loans	–	(1)	–	–	(1)	(1)
– Finance leases	–	(147)	–	–	(147)	(176)
– Retail bonds	–	(943)	–	–	(943)	(1,053)
– Medium-term notes	–	(2,690)	–	–	(2,690)	(2,992)
– Capital notes	–	(35)	–	–	(35)	(28)
Derivative liabilities – current	–	–	(37)	(210)	(247)	(247)
Derivative liabilities – non-current	–	–	(171)	(242)	(413)	(413)
Total financial liabilities	–	(12,179)	(208)	(452)	(12,839)	(13,273)
Total financial instruments	9,903	(12,179)	192	(384)	(2,468)	(2,902)

Included in the table above are the following instruments that have fair value changes recognised in the statement of financial position:

Level 2 fair value hierarchy						
Derivative assets	–	–	400	68	468	468
Derivative liabilities	–	–	(208)	(452)	(660)	(660)
Total level 2 fair value hierarchy	–	–	192	(384)	(192)	(192)
Total instruments recognised in the statement of financial position at fair value	–	–	192	(384)	(192)	(192)

The timing of the maturity of the release of the Parent and Group's cash flow hedge reserve is:

	GROUP $ MILLION		PARENT $ MILLION	
	31 JULY 2013	31 JULY 2012	**31 JULY 2013**	31 JULY 2012
Current	**(50)**	143	**(24)**	(12)
Non-current	**(64)**	(55)	**(59)**	(80)
Total carrying value	**(114)**	88	**(83)**	(92)

The fair value of derivatives in hedge relationships by type of hedging relationship is:

	GROUP $ MILLION		PARENT $ MILLION	
	31 JULY 2013	31 JULY 2012	**31 JULY 2013**	31 JULY 2012
Cash flow hedge	**(113)**	96	**(83)**	(92)
Fair value hedge	**(154)**	(292)	**(154)**	(292)
Net investment hedge	**–**	–	**–**	–
Total carrying value of derivatives in hedge relationships	**(267)**	(196)	**(237)**	(384)

19 CONTINGENT LIABILITIES

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

On 2 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. WPC80 is used as an ingredient in the manufacture of a number of other products which have been subsequently identified and recalled by Fonterra's customers.

For the financial year ended 31 July 2013, Fonterra has provided for costs associated with the replacement of the recalled product of $14 million. No further provision has been included in the financial statements. There is significant uncertainty as regards any future impacts that may be experienced as a consequence of this precautionary recall. No contingent liability can be reliably quantified in regards to potential market access, customer claims or reputational consequences.

In October 2012 the purchaser of the Group's former Western Australian dairy business made warranty claims as disclosed in the Fonterra Shareholders' Fund Prospectus and Investment Statement, of AUD 103 million. The claimant subsequently revised their total claim and confirmed it as being AUD 37 million. The claim is in dispute and in May 2013 the claimant lodged a formal statement of claim with the Australian Court. Based on currently available information and the claims made to date, Fonterra will vigorously defend its position and does not believe that it is likely these claims will result in a material obligation.

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

At 31 July 2013 the Group and Parent had no other contingent liabilities (31 July 2012: nil).

20 COMMITMENTS

Capital and intangible asset expenditure commitments

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

	GROUP $ MILLION		PARENT $ MILLION	
	AS AT 31 JULY 2013	AS AT 31 JULY 2012	**AS AT 31 JULY 2013**	AS AT 31 JULY 2012
Buildings	**23**	62	**–**	–
Plant, vehicles and equipment	**166**	241	**4**	3
Intangible assets	**9**	5	**7**	3
Total capital commitments	**198**	308	**11**	6

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		PARENT $ MILLION	
	AS AT 31 JULY 2013	AS AT 31 JULY 2012	**AS AT 31 JULY 2013**	AS AT 31 JULY 2012
Less than one year	**76**	76	**–**	–
One to five years	**142**	162	**1**	–
Greater than five years	**22**	31	**–**	–
Total operating lease commitments	**240**	269	**1**	–

21 RELATED PARTY TRANSACTIONS

Equity accounted investees (refer to Note 22) and key management personnel are related parties of the Group. Key management personnel comprises the Board and the Fonterra Management Team.

Transactions were entered into and year end balances arose from transactions with related parties as follows:

Key management personnel remuneration

	GROUP $ MILLION		PARENT $ MILLION	
	31 JULY 2013	31 JULY 2012	31 JULY 2013	31 JULY 2012
Short-term employee benefits	14	12	13	11
Long-term employee benefits	1	3	1	2
Termination benefits	4	1	2	1
Directors' remuneration	2	2	2	2
Total key management personnel remuneration	21	18	18	16

Revenue from the sale of goods

	GROUP $ MILLION		PARENT $ MILLION	
	31 JULY 2013	31 JULY 2012	31 JULY 2013	31 JULY 2012
Sale of goods				
Equity accounted investees	89	76	–	–
Other Group entities	–	–	8,649	9,050
	89	76	8,649	9,050

Goods sold to related parties are primarily commodity products and are provided under normal trade terms.

Other operating income

	GROUP $ MILLION		PARENT $ MILLION	
	31 JULY 2013	31 JULY 2012	31 JULY 2013	31 JULY 2012
Sale of services				
Equity accounted investees	5	5	–	–
Other Group entities	–	–	55	54
	5	5	55	54
Royalty and other income				
Equity accounted investees	17	20	–	–

Services provided to related parties include management fees and are provided under normal trade terms. Royalty and other income received from related parties are provided under normal trade terms.

Purchases of goods and services

	GROUP $ MILLION		PARENT $ MILLION	
	31 JULY 2013	31 JULY 2012	31 JULY 2013	31 JULY 2012
Purchases of goods				
Equity accounted investees	27	101	–	–
Other Group entities	–	–	14	16
Key management personnel	119	225	119	225
	146	326	133	241
Purchases of services				
Equity accounted investees	16	5	–	–
Other Group entities	–	–	1	1
	16	5	1	1

Goods purchased from related parties are primarily commodity products, which are acquired under normal trade terms.

Services purchased from related parties are primarily commissions paid and are under normal trade terms.

In addition, key management personnel may engage in transactions with other Group entities under normal trade terms.

21 RELATED PARTY TRANSACTIONS CONTINUED

Transfers of property, plant and equipment and intangible assets

	PARENT $ MILLION	
	31 JULY 2013	31 JULY 2012
Additions of property, plant and equipment from other Group entities	–	–
Additions of intangible assets from other Group entities	1	–
Total	1	–

The Parent entered into transactions with other Group entities to acquire and dispose of property, plant and equipment and intangible assets. These transactions were at the net book value of the assets transferred.

Dividends received

	GROUP $ MILLION		PARENT $ MILLION	
	31 JULY 2013	31 JULY 2012	31 JULY 2013	31 JULY 2012
Equity accounted investees	44	36	–	–
Other Group entities	–	–	264	114
	44	36	264	114

Balances arising from the sale or purchase of goods or services

	GROUP $ MILLION		PARENT $ MILLION	
	AS AT 31 JULY 2013	AS AT 31 JULY 2012	AS AT 31 JULY 2013	AS AT 31 JULY 2012
Receivables[1]				
Equity accounted investees	46	21	–	–
Other Group entities	–	–	152	85
	46	21	152	85
Payables				
Equity accounted investees	15	9	–	–
Other Group entities	–	–	6	6
Key management personnel[2]	12	28	12	28
	27	37	18	34

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

2 Payables to key management personnel relate to amounts owing for milk supplied to the Group by farmer Shareholder Directors.

Balances arising from financing arrangements

	GROUP $ MILLION		PARENT $ MILLION	
	AS AT 31 JULY 2013	AS AT 31 JULY 2012	AS AT 31 JULY 2013	AS AT 31 JULY 2012
Receivables				
Equity accounted investees	63	59	–	–
Receivables from other Group entities	–	–	8,937	9,018
	63	59	8,937	9,018
Payables				
Equity accounted investees	1	1	–	–
Payables to other Group entities	–	–	6,883	6,923
Payables to key management personnel	–	1	–	–
	1	2	6,883	6,923

Payables to key management personnel relate to unsecured bonds held by Directors or members of the Fonterra Management Team.

21 RELATED PARTY TRANSACTIONS CONTINUED

Interest income/(expense) from financing arrangements

	GROUP $ MILLION		PARENT $ MILLION	
	31 JULY 2013	31 JULY 2012	31 JULY 2013	31 JULY 2012
Interest income				
Equity accounted investees	2	3	–	–
Other Group entities	–	–	262	247
	2	3	262	247
Interest expense				
Other Group entities	–	–	4	10
	–	–	4	10

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 one month and 12 years.

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 $34 million (31 July 2012: $39 million). The Parent has provided financial guarantees for other Group entities. The amounts drawn down under those guaranteed facilities are $654 million (31 July 2012: $760 million).

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.

During the reported period the following expenses were incurred and paid by Fonterra with respect to the Fund:

- audit fees paid to PwC of $40,000; and
- equity transaction costs of $18 million.[1]

1 Included in total equity transactions costs relating to the initial issue of Units is $0.4 million paid to PwC for other assurance and advisory services.

Equity instrument transactions with key management personnel

Co-operative shares

	GROUP $ MILLION		PARENT $ MILLION	
	31 JULY 2013	31 JULY 2012	31 JULY 2013	31 JULY 2012
Co-operative shares issued/(surrendered)				
Issued	9	13	9	13
Surrendered	(35)	(4)	(35)	(4)
Net movement	(26)	9	(26)	9

Co-operative shares issued to Directors during the year were 1,258,644 (31 July 2012: 2,765,815) and Co-operative share surrenders were 4,905,445 (31 July 2012: 893,273). The value of shares is based on the closing value as at 31 July 2013 of $7.28.

Units

	GROUP $ MILLION		PARENT $ MILLION	
	31 JULY 2013	31 JULY 2012	31 JULY 2013	31 JULY 2012
Units				
Purchased	–	–	–	–
Sold	–	–	–	–

At 31 July 2013 key management personnel held 48,467 (31 July 2012: nil) Units in Fonterra Shareholders' Fund.

	GROUP $ MILLION		PARENT $ MILLION	
	31 JULY 2013	31 JULY 2012	31 JULY 2013	31 JULY 2012
Dividends paid to key management personnel	3	4	3	4

	GROUP $ MILLION		PARENT $ MILLION	
	AS AT 31 JULY 2013	AS AT 31 JULY 2012	AS AT 31 JULY 2013	AS AT 31 JULY 2012
Balances arising from transactions with Directors				
Receivable from Directors	–	–	–	–
Payable to Directors	–	–	–	–

21 RELATED PARTY TRANSACTIONS CONTINUED

Equity instrument transactions with related entities

On launch of the Fonterra Shareholders' Fund on 30 November 2012, Fonterra issued 89,808,526 shares to the Custodian, to hold on trust for the Fund.

Under the terms of the May 2013 Supply Offer (refer to Note 7), Fonterra acquired 60 million Units in the Fonterra Shareholders' Fund at a cost of $475 million. These Units were immediately redeemed, resulting in the transfer of 60 million Co-operative shares to Fonterra by the Custodian. Fonterra subsequently cancelled these shares.

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, energy and the provision of various management services.

22 GROUP ENTITIES

As a result of the Group launching Trading Among Farmers in November 2012, Fonterra consolidates the Fund and the Custodian. 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 the significant financial and operating policies of these entities were determined as part of the establishment by Fonterra of Trading Among Farmers.

All other 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 investor's balance date or to align with the milk season. The New Zealand Companies Office has given exemptions for a number of Fonterra's subsidiaries to maintain balance dates different to that of the Group.

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

The significant subsidiaries and equity accounted investees of the Group are listed below:

		OWNERSHIP INTERESTS (%)	
OVERSEAS SUBSIDIARIES	COUNTRY OF INCORPORATION	AS AT 31 JULY 2013	AS AT 31 JULY 2012
Fonterra Australia Pty Limited	Australia	100	100
Fonterra Brands (Australia) Pty Limited	Australia	100	100
New Zealand Milk (Australasia) Pty Limited	Australia	100	100
Fonterra (Brasil) Limitada[1]	Brazil	100	100
Soprole S.A.[1]	Chile	99.9	99.9
Fonterra Commercial Trading (Shanghai) Company Limited[1]	China	100	100
Tangshan Fonterra Dairy Farm Limited[1]	China	85	85
Fonterra (Yutian) Dairy Farm Co. Limited[1]	China	100	100
PT Fonterra Brands Indonesia	Indonesia	100	100
Fonterra Brands (Japan) Limited	Japan	100	100
Fonterra Brands (Malaysia) Sdn Bhd	Malaysia	100	100
Fonterra (Ing.) Limited	Mauritius	51	51
Fonterra (Mexico) S.A. de C.V.[1]	Mexico	100	100
Fonterra (Europe) Coöperatie U.A.	Netherlands	100	100
Fonterra Brands Phils. Inc.	Philippines	100	100
Saudi New Zealand Milk Products Company Limited[2]	Saudi Arabia	100	100
Fonterra Brands (Singapore) Pte Limited	Singapore	100	100
Fonterra Brands (New Young) Pte Limited	Singapore	51	51
Fonterra (SEA) Pte Limited	Singapore	100	100
Fonterra Brands Lanka (Private) Limited	Sri Lanka	100	100
Fonterra Brands (Thailand) Limited	Thailand	100	100
Fonterra (USA) Inc	USA	100	100
Fonterra Venezuela S.A.	Venezuela	100	100
Fonterra Brands (Viet Nam) Company Limited[3]	Vietnam	100	100

1 Balance date 31 December.

2 Balance date 31 May.

3 Balance date 30 June.

22 GROUP ENTITIES CONTINUED

NEW ZEALAND SUBSIDIARIES	OWNERSHIP INTERESTS (%) AS AT 31 JULY 2013	OWNERSHIP INTERESTS (%) AS AT 31 JULY 2012
Anchor Ethanol Limited	100	100
Canpac International Limited	100	100
Fonterra Brands (New Zealand) Limited	100	100
Fonterra Brands (Tip Top) Limited	100	100
Fonterra Limited	100	100
Fonterra (New Zealand) Limited	100	100
New Zealand Dairy Board	100	100
NZAgbiz Limited	100	100
RD1 Limited	100	100
ViaLactia Biosciences (NZ) Limited	100	100

In addition to the above entities, Fonterra controls the Fonterra Shareholders' Fund and Fonterra Farmer Custodian Limited and consolidates these two entities as part of the Group.

The ownership interest of the following entities is 50% or less. However, they have been consolidated on the basis that the Group controls them based on its capacity to govern the financing and operating policies of the entities so as to obtain benefits from their activities.

OVERSEAS SUBSIDIARIES 50% OR LESS OWNERSHIP	COUNTRY OF INCORPORATION	OWNERSHIP INTERESTS (%) AS AT 31 JULY 2013	OWNERSHIP INTERESTS (%) AS AT 31 JULY 2012
Fonterra (Japan) Limited	Japan	50	50
Fonterra Brands (Middle East) L.L.C.	UAE	49	49

The ownership interest of the following entities is 50% or less and the Group is not considered to exercise a controlling interest. These entities are therefore accounted for as equity accounted investees.

OVERSEAS EQUITY ACCOUNTED INVESTEES[1]	COUNTRY OF INCORPORATION	OWNERSHIP INTERESTS (%) AS AT 31 JULY 2013	OWNERSHIP INTERESTS (%) AS AT 31 JULY 2012
DPA Manufacturing Holdings Limited	Bermuda	50	50
Dairy Partners Americas Brasil Limitada	Brazil	50	50
Ecuajugos S.A.	Ecuador	50	50
DMV Fonterra Excipients GmbH & Co KG	Germany	50	50
Dairy Industries (Jamaica) Limited	Jamaica	50	50
DairiConcepts, L.P.	USA	50	50
DairiConcepts Management, L.L.C.	USA	50	50
Lacven Corporation	Barbados	25	25

1 All investees have balance dates of 31 December.

NEW ZEALAND EQUITY ACCOUNTED INVESTEES	OWNERSHIP INTERESTS (%) AS AT 31 JULY 2013	OWNERSHIP INTERESTS (%) AS AT 31 JULY 2012
International Nutritionals Limited	50	50

23 SUBSEQUENT EVENTS

On 24 September 2013, the Board of Directors declared a final dividend of 16 cents per share to be paid on 18 October 2013 to all Co-operative shares on issue at 10 October 2013.

There were no other material events subsequent to 31 July 2013 that would impact these financial statements.

24 EARNINGS PER SHARE

Earnings per share is calculated as net profit attributable to equity holders of the Company, divided by the weighted average number of Co-operative shares on issue during the year.

	GROUP	
	31 JULY 2013	RESTATED 31 JULY 2012
Basic and diluted earnings per share attributable to equity holders of the Company ($)	**0.44**	0.41
Earnings attributable to equity holders of the Company ($ million)	**718**	609
Weighted average number of shares (thousands of shares)	**1,615,311**	1,476,220

On 27 February 2013, Fonterra announced a non-cash Bonus issue of one share for every 40 shares held. The Bonus issue increased the number of shares on issue by 40 million. The record date for the Bonus issue was 12 April 2013 and the issue date was 24 April 2013.

The basic and diluted earnings per share for the year ended 31 July 2012 have been restated and the basic and diluted earnings per share for the year ended 31 July 2013 have been adjusted to reflect the impact of the Bonus issue on the weighted average number of shares, as if the Bonus issue was effective on 1 August 2011.

25 COMPARISON TO PROSPECTIVE FINANCIAL INFORMATION

In order to facilitate TAF, the Fonterra Shareholders' Fund Prospectus was issued in October 2012. The prospectus included Prospective Financial Information (PFI) in relation to Fonterra for the year ended 31 July 2013. The following information summarises the key variances between Fonterra's prospective financial information and its actual performance.

Income statement

		GROUP $ MILLION	
	NOTES	31 JULY 2013 PROSPECTIVE	31 JULY 2013 ACTUAL
Revenue from sale of goods		18,627	18,643
Cost of goods sold		(15,319)	(15,611)
Gross profit	a	3,308	3,032
Selling and marketing expenses		(693)	(622)
Distribution expenses		(526)	(514)
Administrative and other operating expenses		(1,183)	(1,120)
Net other operating income		76	98
Share of profit of equity accounted investees		72	63
Profit before net finance costs and tax	b	1,054	937
Net finance costs	c	(328)	(269)
Profit before tax		726	668
Tax (expense)/credit	d	(36)	68
Profit for the year		690	736
Profit for the year is attributable to:			
Equity holders of the Parent		673	718
Non-controlling interests		17	18
Profit for the year		690	736

		RESTATED[1] $	$
Earnings per share			
Basic and diluted earnings per share	e	0.43	0.44

1 Restated for impact of the non-cash Bonus issue of shares, issue date 24 April 2013.

25 COMPARISON TO PROSPECTIVE FINANCIAL INFORMATION CONTINUED

Adjusted FY2013 prospective profitability by segment for changes in organisational structure from 1 August 2012

	GROUP $ MILLION					
	NZMP	ANZ	ASIA/AME	LATAM	INTER-SEGMENTS	TOTAL
Prospective EBIT[1]	517	201	223	125	(12)	1,054
Adjustments:						
Changes in organisational structure	(17)	12	(2)	6	1	–
Prospective EBIT – adjusted[2]	500	213	221	131	(11)	1,054
Prospective normalisation adjustment	–	25	–	–	–	25
Prospective normalised EBIT – adjusted[2,3]	500	238	221	131	(11)	1,079
Actual EBIT	480	93	207	137	20	937
Actual normalisation adjustments	14	49	2	–	–	65
Actual normalised EBIT	494	142	209	137	20	1,002

1 EBIT is defined as earnings before net finance costs and tax.

2 As described in the prospectus, Fonterra's organisational structure was realigned from 1 August 2012. However, the prospective financial information was presented on the basis of Fonterra's organisational structure that existed prior to 1 August 2012. The most significant organisational changes were the transfer of the RD1 Group from NZMP to ANZ, and the transfer of international farming ventures from NZMP to Asia/AME and Latam.

3 Prospective normalised EBIT excluded a forecast of the costs associated with the closure of a plant in Australia.

a Gross profit was lower than forecast as a result of a number of differences across the respective business units.

Revenue from the NZMP business was higher than forecast, driven by higher sales volumes, dairy commodity prices that were higher than expectations, along with a product mix that when compared to the prospective assumptions favoured higher priced commodities such as cheese.

This increase in revenue was more than offset by the increase in cost of goods sold. The prospectus assumed a Farmgate Milk Price of $5.25, however the increase in dairy commodity prices in the second half of the financial year resulted in a much higher cost of milk for the NZMP business, and a final Farmgate Milk Price for the Season of $5.84. These rapid and then sustained increases in commodity prices were not able to be passed on immediately to customers, negatively impacting gross margin. Changes in base commodity prices and changes in the prices of products that are not included in the calculation of Farmgate Milk Price were highlighted as risks in the prospective information.

Decreased gross profit in the ANZ business, was driven by weaker than expected performance from the consumer business in Australia, which was highlighted as a significant risk in the preparation of the prospective information. Further, margins in the Australian Ingredients business were negatively impacted by competitive pricing for raw milk in Australia.

Asia/AME gross profit was lower as a result of lower than forecast sales volumes.

b EBIT was lower than the forecast, due to the impact of lower than expected gross profit, partially offset by operating expense saving achieved.

Administrative and other operating expenses were $63 million lower than forecast as a result of savings made through various initiatives. Whilst not included in the forecast, this saving programme, including a FY2013 target of $60 million was highlighted in the prospectus.

Selling and marketing expenses were lower as a result of cost control initiatives in ANZ, and a programme to target advertising and promotion spend in growth markets in Asia/AME.

c Net finance costs are lower as a result of lower average borrowings and interest rates, coupled with better than forecast fair value gains on interest rates swaps as the Group locked more of its borrowings to fixed rates.

d The tax credit recognised compared to the tax expense forecast was predominately driven by the recognition of deferred tax, resulting from the change of the applicable tax rate in certain offshore jurisdictions. Lower than forecast profit before tax also contributed to the decrease.

e Earnings per share was ahead of forecast as a result of the higher profit after tax number, partially offset by the dilutive effect of the Bonus share offer undertaken, which was not included in the forecast numbers.

25 COMPARISON TO PROSPECTIVE FINANCIAL INFORMATION CONTINUED

Statement of comprehensive income

	NOTES	GROUP $ MILLION 31 JULY 2013 PROSPECTIVE	GROUP $ MILLION 31 JULY 2013 ACTUAL
Profit for the year		690	736
Movement in cash flow hedge reserve		(128)	(145)
Movement in net investment hedges		–	(3)
Movement in foreign currency translation reserve		(4)	(52)
Share of equity accounted investees' movements in reserves		–	(1)
Foreign currency translation attributable to non-controlling interests		–	1
Other comprehensive expense recognised directly in equity	a	(132)	(200)
Total comprehensive income for the year		558	536
Attributable to:			
Equity holders of the Parent		541	517
Non-controlling interests		17	19
Total comprehensive income for the year		558	536

Statement of changes in equity

	NOTES	GROUP $ MILLION 31 JULY 2013 PROSPECTIVE	GROUP $ MILLION 31 JULY 2013 ACTUAL
Opening equity as at 1 August		6,655	6,655
Total comprehensive income attributable to equity holders		541	517
Total comprehensive income attributable to non-controlling interests		17	19
Total comprehensive income for the year		558	536
Transactions with equity holders in their capacity as equity holders:			
Dividends paid to equity holders	b	(506)	(546)
Dividends paid to non-controlling interests		(15)	(14)
Equity instruments issued/(cancelled)/(surrendered) net of transaction costs	c	276	117
Total equity		6,968	6,748

a Lower other comprehensive income was a result of the unfavourable impact of the translation of net investments denominated in foreign currencies, particularly in Australia.

b Dividends paid to equity holders were higher than forecast as a result of a higher than forecast interim dividend per share.

c The net proceeds from shares transactions were lower than forecast. The funds received from the issue of shares to launch TAF were returned to Shareholders via the Supply Offer in May 2013, whereas the forecast assumed $150 million remained with Fonterra at 31 July 2013.

25 COMPARISON TO PROSPECTIVE FINANCIAL INFORMATION CONTINUED

Statement of financial position

	NOTES	GROUP $ MILLION 31 JULY 2013 PROSPECTIVE	31 JULY 2013 ACTUAL
Cash and cash equivalents	a	1,271	330
Trade and other receivables		2,143	2,054
Inventories	b	2,660	3,078
Other current assets		164	184
Total current assets	a	6,238	5,646
Property, plant and equipment	c	5,079	4,807
Equity accounted investments		497	449
Intangible assets		2,868	2,858
Other non-current assets		626	613
Total non-current assets	c	9,070	8,727
Total assets		15,308	14,373
Bank overdraft and borrowings	a	1,066	1,570
Supplier, trade and other payables		2,244	2,202
Other current liabilities		241	306
Total current liabilities		3,551	4,078
Borrowings	a	4,296	3,108
Other non-current liabilities		493	439
Total non-current liabilities		4,789	3,547
Total liabilities		8,340	7,625
Net assets		6,968	6,748
Subscribed equity		5,966	5,807
Retained earnings		1,245	1,249
Foreign currency translation reserve		(215)	(266)
Cash flow hedge reserve		(65)	(82)
Total equity attributable to equity holders of the Parent		6,931	6,708
Non-controlling interests		37	40
Total equity		6,968	6,748

a Total current assets are lower as a result of lower than forecast cash holdings. When considered together with borrowings, net interest bearing debt has increased as a result of the decision to pay out a higher proportion of the cost of milk to Farmer Shareholders earlier in the Season, than projected in the prospectus.

b Inventory balances are higher than forecast as a result of higher dairy commodity prices later in the production season increasing the cost of milk, a key component of the cost of inventory.

c Total non-current assets are lower as a result of lower than forecast capital spend due to timing of spend on key international growth projects.

Cash flow statement

	NOTES	GROUP $ MILLION 31 JULY 2013 PROSPECTIVE	31 JULY 2013 ACTUAL
Net cash flows from operating activities	a	1,803	997
Net cash flows from investing activities	b	(1,138)	(868)
Net cash flows from financing activities	c	(416)	(786)
Net increase in cash and cash equivalents		249	(657)
Cash and cash equivalents at the beginning of the year		991	991
Effect of exchange rate changes on cash balances		1	(5)
Cash and cash equivalents at the end of the year		1,241	329
Reconciliation of closing cash balances to the statement of financial position:			
Cash and cash equivalents		1,271	330
Bank overdraft		(30)	(1)
Closing cash balances	c	1,241	329

a Cash flows from operating activities are lower than forecast as a result of the decision to pay a higher proportion of the cost of milk to Farmer Shareholders earlier in the Season, coupled with lower earnings before interest, tax, depreciation and amortisation.

b The net cash outflow from investing is lower than forecast predominately due to lower than forecast capital spend.

c Net cash outflows from financing activities are higher than forecast primarily due to the Group holding of lower cash balances, and instead paying down borrowings.

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF FONTERRA CO-OPERATIVE GROUP LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Fonterra Co-operative Group Limited ("the Company") on pages 2 to 54, which comprise the statement of financial position as at 31 July 2013, the income statement, statement of comprehensive income and statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 July 2013 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We carry out other assignments on behalf of the Company and the Group in the areas of other audit related services, transaction and other advisory services. Partners and employees of our firm may deal with the Company and the Group on normal terms within the ordinary course of trading activities of the Company and the Group. These matters have not impaired our independence as auditors of the Company and the Group.

Opinion

In our opinion, the financial statements on pages 2 to 54:

(i) comply with generally accepted accounting practice in New Zealand; and

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 31 July 2013, and their financial performance and cash flows for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 July 2013:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

RESTRICTION ON DISTRIBUTION OR USE

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants, Auckland
24 September 2013

STATUTORY INFORMATION

FOR THE YEAR ENDED 31 JULY 2013

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 2013.

	CO-OPERATIVE SHARES
Ian Farrelly	1,791,644
John Monaghan	776,842
Ian (Blue) Read	62,843
Nicola Shadbolt	328,569
Jim van der Poel	2,222,863
John Wilson	4,502,876

A "Relevant Interest" in Fonterra securities which is required to be disclosed is explicitly defined in the Securities Markets Act.

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, or other right or entitlement, to participate in 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 Securities Markets Act.

The interests of Mr Malcolm Bailey 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 Securities Markets Act 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 27 August 2013 that the Company was, for the year ended 31 July 2013, 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 1.2 of the Company's constitution:
  - the manufacture and sale of butter, cheese, dried milk, casein, or any other product derived from milk or milksolids supplied to the Company by its Shareholders;
  - the sale to any person of milk or milksolids 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% 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).

REMUNERATION OF DIRECTORS

The remuneration and value of other benefits received by each Director in the 12 month period from 1 August 2012 to 31 July 2013 are scheduled below:

	FEES ($)
Malcolm Bailey	173,975
Ian Farrelly	161,001
Simon Israel (from 1 May 2013)	60,400
David Jackson	191,188
David MacLeod	161,001
John Monaghan	191,188
Sir Ralph Norris	161,001
Ian (Blue) Read (from 17 December 2012)	101,518
Nicola Shadbolt	161,001
Sir Henry van der Heyden (to 31 May 2013)	224,176
Jim van der Poel	161,001
John Waller	191,188
Ralph Waters (to 18 April 2013)	120,601
John Wilson	323,853

SUBSIDIARY COMPANY DIRECTORS

The following companies were subsidiaries of Fonterra as at 31 July 2013. 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.

616059 Limited:
G A Duncan, S D T Till, C P Caldwell (R)

Anchor Ethanol Limited:
G A Duncan, P D Washer, C P Caldwell (R)

Canpac International Limited:
G A Duncan, M R Spiers, C P Caldwell (R), B D Mealings (R)

Civil Whey Distributors Limited:
G A Duncan, M R Spiers, C P Caldwell (R), B D Mealings (R), B P D Taylor (R)

Dairy Industry Superannuation Scheme Trustee Limited:
M A Apiata-Wade, B J Kerr, D M Marshall, T P McGuinness, D W C Scott, A K Williams, P D Wynen

Dairy Transport Logistics Limited:
J P Coote, G A Hoddinott, M E Leslie, C P Caldwell (R)

Fantastic Food Limited:
J A Luskie, P J W McClure

Fonterra (Asia) Limited:
G A Duncan, M W Smith, C P Caldwell (R)

Fonterra (Delegated Compliance Trading Services) Limited:
G A Duncan, S D T Till

Fonterra (International) Limited:
G A Duncan, C E Rowe, C P Caldwell (R)

Fonterra (Kotahi) Limited:
J P Coote, M E Leslie, C P Caldwell (R)

Fonterra (Middle East) Limited:
G A Duncan, P D Washer, C P Caldwell (R)

Fonterra (New Zealand) Limited:
G A Duncan, C E Rowe, C P Caldwell (R)

Fonterra (Number One) Limited:
G A Duncan, S D T Till, C P Caldwell (R)

Fonterra Brands (China Holdings) Limited:
G A Duncan, K A Wickham, C P Caldwell (R), P P Coppes (R)

Fonterra Brands (New Zealand) Limited:
G A Duncan, P J W McClure, C P Caldwell (R), D K Mallinson (R)

Fonterra Brands (The Pastryhouse) Limited:
S C Brooks, G A Duncan, C P Caldwell (R), D K Mallinson (R)

Fonterra Brands (Tip Top Investments) Limited:
S C Brooks, G A Duncan, C P Caldwell (R), D K Mallinson (R)

Fonterra Brands (Tip Top) Limited:
G A Duncan, P J W McClure, C P Caldwell (R), D K Mallinson (R)

Fonterra Brands Limited:
G A Duncan, J P Mason, C P Caldwell (R)

Fonterra Commodities Limited:
J H Allan, G A Duncan, I Palliser, C P Caldwell (R)

Fonterra Dairy Solutions Limited:
G A Duncan, R McNickle, C P Caldwell (R)

Fonterra Enterprises Limited:
G A Duncan, J P Minkhorst, C P Caldwell (R)

Fonterra Equities Limited:
G A Duncan, S D T Till, C P Caldwell (R)

Fonterra Farming Ventures Limited:
G A Duncan, J P Minkhorst, C P Caldwell (R)

Fonterra Finance Corporation Limited:
G A Duncan, S D T Till, C P Caldwell (R)

Fonterra Holdings (Americas) Limited:
G A Duncan, K J Murray, C P Caldwell (R)

Fonterra Holdings (Argentina) Limited:
G A Duncan, K J Murray, C P Caldwell (R)

Fonterra Holdings (Brazil) Limited:
G A Duncan, K J Murray, C P Caldwell (R)

Fonterra Holdings (Ecuador) Limited:
G A Duncan, K J Murray, C P Caldwell (R)

Fonterra Holdings (Venezuela) Limited:
G A Duncan, K J Murray, C P Caldwell (R)

Fonterra Insurance Limited:
G A Duncan, J P Mason, C P Caldwell (R)

Fonterra Investments (China) Limited:
G A Duncan, K A Wickham, C P Caldwell (R), P P Coppes (R)

Fonterra IP Limited:
G A Duncan, S D T Till, C P Caldwell (R)

Fonterra Limited:
B Connolly, G A Duncan, C P Caldwell (R)

Fonterra Manufacturing (Americas) Limited:
G A Duncan, K J Murray, C P Caldwell (R)

Fonterra PGGRC Limited:
G A Duncan, J P Minkhorst, C P Caldwell (R)

Fonterra Research Centre Limited:
G A Duncan, M W Smith, C P Caldwell (R)

Fonterra TM Limited:
G A Duncan, S D T Till, C P Caldwell (R)

Food Solutions Group 2000 Limited:
G A Duncan, S D T Till, C P Caldwell (R)

Glencoal Energy Limited:
G A Duncan, M R Spiers, C P Caldwell (R), B D Mealings (R)

GlobalDairyTrade Holdings Limited:
G A Duncan, J P Mason, C P Caldwell (R)

Kapiti Fine Foods Limited:
S C Brooks, G A Duncan, C P Caldwell (R), D K Mallinson (R)

Kotahi GP Limited:
J P Coote, M E Leslie, K G Winders, C P Caldwell (R)

MIH Limited:
G A Duncan, J P Minkhorst, C P Caldwell (R)

New Zealand Dairy Board:
G A Duncan, C E Rowe, C P Caldwell (R)

New Zealand Milk (Australasian Holdings) Limited:
G A Duncan, J P Mason, C P Caldwell (R)

New Zealand Milk (International) Limited:
G A Duncan, J P Mason, C P Caldwell (R)

New Zealand Milk Brands Limited:
G A Duncan, S D T Till, C P Caldwell (R)

NZAgbiz Limited:
G A Duncan, J P Minkhorst, C P Caldwell (R)

NZM (Dairy Holdings) Limited:
G A Duncan, K K Gupta, C P Caldwell (R)

RD1 Limited:
S C Brooks, P J W McClure, J P Minkhorst, J A Doumani (R), D K Mallinson (R), K A Wickham (R)

SAITL Technologies Limited:
P G Brown, P J Spooner, R Townshend, P J van Boheemen, J S Wilson (R)

South Auckland Independent Testing Society Limited:
P G Brown, P J Spooner, R Townshend, P J van Boheemen, J S Wilson (R), R D Andela (A)

Sovenz Limited:
G A Duncan, S D T Till, C P Caldwell (R)

Tangshan Dairy Farm (NZ) Limited:
G A Duncan, P J Moore, K A Wickham, C P Caldwell (R), P P Coppes (R)

ViaLactia Biosciences (NZ) Limited:
G A Duncan, J P Minkhorst, C P Caldwell (R)

ViaLactia Bovine Limited:
G A Duncan, J P Minkhorst, C P Caldwell (R)

ViaLactia Clover Limited:
G A Duncan, J P Minkhorst, C P Caldwell (R)

Whareroa Co-Generation Limited:
G A Duncan, M R Spiers, C P Caldwell (R), B D Mealings (R)

A.C.N. 008 668 602 Pty Ltd [Australia]:
G A Duncan, D A Steele, C P Caldwell (R), D K Mallinson (R)

A.C.N. 009 163 268 Pty Ltd [Australia]:
G A Duncan, D A Steele, C P Caldwell (R), D K Mallinson (R)

A.C.N. 009 235 492 Pty Ltd [Australia]:
G A Duncan, D A Steele, C P Caldwell (R), D K Mallinson (R)

A.C.N. 111 834 489 Pty Ltd [Australia]:
G A Duncan, D A Steele, C P Caldwell (R), D K Mallinson (R)

A.C.N. 113 345 430 Pty Ltd [Australia]:
G A Duncan, D A Steele, C P Caldwell (R), D K Mallinson (R)

Anchor Insurance Pte. Limited [Singapore]:
S S Herbert, J P Mason, M W Smith, D A Matthews (A)

Anmum (Malaysia) Sdn. Bhd. [Malaysia]:
M F Bin Wahab, D A Ross, M W Smith, K K Gupta (A)

Australasian Food Holdings Pty Limited [Australia]:
G A Duncan, D A Steele, C P Caldwell (R), D K Mallinson (R)

Bonlac Finance Pty Limited [Australia]:
G A Duncan, D A Steele, C P Caldwell (R), D K Mallinson (R)

Bonlac Staff Retirement Pty Ltd [Australia]:
G A Duncan, D A Steele, C P Caldwell (R), D K Mallinson (R)

Bonland Cheese Trading Pty Ltd [Australia]:
G A Duncan, D A Steele, C P Caldwell (R), D K Mallinson (R)

Comercial Dos Alamos S.A. [Chile]:
M Berdichevsky Bizama, H Covarrubias Lalanne, P C Muzzio Castelletto, J M Porraz-Lando, S Tagle Perez, E Aldunate Montes (A), S Benavides Méndez (A), R Cubillos Yañez (A), V Flen Silva (A), G Rencoret Mujica (A)

Comercial Santa Elena S.A. [Chile]:
M Berdichevsky Bizama, H Covarrubias Lalanne, P C Muzzio Castelletto, J M Porraz-Lando, S Tagle Perez, E Aldunate Montes (A), S Benavides Méndez (A), R Cubillos Yañez (A), V Flen Silva (A), G Rencoret Mujica (A)

Dairy Enterprises (Chile) Limitada [Chile]:
M P Campbell, A J Duncan, K J Murray, R Sepúlveda Seminario, M W Smith, J P Egaña Bertoglia (A), J C Gumucio Schönthaler (A), L O Herrera Larraín (A), A Montaner Lewin (A), S Obach González (A)

Dairy Enterprises International (Chile) Limited [Cayman Islands]:
M P Campbell, E A Teisaire

Dairy Fresh Pty. Ltd. [Australia]:
G A Duncan, D A Steele, C P Caldwell (R), D K Mallinson (R)

Dairymas (Malaysia) Sdn Bhd [Malaysia]:
M F Bin Wahab, D A Ross, M W Smith, K K Gupta (A)

Fast Forward FFW Limited [United Kingdom]:
K Allum, M P Campbell, S P Faulkner, J van der Windt, K Liekelema (R)

Fazenda MIH Ltda [Brazil]:
A Z Fortuna, F Jorge

Fonterra (Brasil) Ltda [Brazil]:
F Jorge, R Santos, A Z Fortuna (R)

Fonterra (Canada), Inc. [Canada]:
G A Duncan, B Kipping, M Piper, P D Washer, C P Caldwell (R), G Vita (R)

Fonterra (Centro America) S.A. [Guatemala]:
M d R García de Pullin, M M Pérez Ortiz, P D Washer

Fonterra (China) Limited [Hong Kong]:
G A Duncan, C Sin, K A Wickham, C P Caldwell (R), P P Coppes (R), P A Turner (R)

Fonterra (CIS) Limited Liability Company [Russian Federation]:
S Bennett, A Rozanov (R)

Fonterra (Europe) Coöperatie U.A. [Netherlands]:
G A Duncan, J van der Windt, C P Caldwell (R), K Liekelema (R)

Fonterra (Europe) GmbH [Germany]:
K Liekelema

Fonterra (France) SAS [France]:
J van der Windt, K Liekelema (R)

Fonterra (Ing.) Limited [Mauritius]:
Lee G, P D Washer

Fonterra (Japan) Limited [Japan]:
P G Brown, T H Deane, K Kumagai, H Ono, Y Saito, K Ueta, C P Caldwell (R), R M Kennerley (R)

Fonterra (Logistics) Ltd [United Kingdom]:
G R Sharma, J van der Windt, T H D Kühn (R)

Fonterra (Mexico) S.A. de C.V. [Mexico]:
C P Caldwell, M M Pérez Ortiz, P D Washer, L Barona Mariscal (A), F R Camacho (A), G A Castro Palafox (A)

Fonterra (Pacific) Inc. [United States]:
G A Duncan, M Piper, P D Washer, C P Caldwell (R), M W Smith (R), G Vita (R)

Fonterra (SEA) Pte. Ltd. [Singapore]:
G N Kane, M W Smith

Fonterra (Switzerland) SA [Switzerland]:
J Gauthier, K M Turner, G Roper (R), M W Smith (R)

Fonterra (Thailand) Limited [Thailand]:
G N Kane, K Vunthanadit

Fonterra (USA) Inc [United States]:
G A Duncan, M Piper, P D Washer, C P Caldwell (R), M W Smith (R), G Vita (R)

Fonterra (Yutian) Dairy Farm Company Limited [China]:
J P Minkhorst, P J Moore, P A Turner

Fonterra Australia Pty Ltd [Australia]:
G A Duncan, J Swales, C P Caldwell (R), D K Mallinson (R)

Fonterra Brands (Asia Holdings) Pte. Ltd [Singapore]:
C Augustijns, M W Smith, M A Wilson (R)

Fonterra Brands (Australia) Pty Ltd [Australia]:
G A Duncan, J Swales, C P Caldwell (R), D K Mallinson (R)

Fonterra Brands (Centram), S.A. [Panama]:
M P J Bates, M W Smith

Fonterra Brands (Far East) Limited [Hong Kong]:
G A Duncan, C Sin, K A Wickham, M W Smith (R), M A Wilson (R)

Fonterra Brands (Guangzhou) Ltd [China]:
T L Tan, P A Turner, K A Wickham

Fonterra Brands (Guatemala), S.A. [Guatemala]:
M P J Bates, M W Smith

Fonterra Brands (Hong Kong) Limited [Hong Kong]:
G A Duncan, C Sin, K A Wickham, A M Fitzsimmons (R), M W Smith (R)

Fonterra Brands (Japan) Limited [Japan]:
T H Deane, Y Saito, C P Caldwell (R), R M Kennerley (R)

Fonterra Brands (Malaysia) Sdn Bhd [Malaysia]:
M F Bin Wahab, D A Ross, M W Smith, K K Gupta (A)

Fonterra Brands (New Young) Pte. Ltd. [Singapore]:
A J Bruce, Y Lin, Lin C, Ling J, M W Smith, M A Wilson, A M Fitzsimmons (A)

Fonterra Brands (Singapore) Pte. Ltd [Singapore]:
C Augustijns, M W Smith, M A Wilson (R)

Fonterra Brands (Thailand) Ltd [Thailand]:
S Aramthip, A M Fitzsimmons, C Phaonimmongkol, M W Smith, M A Wilson (R)

Fonterra Brands (Viet Nam) Company Limited [Viet Nam]:
A M Fitzsimmons, M W Smith

Fonterra Brands Indonesia, PT [Indonesia]:
A M Fitzsimmons, B Kuncoro, M Handoyo (R), M W Smith (R)

Fonterra Brands Lanka (Private) Limited [Sri Lanka]:
L M Clement, J H P Gallage, M W Smith, A R R Kasireddy (R)

Fonterra Brands Phils. Inc [Philippines]:
L T Barin, C M Mendoza, R A Mendoza, E T Ogsimer, D C Salvadore, M W Smith, M A Wilson, M Magtoto (R), H T Ong (R)

Fonterra Commercial Trading (Shanghai) Company Limited [China]:
C P Caldwell, W F Chu, P P Coppes, T L Tan, P A Turner

Fonterra Egypt Limited [Egypt]:
A Anwar, M W Smith

Fonterra Europe Manufacturing B.V. [Netherlands]:
G A Duncan, J van der Windt

Fonterra Europe Manufacturing Holding B.V. [Netherlands]:
G A Duncan, J van der Windt

Fonterra Foods Pty Ltd [Australia]:
G A Duncan, D A Steele, C P Caldwell (R), D K Mallinson (R)

Fonterra Foodservices (USA), Inc. [United States]:
G A Duncan, M Piper, P D Washer, M W Smith (R), G Vita (R)

Fonterra Holdings (Thailand) Limited [Thailand]:
G N Kane, K Vunthanadit

Fonterra India Private Limited [India]:
G N Kane, K M Turner

Fonterra Ingredients Australia Pty Ltd [Australia]:
G A Duncan, D A Steele, C P Caldwell (R), D K Mallinson (R)

Fonterra Investments Netherlands Coöperatie U.A. [Netherlands]:
A D Turnbull, J van der Windt, K Liekelema (R)

Fonterra Investments Pty Limited [Australia]:
G A Duncan, D A Steele, C P Caldwell (R), D K Mallinson (R)

Fonterra MIH Holdings Brasil Ltda [Brazil]:
F Jorge, R Santos

Fonterra Milk Australia Pty Ltd [Australia]:
G A Duncan, D A Steele, C P Caldwell (R), D K Mallinson (R)

Fonterra Tangshan Dairy Farm (HK) Limited [Hong Kong]:
C P Caldwell, P P Coppes, P A Turner

Fonterra Venezuela, S.A. [Venezuela]:
C P Caldwell, F C Ortega Becea, P D Washer, O N de Massiani (A), S Guevara Camacho (A), L A Tinoco Arria (A)

Inversiones Dairy Enterprises S.A. [Chile]:
M P Campbell, A J Duncan, J P Egaña Bertoglia (A), L O Herrera Larraín (A), S Obach González (A), J C Gumucio Schönthaler (A), A Montaner Lewin (A), K J Murray, M W Smith, R Sepúlveda Seminario (A)

Key Ingredients, Inc. [United States]:
G A Duncan, M Piper, P D Washer, C P Caldwell (R), M W Smith (R), G Vita (R)

Mainland Dairies Pty. Ltd. [Australia]:
G A Duncan, D A Steele, C P Caldwell (R), D K Mallinson (R)

Mainland Foodservice Pty Limited [Australia]:
G A Duncan, D A Steele, C P Caldwell (R), D K Mallinson (R)

Milk Products Holdings (Middle East) EC [Bahrain]:
M W Smith, M A Wilson

Milk Products Holdings (North America) Inc. [United States]:
G A Duncan, M Piper, S C Spiro, P D Washer, C P Caldwell (R), M W Smith (R), G Vita (R)

Murrumbidgee Dairy Products Pty Ltd [Australia]:
G A Duncan, D A Steele, C P Caldwell (R), D K Mallinson (R)

New Tai Milk Products Co Ltd [Taiwan]:
T H Deane, G N Kane, C Lee, J Lee, Lee G, M Lee, P D Washer

New Zealand Milk (Australasia) Pty Ltd [Australia]:
G A Duncan, D A Steele, C P Caldwell (R), D K Mallinson (R)

New Zealand Milk (Barbados) Ltd [Barbados]:
M P J Bates, M W Smith

New Zealand Milk (LATAM) Ltd [Bermuda]:
G A Duncan, K J Murray, C P Caldwell (R)

Newdale Dairies (Private) Limited [Sri Lanka]:
L M Clement, J H P Gallage, M W Smith, A R R Kasireddy (R)

NZMP (AEM) Ltd [United Kingdom]:
G R Sharma, W Zwaan, T H D Kühn (R)

Recombined Dairy Systems A/S [Denmark]:
G R Sharma, J van der Windt, W Zwaan, T H D Kühn (R), K Liekelema (R)

Roaming Cow Dairies Pty Ltd [Australia]:
G A Duncan, D A Steele, C P Caldwell (R), D K Mallinson (R)

Saudi New Zealand Milk Products Company Limited [Saudi Arabia]:
J C Fryer

Sociedad Agrícola y Lechera Praderas Australes S.A. ("Pradesur") [Chile]:
E Aldunate Montes, M Berdichevsky Bizama, H Covarrubias Lalanne, J M Porraz-Lando (R)

Sociedad Procesadora de Leche Del Sur S.A. [Chile]:
E Alcalde Undurraga, A Cussen Mackenna, J Milic Barros, K J Murray, S Obach González, J R Valente Vias, G V Varela Alfonso, J M Alcalde Undurraga (A), G Jiménez Barahona (A), J P Matus Pickering (A), A Montaner Lewin (A), S Oddo Gómez (A), J P Orellana Pavón (A), C Perez-Cotapos Subercaseaux (A)

Solid Fresh Food & Beverage (M) Sdn. Bhd. [Malaysia]:
M F Bin Wahab, D A Ross, M W Smith, K K Gupta (A)

Soprole Inversiones SA [Chile]:
G A Bitrán Dicowsky, M P Campbell, K J Murray, A D Turnbull, J R Valente Vias, G V Varela Alfonso, J A Walker Prieto, S Diez Arriagada (A), R Fernández Robinson (A), C Herrera Barriga (A), E Huidobro (A), R Sepúlveda Seminario (A), M Somarriva (A), R A Tisi Lanchares (A), M L Valdes (A), J A Doumani (R), D K Mallinson (R), J C Gumucio Schönthaler (R) (A), J E Montero León (R) (A)

Soprole S.A. [Chile]:
G A Bitrán Dicowsky, M P Campbell, J R Valente Vias, G V Varela Alfonso, J A Walker Prieto, S Diez Arriagada (A), R Fernández Robinson (A), C Herrera Barriga (A), R Sepúlveda Seminario (A), R A Tisi Lanchares (A)

Tangshan Fonterra Dairy Farm Ltd [China]:
P J Moore, T L Tan, P A Turner, Zhang J L

Unilac Australia Pty Ltd [Australia]:
G A Duncan, D A Steele, C P Caldwell (R), D K Mallinson (R)

United Milk Tasmania Pty Limited [Australia]:
G A Duncan, D A Steele, C P Caldwell (R), D K Mallinson (R)

REMUNERATION FRAMEWORK

Fonterra operates a Pay for Performance approach to remuneration for salaried employees. We provide competitive salaries in the markets in which we operate with incentives and increases to remuneration being based on the performance of individuals and the organisation.

Our remuneration framework for salaried staff is based on a "total remuneration" approach meaning packages include fixed remuneration (e.g. salary and benefits) and variable remuneration (e.g. Short Term Incentive plan (STI)).

To ensure Fonterra remains competitive in the relevant market, our pay bands are based on information obtained from independent remuneration consultants. The framework is designed to reward exceptional performance taking into account factors such as internal equity and budget constraints.

All elements of the framework contribute to building an overall atmosphere of recognition, innovation and challenge.

Remuneration is important for attracting talent into the organisations, but it is not the only consideration. Attracting and retaining talent also depends on people leadership practices which build an emotional connection to the organisation including: opportunities to get involved in work that offers learning and growth; believing that they are working for an organisation that is making a meaningful contribution; feeling like their work matters and is appreciated and receiving praise and recognition from colleagues and peers. Fonterra's annual employee survey measures how successful we are at providing these non-financial rewards to employees and action plans address the gaps.

SHORT TERM INCENTIVE (STI) PLANS

Every permanent salaried employee in Fonterra worldwide is invited to participate in the annual STI plans.

STI plans are an important communication device signalling to employees what is important to Fonterra and how success in Fonterra is measured and rewarded. At the commencement of each year a series of Key Performance Indicators (KPIs) are identified and agreed. These KPIs include important financial measures from our three year strategic plan and also include our goals around Health and Safety (H&S) and other important operational and qualitative measures.

Incentive programmes drive Fonterra's performance by:

- Aligning the objectives of the Co-operative to ensure collaboration and a one team approach to achieve Fonterra's goals
- Establishing targets which are challenging yet achievable
- Linking specific levels of reward to individual, team and Co-operative performance
- Providing great opportunities when Fonterra's business and people are successful.

At the end of each operating year, performance against the KPIs is determined and independently reviewed and approved by the Appointments, Remuneration and Development Committee (AR&D).

LONG TERM INCENTIVE PLAN (STRATOS) PLAN

For certain key executives, Fonterra operates the Stratos plan. This plan is by invitation only and is designed to motivate, reward and retain key executives. This plan is based on achievement of key profitability goals for the Co-operative.

BENEFITS

As Fonterra operates a total remuneration approach, benefits are only provided when required by legislation or typical in a particular market.

FIXED REMUNERATION	STI PLANS	STRATOS PLAN
• Provides "stable" base level of reward • External and internal relativities and budget constraints taken into account • Typically set at market median (for local market) using independent external benchmark data • Varies based on employee skills and performance	• All salaried employees eligible • Comprehensive range of financial and non-financial measures • When targets are exceeded total remuneration will be above market median • Highest performance receives an additional multiplier, lowest performance receives no STI payment	• Restricted to key executives • Focus on overall profitability of the Co-operative

EMPLOYEE REMUNERATION

The Group operates in a number of countries where remuneration market levels differ widely. During the year ended 31 July 2013, 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
100,000	110,000	644	215	41	**900**
110,001	120,000	555	254	24	**833**
120,001	130,000	256	205	21	**482**
130,001	140,000	154	194	7	**355**
140,001	150,000	131	103	13	**247**
150,001	160,000	116	83	12	**211**
160,001	170,000	94	74	4	**172**
170,001	180,000	75	59	4	**138**
180,001	190,000	55	50	6	**111**
190,001	200,000	44	27	4	**75**
200,001	210,000	33	34	7	**74**
210,001	220,000	34	35	4	**73**
220,001	230,000	23	28	3	**54**
230,001	240,000	11	15	6	**32**
240,001	250,000	22	22	2	**46**
250,001	260,000	21	12	7	**40**
260,001	270,000	15	11	5	**31**
270,001	280,000	12	12	2	**26**
280,001	290,000	8	14	3	**25**
290,001	300,000	12	13	2	**27**
300,001	310,000	6	9	3	**18**
310,001	320,000	10	7	5	**22**
320,001	330,000	6	8	3	**17**
330,001	340,000	5	10	3	**18**
340,001	350,000	5	4	–	**9**
350,001	360,000	1	8	2	**11**
360,001	370,000	7	7	3	**17**
370,001	380,000	7	3	2	**12**
380,001	390,000	2	5	2	**9**
390,001	400,000	4	2	–	**6**
400,001	410,000	4	2	1	**7**
410,001	420,000	2	1	1	**4**
420,001	430,000	3	1	–	**4**
430,001	440,000	5	5	1	**11**
440,001	450,000	1	2	2	**5**
450,001	460,000	3	2	1	**6**
460,001	470,000	1	6	2	**9**
470,001	480,000	5	2	–	**7**
480,001	490,000	3	2	1	**6**
490,001	500,000	2	1	1	**4**
500,001	510,000	2	2	–	**4**
510,001	520,000	3	–	1	**4**
520,001	530,000	1	1	1	**3**
530,001	540,000	2	2	–	**4**
540,001	550,000	1	2	–	**3**
550,001	560,000	–	4	–	**4**
560,001	570,000	1	2	–	**3**
580,001	590,000	1	1	1	**3**
600,001	610,000	3	2	2	**7**
610,001	620,000	–	2	–	**2**

EMPLOYEE REMUNERATION CONTINUED

REMUNERATION RANGE ($)		NEW ZEALAND[1]	OFFSHORE[2]	CESSATIONS[3]	TOTAL
620,001	630,000	2	–	–	2
640,001	650,000	–	1	1	2
650,001	660,000	–	1	–	1
660,001	670,000	–	–	1	1
670,001	680,000	1	1	1	3
680,001	690,000	–	1	–	1
700,001	710,000	1	1	–	2
710,001	720,000	1	–	1	2
720,001	730,000	1	–	–	1
740,001	750,000	–	1	–	1
750,001	760,000	–	1	–	1
770,001	780,000	1	–	1	2
780,001	790,000	–	1	–	1
790,001	800,000	1	–	1	2
810,001	820,000	–	1	1	2
830,001	840,000	1	1	–	2
870,001	880,000	1	–	–	1
880,001	890,000	2	–	–	2
900,001	910,000	–	1	–	1
910,001	920,000	–	1	–	1
930,001	940,000	1	–	–	1
950,001	960,000	–	1	–	1
1,030,001	1,040,000	1	–	–	1
1,040,001	1,050,000	1	1	–	2
1,050,001	1,060,000	1	–	–	1
1,110,001	1,120,000	–	1	–	1
1,120,001	1,130,000	2	–	–	2
1,180,001	1,190,000	1	–	–	1
1,210,001	1,220,000	–	1	–	1
1,220,001	1,230,000	–	1	–	1
1,350,001	1,360,000	–	1	–	1
1,470,001	1,480,000	1	–	–	1
1,510,001	1,520,000	–	1	–	1
1,930,001	1,940,000	1	–	–	1
2,050,001	2,060,000	–	–	1	1
2,460,001	2,470,000	–	1	–	1
2,700,001	2,710,000	–	–	1	1
2,810,001	2,820,000	1	–	–	1
3,510,001	3,520,000	1	–	–	1
3,650,001	3,660,000	–	–	1	1
4,330,001	4,340,000	–	–	1	1
Total		2,434	1,585	226	**4,245**

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.

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 2012) and termination entitlements including those arising from employment arrangements entered into by legacy companies prior to the formation of Fonterra.

CURRENT CREDIT RATING STATUS

Standard & Poor's has rated the Company A+ with a rating outlook of stable. Fitch has rated the Company AA- with a rating outlook of stable. Retail Bonds have been rated the same as the Company by both Standard & Poor's and Fitch. Capital Notes which are subordinate to other Fonterra debt issued are rated A 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 its 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.

NZX has granted waivers from NZDX Rule 11.1.1 to enable Fonterra to decline to accept or register transfers of Capital Notes or Retail Bonds (NZDX listed debt securities FCGHA, FCG010 and FCG020) if such transfer would result in the transferor holding or continuing to hold Capital Notes or Retail Bonds 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 multiple thereof. The effect of these waivers is that the minimum holding amount in respect of the Capital Notes and Retail Bonds will at all times be $5,000 in aggregate and that Retail Bonds can only be transferred in multiples of $1,000.

NZX has also granted a waiver from NZDX Rule 5.2.3 in respect of Retail Bond FCG020 to enable that Bond to be quoted on the NZDX market even though it did not meet the requirement that at least 500 members of the public held at least 25% of the Bonds being issued.

ANALYSIS OF SHAREHOLDING

Analysis of Fonterra's shareholding as at 14 August 2013:

FCG Major Shareholders[1]

NAME	NUMBER OF SHARES	% OF SHARES
Fonterra Farmer Custodian Limited	106,105,832	6.64
Ellis-Lea Farms (2000) Ltd	975,650	0.06
Plantation Road Dairies Ltd	974,170	0.06
Stewart Partnership Ltd	922,500	0.06
McIntyre Williamson Partnership	898,793	0.06
Moffitt Dairy Ltd	853,134	0.05
Poplar Partnership Ltd	817,827	0.05
Klondyke Dairy's Ltd	816,665	0.05
Hopkins Farming Group Limited	813,006	0.05
Ealing Land Partnership	813,006	0.05
Wagon Track Farm Ltd	801,027	0.05
Deegan Farms Trust	771,065	0.05
C.K.S. Investments Limited	749,002	0.05
Rangitata Dairies Limited Partnership t/a Rangitata Dairies[2]	741,910	0.05
Feather Holdings Limited	738,803	0.05
Rangitata Dairies Limited Partnership t/a Rangitata Dairies[2]	732,297	0.05
Ruapuna Farms Ltd	726,036	0.05
Clarevale Farming Co Ltd	724,504	0.05
Fairway Enterprises Ltd	717,500	0.04
Van't Klooster Farms Ltd	717,500	0.04

1 The FSM, which reflect the rules of the NZX main board (NZSX), require that the Fonterra 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 20 largest Shareholders on the register as at the appropriate date. There is a separate requirement in the Rules to disclose in the Annual Report those persons who have a "Relevant Interest" (as defined in the Securities Markets Act) in Fonterra shares in excess of 5%, 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 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 5% threshold.

2 Rangitata Dairies' shareholdings represent two independent farms.

Substantial Security Holders

According to notices given to the Company under the Securities Market Act 1998, as at 31 July 2013, the substantial security holders in the Company and their relevant interests are noted below. The total number of Co-operative shares on issue as at 14 August 2013 was 1,597,833,461.

NAME	NUMBER OF VOTING SECURITIES	DATE OF NOTICE
Fonterra Farmer Custodian Limited	100,899,257	30 May 2013
FSF Management Company Limited	100,834,498	20 May 2013

FCG Fonterra Co-operative Shares

FROM – TO	HOLDER COUNT	%	HOLDING QUANTITY	%
1 – 50,000	1,512	14.0	41,398,587	2.6
50,001 – 100,000	3,348	31.1	254,079,960	15.9
100,001 – 200,000	3,684	34.2	515,541,419	32.2
200,001 – 400,000	1,911	17.7	516,038,660	32.3
400,001 and over	324	3.0	270,774,835	17.0

ANALYSIS OF CAPITAL NOTE AND RETAIL BOND HOLDING

Analysis of Fonterra's Capital Note Holding as at 14 August 2013:

FCGHA Capital Notes

FROM – TO	HOLDER COUNT	%	HOLDING QUANTITY	%
1 – 1,000	11	1.3	4,958	0.0
1,001 – 5,000	29	3.5	83,731	0.1
5,001 – 10,000	319	39.1	2,231,837	2.2
10,001 – 100,000	418	51.0	11,275,281	11.0
100,001 and over	42	5.1	88,923,447	86.7

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 13 August 2013:

FCG010 $800 million Retail Bond issue

FROM – TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000 – 9,999	920	11.6	5,243,000	0.7
10,000 – 49,999	4,927	62.5	99,469,000	12.4
50,000 – 99,999	1,179	15.0	66,927,000	8.4
100,000 – 999,999	811	10.3	146,447,000	18.3
1,000,000 and over	46	0.6	481,914,000	60.2

FCG020 $150 million Retail Bond issue

FROM – TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000 – 9,999	47	11.4	270,000	0.2
10,000 – 49,999	245	59.3	4,809,000	3.2
50,000 – 99,999	60	14.5	3,537,000	2.4
100,000 – 999,999	54	13.1	14,830,000	9.9
1,000,000 and over	7	1.7	126,554,000	84.3

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 2012 to 31 July 2013:

Malcolm Bailey	Resignation as Director of Pastoral Dairy Investments Limited, and of companies in the Pastoral Dairy Investments group; Director of Westpac New Zealand Limited; Director and shareholder of Gleneig Holdings Limited; Director and shareholder of Bailey Family Properties Limited.
Ian Farrelly	Director of Fortuna Group Limited.
Simon Israel	Chair of Singapore Telecommunications Limited; Director of Capitaland Limited and the Centre for Stewardship & Corporate Governance; Member of the Governing Board of the Lee Kuan Yew School of Public Policy.
David Jackson	Advisor to Mitre 10; Resigned as Director of Pumpkin Patch Limited.
John Monaghan	Cessation of interest as a shareholder of Waimana Dairy Limited.
Sir Ralph Norris	Member of the Council of the University of Auckland; Director of Golfvale Limited; Non-executive director of NZ Treasury Board; Member of Advisory Board of Tax Management Limited; Board member of Parents Inc; Director of FSF Management Company Limited.
Nicola Shadbolt	Director of Hopkins Farming Group Limited.
Sir Henry van der Heyden	Director-elect of Foodstuffs North Island Limited; Resigned from Board of Elevation Capital Management Limited.
Jim van der Poel	Director of FSF Management Company Limited; Director of Burmont Holdings Limited; Director and shareholder of Chertsey Holdings Limited and Singletree Dairies 2013 Limited.
John Waller	Director of Yealands Wine Group Limited; Director and shareholder of Direct Property Fund Limited and subsidiaries (subsequently amalgamated such that Mr Waller's interests are now as a Director and shareholder of Property for Industry Limited).
Ralph Waters	Director of Asciano Limited; Chair of Cricket World Cup; Resignation from the Board of Westpac New Zealand Limited.
John Wilson	Director and shareholder of Mowata GP Limited, and limited partner of Mowata LP; Director of Hugh Green Capital Limited, Hugh Green Industries Limited, Hugh Green Investments Limited and Kilmacrennan Farm Limited; Cessation of interests in Mangahana Farm Limited, Rangitata Dairies Limited, Cairndu Dairies Limited, Rangitata Plains Limited and Liberty Genetics Limited; Resigned from Board of Milk Test NZ Limited and South Auckland Independent Testing Society Limited.

Securities dealings of Directors

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

Relevant Interests

Upon the establishment of Fonterra Shareholders' Market in November 2012, Directors reviewed and confirmed their Relevant Interests in Co-operative shares, in accordance with the definition of Relevant Interests in the Securities Markets Act 1988. In some cases, interests in shares previously disclosed were determined not to satisfy this definition, and transactions involving these interests are no longer recorded. However, those interests may satisfy the requirements of clause 12.3 of the Constitution for Directors to have an interest in the Co-operative's shares.

New disclosures

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

	RELEVANT INTERESTS IN CO-OPERATIVE SHARES
Ian (Blue) Read (on appointment 17 December 2012)	61,311

ENTRIES IN THE INTERESTS REGISTER CONTINUED

During the year, Directors disclosed in respect of section 148(2) of the Companies Act 1993 and/or section 19T of the Securities Markets Act 1988 that they (or their associated persons) acquired or disposed of a relevant interest in securities as follows:

Co-operative Share transactions

DIRECTOR	NUMBER OF SECURITIES ACQUIRED	NUMBER OF SECURITIES DISPOSED	CONSIDERATION $	DATE
John Wilson	195,000	–	881,400	1 September 2012
Ian Farrelly	–	50,600	278,300	30 November 2012[1]
Nicola Shadbolt	–	24,000	171,581	28 December 2012
Ian (Blue) Read	1,532	–	–	24 April 2013[2]
Sir Henry van der Heyden	12,550	–	–	24 April 2013[2]
Ian Farrelly	54,996	–	–	24 April 2013[2]
Jim van der Poel	189,815	–	–	24 April 2013[2]
John Monaghan	25,697	–	–	24 April 2013[2]
John Wilson	109,820	–	–	24 April 2013[2]
Nicola Shadbolt	8,229	–	–	24 April 2013[2]
Nicola Shadbolt	–	8,822	69,253	9 May 2013
Sir Henry van der Heyden	–	28,302	224,152	30 May 2013[3]
Jim van der Poel	–	575,498	4,557,944	30 May 2013[3]
John Monaghan	–	276,750	2,151,454	4 June 2013
Ian Farrelly	–	455,990	3,611,441	28 June 2013
Jim van der Poel	1,416,531	6,400,937	39,476,496	28 June 2013
John Wilson	1,000	1,000	–	15 July 2013

1 Transactions on 30 November 2012 relate to acceptances under the 26 October 2012 Supply Offer.

2 Transactions on 24 April 2013 relate to the Bonus issue made to all Shareholders of 1 share for every 40 held, issued at nil cost.

3 Transactions on 30 May 2013 relate to acceptances under the May 2013 Supply Offer.

Retail Bond transactions

There were no transactions by Directors (or their associated persons) in Retail Bonds reported during the period from 1 August 2012 to 31 July 2013. Current interests held by Directors are as follows:

	DETAILS OF INTEREST
David Jackson	Director of trustee company in respect of 100,000 Bonds (FCG010)
John Waller	Joint trustee in respect of 210,000 Bonds (FCG010)

Capital Note transactions

There were no transactions by Directors (or their associated persons) in Capital Notes reported during the period from 1 August 2012 to 31 July 2013. No current holdings of Capital Notes have been advised by Directors (or their associated persons).

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 17 December 2012, 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	$404,000 p.a.
Directors	$161,600 p.a.
Discretionary additional payments to the Chairmen of permanent Board Committees (except if the Chairman is the Fonterra Chairman)	$30,300 p.a.

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

The Board has discretion to set the fees for Directors appointed under clause 12.4 of the Constitution. In the period to 31 July 2013 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 $5,000 per day involved in travel to and from New Zealand to attend Board meetings.

In general, 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 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

	JULY 2013	JULY 2012	JULY 2011	JULY 2010	JULY 2009
SHAREHOLDER SUPPLIER RETURNS					
Payout					
Farmgate Milk Price (per kgMS)[1]	**5.84**	6.08	7.60	6.10	4.72
Dividend (per Share)[2]	**0.32**	0.32	0.30	0.27	0.48
Cash payout[3]	**6.16**	6.40	7.90	6.37	5.20
Retentions (per Share)[4]	**0.14**	0.10	0.25	0.23	0.01
OPERATING PERFORMANCE					
Average commodity prices (US$ per MT FOB)					
Whole Milk Powder[5]	**3,394**	3,359	3,606	2,905	2,446
Skim Milk Powder[5]	**3,625**	3,285	3,321	2,658	2,133
Butter[5]	**3,550**	3,546	4,344	3,033	1,993
Cheese[6]	**4,124**	3,498	4,285	3,819	3,114
Average NZD/USD spot exchange rate applying throughout the year[7]	**0.82**	0.80	0.77	0.71	0.60
Fonterra's average NZD/USD conversion rate[8]	**0.80**	0.77	0.72	0.67	0.67
Revenue ($ million)					
Ingredients and other revenue	**13,926**	14,824	14,623	11,818	10,987
Consumer revenue	**4,717**	4,945	5,248	4,908	5,048
Total revenue	**18,643**	19,769	19,871	16,726	16,035
Dairy ingredients manufactured in New Zealand (000s MT)	**2,312**	2,353	2,143	2,058	2,021
Total ingredients sales volume (000s MT)	**2,765**	2,660	2,486	2,392	2,310
Segment earnings ($ million)[9]					
New Zealand Milk Products	**480**	477	419	496	584
ANZ	**93**	218	278	299	240
Asia/AME	**207**	182	193	176	63
Latam	**137**	124	121	107	106
Eliminations	**20**	(14)	17	–	(3)
Segment earnings	**937**	987	1,028	1,078	990
Normalisation adjustments	**65**	41	(23)	(174)	29
Normalised segment earnings	**1,002**	1,028	1,005	904	1,019
Profit for the year attributable to Shareholders ($ million)[10]	**718**	609	754	669	599
Earnings per share[11]	**0.44**	0.41	0.53	0.50	0.48

1 From the beginning of the 2009 Season the Farmgate Milk Price has been determined in accordance with the Farmgate Milk Price Manual and is independently audited.

2 On 18 November 2009, Shareholders approved stages one and two of the capital structure changes. As a result of the changes to the capital structure all Shares are eligible to receive a dividend if declared by the Board. Previously in addition to the Farmgate Milk Price, returns to Shareholder Suppliers were by way of the Value Return payment. The Value Return payment was calculated per kgMS. The dividend payment is calculated on a per Share basis using number of Shares at 31 May.

3 Average Payout for a 100% share-backed supplier.

4 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. Profit after tax attributable to Shareholders for 2009 has been restated to recognise the tax effects of distributions to Shareholders within tax expense in the income statement. This was previously recorded directly in equity.

5 Source: Fonterra Farmgate Milk Price Statements (2013-2011) representing the weighted-average United States Dollars (USD) contract prices of Reference Commodity Products.

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

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

8 Fonterra's average conversion rate is the rate that Fonterra has converted net US dollar receipts into NZ dollars based on the hedge cover in place.

9 Represents segment earnings before unallocated finance income, finance costs and tax. The year ended 31 July 2012 have been restated to reflect changes to the organisation of business units within reported segments which occurred in the year ended 31 July 2013. The years ended 31 July 2011 and 31 July 2010 have been restated to reflect changes to the organisation of business units within reported segments which occurred in the year ended 31 July 2012. For 2009, normalisation adjustments consists of normalisation adjustments as reported in the segment note plus impairment of equity accounted investees.

10 Profit after tax attributable to Shareholders for 2009 has been restated to recognise the tax effects of distributions to Shareholders within tax expense in the income statement. This was previously recorded directly in equity.

11 On 27 February 2013, Fonterra announced a non-cash Bonus issue of one Share for every 40 Shares held. The Bonus issue increased the number of Shares on issue by 40.4 million. The record date for the Bonus issue was 12 April 2013 and the issue date was 24 April 2013. Earnings per share for the years ended 31 July 2012, 31 July 2011, 31 July 2010 and 31 July 2009 have been restated as if the Bonus issue was effective on at the beginning of the periods presented.

	JULY 2013	JULY 2012	JULY 2011	JULY 2010	JULY 2009
CAPITAL EMPLOYED ($ million)					
Total assets employed	**14,373**	15,117	15,530	14,169	14,117
Average net assets[12]	**11,135**	10,900	10,772	10,433	10,975
Total equity	**6,748**	6,655	6,541	5,667	4,805
Equity excluding cash flow hedge reserve	**6,830**	6,592	6,025	5,526	4,635
Net interest bearing debt	**4,227**	3,833	3,766	4,268	5,166
Economic net interest bearing debt[13]	**4,467**	4,229	4,331	4,494	5,221
Return on net assets[12]	**8.4%**	9.4%	9.3%	8.7%	9.2%
Headline debt to debt plus equity ratio[14]	**38.2%**	36.8%	38.5%	43.6%	52.7%
Economic debt to debt plus equity ratio[14]	**39.6%**	39.1%	41.8%	44.9%	53.0%

	JULY 2013	JULY 2012	JULY 2011	JULY 2010	JULY 2009
STAFF EMPLOYED					
Total staff employed (000s, permanent full time equivalents)	**17.5**	17.3	16.8	15.8	15.6
New Zealand	**11.2**	11.0	10.8	9.8	9.5
Overseas	**6.3**	6.3	6.0	6.0	6.1

	JULY 2013	JULY 2012	JULY 2011	JULY 2010	JULY 2009
SEASON STATISTICS[15]					
Total NZ milk collected (million litres)	**16,673**	16,951	15,427	14,746	14,764
Highest daily volume collected (million litres)	**84.8**	81.2	76.8	72.3	73.7
NZ Shareholder supply milksolids collected (million kgMS)	**1,424**	1,463	1,320	1,256	1,227
NZ contract supply milksolids collected (million kgMS)	**39**	30	26	30	54
NZ milksolids collected (million kgMS)	**1,463**	1,493	1,346	1,286	1,281
Total number of Shareholders at 31 May	**10,668**	10,578	10,485	10,463	10,537
Total number of sharemilkers at 31 May	**3,449**	3,595	3,928	3,733	3,990
Total number of Shares at 31 May (million)	**1,598**	1,433	1,377	1,343	1,216

12 Return on net assets (RONA) is derived by dividing profit before normalisation adjustments, net finance costs and tax (as reported in financial statements) by 13 month average net assets (excluding net debt and deferred tax).

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

14 Headline debt to debt plus equity ratio is before taking account of the effect of debt hedging. Economic debt to debt plus equity includes the effect of debt hedging.

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

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