INTERIM REPORT 2017

Dairy for life

INTERIM REPORT 2017
FONTERRA CO-OPERATIVE GROUP LIMITED

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Fonterra uses several non-GAAP measures when discussing financial performance. Fonterra refers to normalised segment earnings, normalised EBIT, EBIT, EBITDA, constant currency variances, normalisation adjustments and payout when discussing financial performance. These are non-GAAP financial measures and are not prepared in accordance with NZ IFRS. Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They are used internally to evaluate the underlying performance of business units and to analyse trends. These measures are not uniformly defined or utilised by all companies. Accordingly, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS. Please refer to page 47 for the reconciliation of the NZ IFRS measures to the non-GAAP measures and page 48 for definitions of the non-GAAP measures used by Fonterra.

OUR CO-OPERATIVE

Our collective strength comes from being a farmer owned and controlled Co-operative.

FARMER SUPPORT FOR GOVERNANCE CHANGES

85.96%

NET DEBT DOWN $0.8 BILLION

$6.1B

$6.00

FORECAST FARMGATE MILK PRICE

1,053 M KGMS

NEW ZEALAND MILK COLLECTION SEASON TO 31 JANUARY 2017

20CPS

INTERIM DIVIDEND PER SHARE

OUR POTENTIAL

Fonterra's purpose is to be the most trusted source of dairy nutrition, making a difference in the lives of two billion people by 2025.

ADDITIONAL MILK CONVERTED INTO HIGHER-VALUE PRODUCTS

227M LME

INCREASE IN CONSUMER AND FOODSERVICE NORMALISED EBIT

30%

OUR PERFORMANCE

Our higher revenue and net profit after tax reflects improved global prices, more volume into higher-value products and financial discipline.

INGREDIENTS NORMALISED EBIT

$510M

CONSUMER AND FOODSERVICE NORMALISED EBIT

$313M

Trusted Goodness™ launches our world-class electronic product traceability system.

$607M ↓ **GROUP NORMALISED EBIT (NZD)**

Our volume to value drive continues with 227m LME of milk volumes flowing into higher-returning product, despite lower milk collections.

11.7B ↓ **VOLUME (LME)**

Gold Instant Whole Milk premium powder was released in December following two years of research and development.

$418M ↑ **NET PROFIT AFTER TAX (NZD)**

CHAIRMAN AND **CHIEF EXECUTIVE OFFICER'S** LETTER

Our Co-operative continued our drive to secure the best returns for our shareholders, with our volume to value strategy enabling a strong Ingredients performance and continued growth in Consumer and Foodservice in the first half of our 2016/17 financial year. Our increased forecast Farmgate Milk Price reflects improved global prices, while our returns from converting even more milk into higher-returning products flow into our forecast earnings per share.

OUR NUTRITION-FOCUSED STRATEGY, WHICH RANGES FROM MAKING EVERYDAY, AFFORDABLE PRODUCTS TO MORE SPECIALISED ADVANCED PRODUCTS TO ENHANCE WELLBEING, REFLECTS THE EXPECTATIONS OF OUR CUSTOMERS.

Our performance shows a Co-operative in good shape strategically and financially, with our collective strength coming from our shareholders and our people. We are confident of our robustness, even in volatile conditions.

Our increased forecast Farmgate Milk Price of $6.00 per kilogram of milk solids will put an additional $3 billion into regional economies this season.

Our half year result confirms again that our strategy consistently delivers for our farmers whether global prices are high or low. This consistency is confirmed in the annual reviews of the Milk Price Manual which ensure we meet our constitutional requirement to pay the maximum sustainable Milk Price and regulatory requirements to pay a competitive price. Reviews capture improvements such as efficiencies, improved yields, overhead reductions and lower interest rates and mean our Farmgate Milk Price has gained by a total of 36 cents per kgMS since the 2009 financial year.

Our forecast reflects good results across the business and especially in Consumer and Foodservice where our volume to value at velocity strategy is building on the progress we made last year. The Board has declared a half year dividend of 20 cents per share which will be payable on 20 April 2017.

We continue to offer a dividend reinvestment plan at a discount of 2.5 per cent to the strike price. Eligible shareholders who wish to participate in the dividend reinvestment plan for the interim dividend need to submit a notice of participation by 6 April 2017.

The Board has confirmed the forecast Farmgate Milk Price of $6.00 per kgMS (a 54 per cent increase compared to last year) and has revised the forecast earnings per share range to 45-55 cents. Our Co-operative has a total forecast available for payout to farmers in the current season of $6.45 to $6.55 before retentions.

Very good rains in autumn has meant higher late season milk collections than previously anticipated. The impact of this extra milk, together with more volatility in product stream returns in our ingredients business and some tightening of margins in the coming months could result in some pressure on earnings in the second half.

We continue to hold to the forecast full year dividend of 40 cents, despite the revised earnings per share forecast, which reflects our balance sheet strength.

Our farmers have experienced everything from a cold wet spring across much of the country to droughts in some regions with the result that total New Zealand volumes were 54 million kgMS lower at the half year.

The recent good rains across most of the country has seen us revise our full year milk collection forecast to 1,515 million kgMS. This is three per cent down on last season's milk production.

Lower volumes off farms contributed to lower volumes across the business at 11.7 billion LME, down seven per cent on the same period last year. Lower volumes constrained our returns with normalised earnings before interest and tax (EBIT) down nine per cent at $607 million. Our gross margin of 19.1 per cent compares with 21.1 per cent at the same time last year, mainly because of higher raw milk costs.

PRICING

As expected, global milk prices took a turn for the better early in the new financial year and these have been sustained through the first half. As we came into the close of the first half on 31 January 2017, average weighted prices achieved on Global Dairy Trade (GDT) Events had improved by 32 per cent on the same time last year.

European production has been easing and volumes out of New Zealand and Australia are also lower. Meanwhile, markets we export to are expected to keep growing their imports of dairy products for the remainder of the year.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S LETTER

STANHOPE
Our Stanhope cheese plant rebuild is on track.

INFANT MILK FORMULA
Anmum™ volumes up 20 per cent in China.

20%

However, volatility has been a constant companion in recent years and the political landscape is changing, with potential challenges to free trade. On balance, we are cautiously positive which is reflected in our forecasts and our February decision to increase the Advance Rate we pay to our farmers by more than we traditionally would at this point in the season.

MORE SALES, HIGHER VALUE

In the first half, we converted an additional 227 million LME into higher returning products and we are on target to reach 400 million LME by year end. This builds on our track record which saw one billion LMEs turned into higher returning products between 2014 and 2016.

We grew demand, sales volumes and value in our Consumer and Foodservice business across our eight strategic regional markets. These include Greater China where volumes increased by 32 per cent in the first half and Latin America which achieved a 19 per cent lift in volumes. These volume lifts have contributed to gains in profit, despite the higher cost of milk.

In our Ingredients business, we made the most of our manufacturing capacity and the flexibility and efficiency it provides to match production to demand, ensuring we secure the best returns for our farmers' milk by making the best choices. Even with rises in the Farmgate Milk Price and lower milk collection, we maintained good margins.

Full financial details and discussion are in the Our Performance section on page 14.

STEADY PROGRESS IN AUSTRALIA

We continue to make good progress in ensuring a stronger Australian business. We are building on our strengths in cheese, whey, nutritionals, and with our Consumer and Foodservice brands. Our new Stanhope cheese plant is on track and we have seen positive demand in our Ingredients business.

The Beingmate joint venture at Darnum is up and running with the first products being prepared for export to China. Our Beingmate partnership is supporting growth in China where Anmum™ volumes were up 20 per cent in the first half.

We are expanding our reach in Consumer and Foodservice, launching new Mainland™ products as well as our Anchor™ Food Professionals foodservice products.

CHINA FARMS

In China, fresh milk is now fully integrated into the basket of products our Ingredients business can offer to our customers.

We have increased volumes in the first half to 156 million LME and production per cow in China has improved by nine per cent. Production efficiencies, coupled with close control of costs have delivered a further 0.26 RMB (NZD 0.05) reduction in cash costs per litre.

CHINESE FOODSERVICE
We have seen growth in demand, sales volumes and value in our Consumer and Foodservice business in Greater China.

DISRUPT
After the success of our first Disrupt round we are now running a 2017 programme.

This ability to produce good volumes of high quality milk with a competitive cost structure is an advantage in the market for fresh dairy in China.

WE'RE IN GOOD SHAPE

We've continued to strengthen our balance sheet in the first half, achieving further reductions in debt and improved gearing. Operating expenses were down six per cent, net debt of $6.1 billion was down 11 per cent and gearing down to 46.6 per cent compared with 49.2 per cent at the same time last year.

With significant capacity building behind us and the benefits locked down in efficiency and product mix flexibility, our spending on capital investment in the first half was $244 million compared to the $453 million invested in the first half of last year when we were completing our Lichfield expansion.

We have confidence in our strategy and the results it is delivering. But it is important to keep testing our thinking to ensure we maintain a long-term and sustainable business. As part of our normal planning cycle we are always looking three, five and 10 years out.

Even in a world which is changing rapidly, the global dairy market fundamentals of a growing world population and higher demand for food, including dairy, remain constant.

Market growth trends reinforce how important it is that we stay focused on growing our total milk volume to 30 billion litres by 2025 and ensuring consumers have dairy protein which is accessible, affordable and sustainable.

Our nutrition-focused strategy is meeting these needs. Our purpose, to be the most trusted source of dairy nutrition, provides full reassurance about the quality of our products. That is why we are confident in dairy's future and our place in it.

DISRUPT

Market disruptions are no longer confined to politics, climate or economics. They also come from companies that think faster and smarter in anticipating what consumers will want, even before those consumers know it.

USEFUL FACT

Three new ventures have emerged from our Disrupt programme.

We want to lead the market here and our own Disrupt programme, backed by a leadership team focused on innovation and quick decisions to get great ideas into markets has made a very good start with two promising projects underway.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S LETTER

VELOCITY
Velocity is now our way of working, so we are confident the wins will keep coming.

OUR PEOPLE

Disrupt is an example of how our people are our key asset, especially when they are engaged in an opportunity to make a difference.

Another is Velocity. The transformation work over the past two years has reduced costs and enabled faster decision making. Velocity is now our way of working, so we are confident the wins will keep coming. We have well-thought-through plans, clear ownership and accountability and a real focus on action.

USEFUL FACT

Velocity saw more than 4,000 initiatives completed to transform how we think and work.

Our business transformation process was initially led by Jacqueline Chow in her role as Chief Operating Officer Velocity, with our entire leadership team as champions. Her ability to engage our people and fire up their energy made a real difference in ensuring Velocity lived up to its name.

Jacqueline was appointed Chief Operating Officer Consumer and Foodservice. On her appointment, we agreed that she would lead the team until the first half of 2017, as her intention has been to return to Sydney to pursue a board career, living closer to family.

We have now created a Velocity and Innovation business unit headed by Judith Swales. In March this year, we announced the appointment of Lukas Paravicini to the role of Chief Operating Officer Consumer and Foodservice, effective 1 June 2017. He has served as Chief Financial Officer for the last three years and he will continue to support our strong financial team as we work through the second half.

Previously from Nestlé, he brings a wealth of experience in leading global food businesses in established and emerging markets and in international finance. We are currently undertaking a global search for his replacement in the CFO role.

BRIGHTER OUTLOOK
After two challenging seasons farmers are rebuilding.

The versatility of our leadership team and their ability to take on new roles underlines the ability and experience we have on hand and will ensure continuity. In volatile markets, a strong stable leadership team is all the more important. We thank them and all of our Fonterra people in New Zealand and around the world for their energy and efforts.

USEFUL FACT

Our balance sheet continues to strengthen with net debt, gearing and operating expenses down.

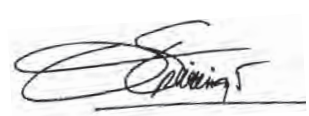
Continuity is equally important at the Board level. We appreciate the willingness of long-serving former Director, Ian Farrelly to return to the Board until the 2017 election, replacing Michael Spaans who unfortunately had to make the difficult decision to step down due to ill health.

OUR COMMITMENT

Our increased forecast total available for payout has been welcomed but we recognise, after two difficult seasons, it will take time for our farmers to fully recover financially. They have had to cut costs significantly so reinvestment in their farms will be required. Rebuilding herd numbers and debt reduction will be priorities.

We have gone into the second half with a real determination to secure the best possible returns for our farmer owners and investors through close financial management, converting higher volumes of milk into higher-returning products and using our sales network to convert customer demand into higher margin Ingredients sales.

John Wilson
Chairman



Theo Spierings
Chief Executive Officer

A STRONG CO-OP **DOING WHAT'S RIGHT**

Our collective strength comes from being a Co-operative owned and controlled by farmers and we are made even stronger by doing what's right all the way from the farm to our markets.

LIVING WATER

WORKING TOGETHER TO CARE FOR FIVE KEY CATCHMENTS

IN PARTNERSHIP

Our $20m programme with DoC focuses on improving biodiversity and water quality.

#431AM

Our #431AM initiative is connecting the farming families who own us with other Kiwis through television, print and social media.

WE'RE HERE TO SUPPORT OUR FARMERS, OUR PEOPLE, OUR COMMUNITIES AND THE ENVIRONMENT. WHAT BRINGS US TOGETHER IS OUR COMMON GOAL TO BE A TRUSTED SOURCE OF DAIRY NUTRITION.

It's a lot easier to trust someone when you get to know them. Our #431AM initiative is connecting the farming families who own us with other Kiwis through television, print and social media.

We published our Book of Commitments to say who we are, what is important to us and what we stand for. These include Fonterra Milk for Schools, one of the largest social good programmes run by a New Zealand business, our Living Water partnership with the Department of Conservation, and our Grass Roots Fund which supports regional community initiatives. In each of these programmes we are honouring our commitments to our communities – and that includes in the years when low prices in the global dairy markets impact our performance and our returns to our farmers.

We agree water quality is important and our farmers are making a significant investment to protect it, even when farm returns have been lower. They have put over $1 billion and countless man hours into fencing waterways, upgrading effluent systems, riparian planting and managing nutrients. We launched our Trusted Goodness™ seal, showing that we and our farmers stand behind the quality and goodness of the milk we produce and the products we make from it. Everyone has an opinion about Fonterra. What matters is that these opinions are formed with all the facts available. We know from independent assessments that we are rising in Kiwis' estimations in important areas like trust, fairness, leadership and social responsibility. We are building better relationships.

GOVERNANCE AND REPRESENTATION

We completed our Governance and Representation Review with our shareholders casting 85.96 per cent of votes in favour of the governance recommendation, well ahead of the 75 per cent support required under Fonterra's Constitution. Participation in the vote exceeded 50 per cent – an excellent outcome given the heavy demands on farmers' time over spring.

The changes include a reduction in Board size from 13 to 11 with seven Farmer Elected Directors and four Independent Directors. Candidates for the

FONTERRA MILK FOR SCHOOLS
Fonterra Milk for Schools is one of the largest social good programmes run by a New Zealand business.

Farmer Elected Director positions now go through an assessment process, first with an Independent Panel. Candidates are assessed against a matrix of skills and attributes required by the Board. The Independent Selection Panel then makes candidate recommendations to the Board Nominations Committee.

Candidates may choose to put themselves forward without going through this assessment process. They must secure support from 35 shareholders to stand against the Board nominated candidates in the Farmer Elected Director elections. We have also moved to a first-past-the-post majority voting system where the successful candidates must have secured at least 50 per cent of the votes cast.

The changes approved as part of the Governance and Representation Review also enable strengthening of the Shareholders' Council, especially in its cornerstone shareholder role, building in more accountability and ensuring we have the same high standards of skills and qualities in our Councillors that we expect in our Directors.

SMART FARMERS, SMARTER TOOLS

Our farmers use data every day to increase their productivity and maintain the competitiveness of their largely pasture-based systems.

The best data is aggregated and accessible, so we have been working with the Livestock Improvement Corporation (LIC) in developing Agrigate which has been tested by 50 of our farmers.

Agrigate combines milk production and quality data, herd information, pasture data, local weather forecasts, nutrient management data and more in one place in real time.

Farmers can make comparisons, see trends and make better management decisions which support higher productivity, profitability and sustainability. Agrigate was rolled out in the third quarter.

We know innovative ideas can come from all quarters, so Farm Source Activate 2.0 is also underway. It links our Co-operative with entrepreneurs working on technology which can add to farmers' smart toolboxes. Farm Source Activate 2.0 provides the chance for them to pitch their ideas for solutions which should support our farmers to easily collect, analyse, and present data to drive decision-making on farm.

CUTTING FARMERS' COSTS

Farm Source™ works to help bring costs down for our farmers, using our collective strength to secure the best prices for core farming needs including energy and fuel.

Our Farm Source™ benefits have helped farmers during the low Milk Price period, with a mixture of discounts of up to 30 per cent, interest free and then deferred terms and bonus Reward Dollars. This special help package was taken up by some 8,000 farmers with 84 per cent of farmers buying products in it.

Our Farm Source™ Rewards Dollars loyalty programme has seen more than FSD12.8 million redeemed to date with a further FSD15.9 million available for redemption.

OUR **POTENTIAL**

Fonterra's purpose is to be the most trusted source of dairy nutrition, making a difference in the lives of two billion people by 2025.

FONTERRA TRUSTED GOODNESS™

Our new global food quality seal – Trusted Goodness™ – was launched this year and responds to consumers' desires to know more about the source of their food.

OUR AIM IS $35 BILLION IN REVENUE GENERATED BY CREATING VALUE OUT OF 30 BILLION LITRES OF MILK FROM NEW ZEALAND AND OTHER GEOGRAPHIES.

AT THE HEART OF OUR STRATEGY IS ACHIEVING THE BEST RETURNS FOR OUR FARMERS BY CONVERTING HIGHER VOLUMES OF MILK INTO HIGHER VALUE PRODUCTS, AT PACE, TO MEET THE DEMANDS OF OUR CONSUMERS AND CUSTOMERS.

BUILDING TRUST

Openly connecting our Co-operative with consumers and providing reassurance about the quality, safety and origins of our products are fundamental to being the most trusted source of dairy nutrition.

Our new global food quality seal – Trusted Goodness™ – was launched this year and responds to consumers' desires to know more about the source of their food, how it is produced and where, and the sustainable practices which surround it. New Zealand products were first to carry the seal which has been progressively rolled out on Fonterra-branded products in the US, China and Malaysia. Ultimately, our entire portfolio will carry it.

Consumers can now access information on Fonterra.com detailing our pasture-based farming practices, how our herds are looked after and the care we take at every step from farm to market to ensure a high quality and safe product for them.

Through our Trusted Goodness™ quality seal we have made a promise to all the families who eat and drink our products and all the customers who use our products that they can trust us.

INGREDIENTS

In Ingredients, we are the global leaders. We continue to grow this position by developing solutions which create value for our customers.

ANMUM™ QR CODES

We are rolling out QR codes for Anmum™ which consumers can read via a smart phone to authenticate the products they have purchased.

Fonterra has always been able to trace products, using manual and IT systems. What we are aiming for now is world-leading electronic product traceability by 2020. Fonterra is on track to have total electronic traceability to world-class standards by 2020, from the raw milk source on-farm through every stage of manufacturing and every ingredient in every product sold in all our markets. This means that if we have any concerns about any product we will be able to electronically trace it anywhere in our supply chain within hours.

Already, all New Zealand and Australian-sourced products, representing 74 per cent of total global production, can be electronically traced through the supply chain from manufacturing sites to customers.

We are also using product authentication, tamper-evident packaging and anti-counterfeiting technology.

This includes tamper-evident seals on packaging for all Anmum™ paediatric nutrition products in New Zealand and Indonesia, giving consumers a visible indication of product tampering post-packing. We are also rolling out QR codes for Anmum™ which consumers can read via a smart phone to authenticate the products they have purchased.

VOLUME TO VALUE

In Ingredients, we are the global leaders. We continue to grow this position by developing solutions which create value for our customers. From innovative whey ingredients for sports nutrition, through to in-market warehouses which shorten lead times for product deliveries in the Middle East, our innovation spans the entire supply chain. Our ability to partner with key customers is enhanced by our strengths in innovation, R&D, investments and our people's abilities.

We have the flexibility to switch our manufacturing mix to the products that are most in demand. Coupled with our competitive cost structure, we aim to generate the best margins above the GDT price benchmarks.

We consistently convert more volumes to higher value products across our entire business and this applies regardless of global pricing. Our Ingredients sales volumes for the first half of the financial year were 11 billion LME, a reduction of seven per cent as a result of lower milk production.

In the first half of the financial year, our Ingredients gross margin percentage was 11.1 per cent, a reduction of 3.7 per cent on the same period last year, due mainly to prices converging across the product range, where last year cheese, for example, performed more strongly than powders.

Direct sales to customers are a consistent strategy and accounted for 58 per cent of our 23.7 billion LME processed in the 2016 financial year, a 19 per cent increase.

OUR **POTENTIAL**

HIGHER RETURNING PRODUCTS

Every additional litre of milk production that our farmers achieve each season goes directly into our higher returning products.

NEW GOLD INSTANT WHOLE MILK

NZMP's new Gold Instant Whole Milk was released in December following two years of research and development.

In Consumer and Foodservice we are aiming to lead or be second in eight strategic regional markets. We have category leadership in New Zealand, Australia, Sri Lanka, Malaysia and Chile. In China, Brazil and Indonesia, we continue to expand our market and build our consumer base by investing in innovation to roll out new products.

In this category, our global brands of Anmum™, Anchor™ and Anlene™ underpin the volume and value strategy. In the last financial year, we shifted 380 million more LME into Consumer and Foodservice, bringing the volumes achieved in the past two years to 1 billion LME.

In the first half of this financial year, we've shifted a further 227 million LMEs into higher returning products, continuing the solid momentum in this business.

MORE MILK, MORE VALUE OPPORTUNITIES

Every additional litre of milk production that our farmers achieve each season goes directly into our higher-returning products. This is exactly how it should be. We can support this by complementing New Zealand production with milk sourced internationally. These global volumes use local production in the most profitable products and generate more value for our farmers.

Sourcing outside New Zealand is important for our growing Consumer and Foodservice operations within regional markets including Sri Lanka, China, Chile and Australia.

We certainly want to grow and meet demand. Currently we have 21 billion LME flowing into our New Zealand sites. We know global demand is predicted to exceed 91 billion litres in the globally traded market and 465 billion in the total formal dairy market by 2020.

If we want to share in this growth – and we do to protect and grow our farmers' returns – we need more milk than we can produce at home.

THE INGREDIENTS ENGINE

Our Ingredients business represents two thirds of our earnings.

Value is created at each step in the Ingredients supply chain from milk collection to the payment for finished products. There is demand for ingredients products across the whole portfolio, but we get the most out of every drop of milk by matching products to demand and prioritising the highest returning products.

Our competitive cost structure and manufacturing optionalities help to maximise yields and maintain margins when prices fluctuate for some products.

Developing new products for our customers helps to grow our share of their business and our leadership in the market. Our dairy knowledge enables us to bring customers these innovative ingredients.

NZMP WHITE BUTTER

White commercial butter specifically made for the Middle East market, compared with the golden consumer butter.

PREMIUM PRODUCTS

Anchor LiveUp™ and NaturalUp™ are high protein UHT products appealing to Chinese consumers.

In the first half, for example, NZMP's new Gold Instant Whole Milk™ was released following two years of research and development. The premium powder dissolves quickly and retains a fresh milk flavour and creaminess.

NZMP Gold Instant Whole Milk Powder™ for UHT enables longer production runs than standard milk powders, more consistent shelf-life stability and an end-product with a rich creamy flavour. We also developed NZMP's white butter for applications such as spreadable cheese, recombined cream cheese and potentially ice-cream. While our butter is naturally golden, pale blends are favoured for these applications, so our researchers partnered with customers in the Middle East to meet their needs.

Our innovation responds to changing dietary demands. NZMP's new Low Lactose Whole Milk Powder™ enables the lactose intolerant to still enjoy dairy by breaking lactose down into more digestible sugars. Low lactose dairy is one of the fastest growing sectors in the dairy industry and forecast to grow six per cent year-on-year.

WINNING OVER CONSUMERS AND FOODSERVICE CUSTOMERS

Our Consumer and Foodservice business focuses on our eight strategic global markets where we are using the strength of our Anchor™, Anlene™ and Anmum™ global brands, as well as strong regional brands like Mainland™ to gain a bigger share of spending on dairy.

Our flagship brands are using innovation as well as high quality nutrition to win over more customers, especially in markets like Asia and China. Our new product launches are designed to meet growing demand in areas such as premium nutrition, while in Foodservice we continue to develop new higher value products which provide solutions for our customers.

For example, we launched two UHT milk products, LiveUp™, with 50 per cent more protein than standard UHT milk and NaturalUp™, made from certified organic milk. The brands are meeting demand in China for premium products with high nutritional value.

In advanced paediatric nutrition, Fonterra's Research and Development team received a New Zealand Innovation Award for its work in complex milk lipids which are packed with many of the minor components found in breast milk. This work supports our ability to back our paediatric nutrition products in the Anmum™ portfolio with sound science.

In Japan, mascarpone developed for this market is enabling more milk to flow into higher-returning products. Unlike the typically lower fat, slightly sweet traditional mascarpone, the product for Japan is richer and sweeter with a higher proportion of natural dairy fats. Usage includes ice-cream developed for adult tastes.

GROUP **OVERVIEW**

Delivering on our strategy of producing a strong Ingredients performance and moving more milk higher up the value chain.

$9.2B

SALES REVENUE

Up five per cent compared with the same period last year.

HIGHLIGHTS

- Strong performance with another half year result generating normalised EBIT of over $600 million
- Overall volume in LME down seven per cent due to reduced milk collections
- Additional 227 million LME in our Consumer and Foodservice business driving 30 per cent increase in its normalised EBIT
- Foodservice volumes grew a further 17 per cent driven by Greater China
- Lower debt and gearing from ongoing financial discipline

Our sales revenue for the first six months to 31 January 2017 rose five per cent on the back of improved prices globally for dairy and growth in our Consumer and Foodservice business. This increase came despite total sales volumes declining by seven per cent to 11.7 billion LME, primarily due to lower milk collections. The prior comparable period also began with larger inventory levels creating more sales opportunities for the Ingredients business. Efforts to maintain lower inventory levels have continued with total closing inventory by volume down nine per cent on the end of the first half last year.

In Consumer and Foodservice we saw further volume growth with an additional 227 million LME sold through these channels. This demonstrates the continued execution of our strategy and its ability to deliver in higher milk price environments.

USEFUL FACT

Global Foodservice sales grew 17 per cent by volume.

CONSUMER FOODSERVICE GROWTH

Strong growth in volume and earnings, led by Greater China.

NZD MILLION	SIX MONTHS ENDED 31 JANUARY 2017	SIX MONTHS ENDED 31 JANUARY 2016	CHANGE
Volume (LME, billion)	**11.7**	12.6	(7%)
Volume ('000 MT)	**2,248**	2,324	(3%)
Sales revenue	**9,241**	8,838	5%
Gross margin	**1,761**	1,873	(6%)
Gross margin percentage	**19%**	21%	–
Operating expenses	**(1,232)**	(1,312)	(6%)
Reported EBIT	**644**	752	(14%)
Normalised EBIT	**607**	665	(9%)
Net finance costs	**(157)**	(266)	(41%)
Tax (expense)/credit	**(69)**	(77)	(11%)
Net profit after tax	**418**	409	2%
Earnings per share (cents)	**26**	25	4%
Dividend per share (cents)	**20**	20	–
Gearing ratio[1]	**46.6%**	49.2%	–
Free cash flow	**(417)**	346	–
Capital expenditure	**244**	453	(46%)

1 *Gearing ratio is economic interest-bearing debt divided by economic net interest-bearing debt, plus equity, excluding cash flow hedge reserve.*

GROUP **OVERVIEW**

$607M

NORMALISED EBIT

The Co-operative delivered another half year with normalised EBIT over $600 million.

We delivered another half year with normalised EBIT over $600 million but overall saw a decline of nine per cent. This was a result of normalised EBIT for the Ingredients business declining 17 per cent on the back of lower sales volumes and the impact of WMP prices rising relatively faster than the rest of our Ingredients portfolio. This was partially offset by a good performance by the sales force, achieving higher prices per metric tonne than our price benchmarks.

USEFUL FACT

Greater China grew normalised EBIT by 41 per cent to $96 million.

In the Consumer and Foodservice business, we had normalised EBIT growth of $72 million, a 30 per cent increase on the previous comparable period. This growth was driven by all four regions. In particular, Greater China continued to grow earnings through the strong performance of the Foodservice business, and our Soprole brand in Chile grew on the back of its successful relaunch. Also, the benefits of our turnaround in the Australian business lifted earnings in Oceania.

The decline in the Brazilian economy continued to challenge our business in Latin America, however we saw profitable market share growth in Brazil through the results of our improved operating model.

Our China Farms' result improved in this half year due to improved operating performance with all farms fully operational. Now that the period of significant capital investment has passed, we are focused on further efficiency increases. Nonetheless, China Farms still delivered a loss due to continued low domestic milk prices.

The organisation-wide transformation programme continued to provide benefits across the business. The focus in the period was on embedding improvements already delivered and in identifying and implementing the next round of opportunities.

Net finance costs were 41 per cent lower. This is a result of less overall debt and the positive impact of movements in the fair value of our debt and derivatives that are marked to market for accounting purposes.

11%

LOWER NET DEBT

The Co-operative lowered economic net interest bearing debt by 11 per cent to $6.1 billion.

STRONG CO-OPERATIVE

Ongoing financial discipline enabled the Co-operative to further strengthen its balance sheet. This strengthening has resulted from both an increase in equity plus a reduction in debt from ongoing profitability and continued strong financial discipline. Economic net interest-bearing debt declined by $0.8 billion to $6.1 billion for the same period last year. This resulted in improved gearing of 46.6 per cent, down from 49.2 per cent. Gearing is typically higher for the Co-operative in the middle of the financial year due to the seasonal nature of our production. We are on target to retain our gearing ratio between 40 and 45 per cent by year-end.

Operating cash flow in the first six months is typically an out flow due to the sales profile of the New Zealand Ingredients business. In this six month period operating cash flow was an out flow of $167 million, reflecting the higher milk prices incorporated into the valuation of inventories and receivables but offset partially by supplier payables moving towards our standard policy.

Through our strong ongoing financial discipline we have continued to make improvements in our working capital performance with working capital days reducing a further eight days from 76 to 68 days over the comparable period.

Total group inventory levels have reduced by nine per cent compared to the end of the first half last financial year. This reflects maintenance of the significant improvements in inventory levels delivered last year as part of the transformation programme.

USEFUL FACT

Capital expenditure is on track to remain within the $900 million forecast for the full year.

During the period, expenditure on capital investments was $244 million. This is in line with expectations and represents a significant reduction on the previous comparable period that included the tail-end of the large investments in additional capacity. Also, capital expenditure is often lower in the first half as scheduled maintenance occurs on sites during the winter shut at the end of the financial year. We are on track to spend the previously forecast envelope of $900 million that supports our strategy.

The continued strong performance and the strength of the Co-operative's balance sheet supports an interim dividend of 20 cents per share. This is in line with Fonterra's dividend policy to pay out 65–75 per cent of adjusted net profit after tax over time.

INGREDIENTS

This platform includes the global sales from our Ingredients businesses in New Zealand, Australia and Latin America. It also includes the Fonterra Farm Source™ rural supplies retail chain in New Zealand.

$510M

NORMALISED EBIT

Ingredients normalised EBIT of $510 million was down 17 per cent.

INVENTORY LEVELS

We maintained gains in lower inventory levels from last financial year.

HIGHLIGHTS

- Sales revenue increased eight per cent due to higher commodity prices
- Normalised EBIT of $510 million down 17 per cent
- Lower sales volumes in LME due to milk collections five per cent down on last year and lower opening inventory levels
- New Zealand product mix shifted towards higher value liquids and cheese
- Inventory level improvements from last year held
- Australian Ingredients gross margin stable

VOLUME

Milk collection across New Zealand was down five per cent to 1,053 million kgMS for the 2016/17 season to 31 January 2017. Lower collections were primarily the result of adverse weather in the North Island through the peak production months of October and November. North Island collections for the period were down seven per cent, with the South Island declining comparatively less at two per cent down. In Australia, milk collection for the 2016/17 season to 31 January 2017 was 79 million kgMS, two per cent down on the same period last year. These volumes include milk collected directly and through third parties. A decline of two per cent represents significant gains in market share as overall Australian dairy production has declined at a higher rate due to climatic impacts.

USEFUL FACT

Our New Zealand daily milk collection peaked at 80 million litres on 19 October 2016 for the 2016/17 season.

PRODUCT MIX

We shifted our sales mix towards non-reference products to maximise value.

NZD MILLION	SIX MONTHS ENDED 31 JANUARY 2017	SIX MONTHS ENDED 31 JANUARY 2016	CHANGE
Volume (LME, billion)	**11.0**	11.8	(7%)
Volume ('000 MT)	**1,659**	1,624	2%
Sales revenue	**7,228**	6,709	8%
Total gross margin	**801**	992	(19%)
– New Zealand product mix	**644**	836	(23%)
New Zealand reference products	**246**	351	(30%)
New Zealand non-reference products	**398**	485	(18%)
– Australian ingredients	**9**	9	–
– Other gross margin	**148**	147	1%
Normalised EBIT[1]	**510**	617	(17%)
Gross margin per MT			
– Reference products ($ per MT)	**253**	331	(24%)
– Non-reference products ($ per MT)	**1,178**	1,412	(17%)

1 *Normalised EBIT for Ingredients excludes unallocated costs.*

INGREDIENTS

NEW ZEALAND INGREDIENTS – REVENUE AND VOLUME[1]	SIX MONTHS ENDED 31 JANUARY 2017	SIX MONTHS ENDED 31 JANUARY 2016	CHANGE
Production volume ('000 MT)			
Reference products	**1,292**	1,335	(3%)
Non-reference products	**457**	476	(4%)
Sales volume ('000 MT)			
Reference products	**973**	1,061	(8%)
Non-reference products	**338**	343	(1%)
Revenue per MT (NZD)			
Reference products	**3,873**	3,209	21%
Non-reference products	**5,201**	5,038	3%

1 *Figures exclude bulk liquid milk. The bulk liquid milk volume for the six months ended 31 January 2017 was 37,000 MT (six months ended 31 January 2016 was 37,000 MT).*

Total sales were 11.0 billion LME reflecting a decrease of seven per cent. This comparative decline reflects the first half of last year having higher opening inventory levels and greater milk collections. Opening inventory for the period was approximately 121,000 MT lower than last year due to improvements in supply chain processes and the strong sales performance in the 2016 financial year. These improved inventory levels have been carried through the period with closing inventory by volume down 11 per cent.

We continue to leverage the benefits of our global sales force, increasing sales into the Middle East and Africa to partially offset lower levels of demand from South East Asia and for SMP in China. During the first half, we marked the opening of a new sales office in Nigeria. We also increased sales of product manufactured for the Consumer and Foodservice business reflecting Fonterra's integrated milk pool strategy. Sales of Australian sourced ingredients were down slightly due to the lower milk collections in the region. Global sourcing of products from other milk pools was in line with last year's volumes.

VALUE

Ingredients delivered a strong result, despite normalised EBIT reducing 17 per cent to $510 million. The main driver of the decline was the relatively rapid rate of increase in Milk Price reference product prices compared to non-reference. While our non-reference product portfolio still delivered attractive margins, this had the effect of reducing their profitability relative to the previous comparable period. Offsetting this was a good operational performance and higher levels of additional margin for customer specific services, solutions and specifications across all products.

USEFUL FACT

Reference products are dairy products used in the calculation of the Farmgate Milk Price. These are Whole Milk Powder (WMP), Skim Milk Powder (SMP), Buttermilk Powder (BMP), Butter and Anhydrous Milk Fat (AMF).

Our New Zealand Ingredients business manufactures five commodity products that inform the Farmgate Milk Price. These are referred to as reference products, while all other products are referred to as non-reference products. The relative difference between reference product and non-reference product prices can impact our gross margin.

The overall New Zealand Ingredients product mix gross margin, including both reference and non-reference products, decreased by 23 per cent to $644 million. This reflected declines in both non-reference and reference products gross margins. This result was also impacted by contracts with short-term lagged pricing underperforming in a rising milk price environment. These tend to over-perform in a falling milk price environment.

LICHFIELD EXPANSION
Powders made at Lichfield will meet demand in key growth markets including China and the Middle East.

During the period we moved our sales mix towards non-reference products such as consumer liquids and cheese, reflecting their relatively higher gross margins. This shift was enabled by our new WMP plant at Lichfield coming onstream, creating greater optionality across our business. However, due to the faster increase in prices of products informing the milk price (as illustrated by the 21 per cent increase in the average selling price of Fonterra's reference products versus a three per cent increase for non-reference) the gross margin per MT on these products was 17 per cent lower than in the same period last year. This resulted in a reduction in gross margin for non-reference products of $87 million to a still significant $398 million.

Early in the season, the Milk Price Manual was amended with a revised basis of calculation for the revenue informing the Farmgate Milk Price. This change was made under the guidelines requiring a competitive milk price. In the first half this change contributed an additional six cents per kgMS to the Farmgate Milk Price on a contracted basis. The higher cost of milk contributed to the lower gross margin on reference products of $246 million, down $105 million.

Our New Zealand operations responded to the lower collection volumes by moving milk between regions in order to best manage cost and revenue. Previous investments in capacity and the lower milk production ensured there were no peak costs again this financial year. We continue to focus on our supply chain and saw the first arrival of the largest ever container ship into New Zealand through our Kotahi freight joint venture.

Operationally we also saw a good performance with improved yields at sites and a reduction in unplanned plant downtime. Our engineering teams responded quickly to the collapse of a silo at our Edendale site in the South Island. We have inspected all similar silos across our operations and will be conducting a broad review during the off-season.

During the period, we successfully commissioned the new site at Lichfield, creating capacity to enable optionality and future growth. Capital investments during the period were significantly lower than in the first half of last year, in line with expectations. The focus of expenditure was on quality improvement and reduced risk, as well as expanding capacity of non-reference products.

Our Australian ingredients business has benefited from a strong opening milk price that helped grow milk volumes, despite a poor start to the season due to adverse weather. Good progress is being made on the re-build of the Stanhope cheese plant and the new state-of-the-art centralised distribution centre that is expected to be completed by the end of the financial year.

CONSUMER AND **FOODSERVICE**

This platform comprises the Consumer brands and Foodservice businesses in Asia, Greater China, Latin America and Oceania.

227M

HIGHER VALUE
An additional 227 million LME moved into higher value Consumer and Foodservice.

HIGHLIGHTS

- Additional 227 million LME moved into higher-value products
- Normalised EBIT growth of 30 per cent to $313 million
- Higher earnings in all four regions, led by Greater China up $28 million
- Foodservice volume growth of 17 per cent

VOLUME

The first half of the year saw continued delivery of our strategy to move more volume into higher-value Consumer and Foodservice products. We achieved volume growth of nine per cent to 2.7 billion LME, adding a further 227 million LME. This was driven by strong growth of Foodservice at 17 per cent and four per cent in our Consumer business.

- **Greater China:** additional 143 million LME, largely due to the continued success of our foodservice model in Mainland China, but also the growth of our consumer brands
- **Oceania:** strong underlying growth, but a five per cent decline in reported volume due to reclassification of some UHT volumes to ingredients and the divestment of our yoghurt and dairy desserts business in Australia
- **Asia:** further strong growth of nine per cent on the back of strong demand growth in Sri Lanka and the Philippines
- **Latin America:** volume growth versus last year through successful re-launch of Soprole offsetting the impact of challenging economic environments in Brazil and Venezuela

USEFUL FACT

Liquid Milk Equivalent (LME) is a measure of the quantity of milk used in a processed dairy product based on the amount of fat and protein in the product. It does not consider lactose, minerals and water content.

FOODSERVICE BUSINESS

Greater China: additional 143 million LME, largely due to the continued success of our Foodservice model in Mainland China.

NZD MILLION	SIX MONTHS ENDED 31 JANUARY 2017	SIX MONTHS ENDED 31 JANUARY 2016	CHANGE
Volume (LME, billion)	**2.7**	2.5	9%
Consumer	**1.6**	1.5	4%
Foodservice	**1.1**	1.0	17%
Volume ('000 MT)	**908**	887	2%
Sales revenue	**3,239**	3,220	1%
Gross margin	**966**	903	7%
Gross margin (%)	**30%**	28%	–
Consumer	**31%**	28%	–
Foodservice	**27%**	28%	–
Normalised EBIT	**313**	241	30%

NORMALISED EBIT: KEY PERFORMANCE DRIVERS NZD MILLION	SIX MONTHS ENDED 31 JANUARY 2017	SIX MONTHS ENDED 31 JANUARY 2016
Normalised EBIT prior comparable period	**241**	116
Volume	**102**	37
Price	**(38)**	(183)
Cost of goods sold	**21**	270
Operating expenses	**32**	(1)
Other	**(45)**	2
Normalised EBIT	**313**	241

CONSUMER AND **FOODSERVICE**

CONSUMER AND FOODSERVICE PERFORMANCE

	LME (BILLION)			NORMALISED EBIT ($M)		
SIX MONTHS ENDED	31 JANUARY 2017	31 JANUARY 2016	CHANGE	31 JANUARY 2017	31 JANUARY 2016	CHANGE
Consumer and Foodservice	**2.7**	2.5	9%	**313**	241	30%
Greater China	**0.6**	0.4	32%	**96**	68	41%
Oceania	**0.9**	1.0	(5%)	**58**	33	76%
Asia	**0.9**	0.8	9%	**124**	108	15%
Latin America	**0.4**	0.3	19%	**35**	32	9%

PERFORMANCE HIGHLIGHTS

Normalised EBIT grew strongly in all of our Consumer and Foodservice regions.

VALUE

The first half delivered a strong result for normalised EBIT with an increase of 30 per cent to $313 million. This was driven by all four regions with Greater China growing $28 million (41 per cent) in the period, and Oceania increasing by $25 million (76 per cent) reflecting the continued strong performance of Australia.

Gross margins were robust in both businesses. In Consumer they have expanded due to lower costs of product in inventory and our supply chain, despite rising milk prices. This reflects a strategic focus on improved go-to-market models and price management across the global business. In Foodservice, gross margins declined slightly to 27 per cent reflecting the impact of rising product prices.

- **Greater China:** normalised EBIT up 41 per cent through greater volume and tight cost control
- **Oceania:** 76 per cent increase in normalised EBIT due to sustained good performance in New Zealand and continued turnaround in Australia
- **Asia:** largest contributor to value with $124 million in normalised EBIT, up 15 per cent
- **Latin America:** improved performance despite challenging market in Brazil and Venezuela

REGIONAL UPDATE

Greater China

Our Greater China business continues to grow with volume up 32 per cent and normalised EBIT up $28 million, an increase of 41 per cent.

During the first half, we saw another very strong performance by the Foodservice business, reflective of their successful business model and value proposition, particularly in Mainland China. Our Consumer brands businesses in Hong Kong and Taiwan performed well and we saw overall Anmum™ sales increase by 20 per cent.

Anchor™ is now the number two imported UHT brand in China for e-commerce sales, reflecting our strong commitment to this important sales channel.

USEFUL FACT

Tip Top is now 80 years old and still one of New Zealand's favourite brands.

SOPROLE

Soprole is one of the most recognised brands in Chile and loved by consumers.

ANCHOR™

Anchor™ is now the number two imported UHT brand in China for e-commerce sales.

Oceania

Both of our key markets in Oceania performed well, supporting significantly higher normalised EBIT for the first half of $58 million, up 76 per cent. Volumes were down five per cent due to the reallocation of some liquid milk production in New Zealand to the Ingredients business and the divestment of the underperforming yoghurts and dairy desserts business in Australia.

Our Australian business is performing very well on the back of a successful turnaround and the business focusing on its strongest brands in product categories where we have a clear advantage.

The New Zealand business had a good half, growing market share. This was supported by marketing campaigns for Anchor™ and celebrating Tip Top's 80th birthday.

Asia

In our Asia business, we saw volume growth of nine per cent and a $16 million increase (15 per cent) in normalised EBIT to $124 million. In our key markets in the region, Sri Lanka had good volume growth on the back of the successful 'Goodness Feeds Greatness' marketing campaign. We also had a good result in Vietnam, however Indonesia is undergoing changes in consumption patterns and we are adjusting our business model accordingly.

USEFUL FACT

In Ethiopia, Anchor™ milk is sold in single serve sachets at affordable prices.

The growth opportunity is still very strong in our Asia business, with our recent successes in the Middle East and Africa demonstrating this. Our Anchor™ branded milk powder in Ethiopia is now a leader in this market of over 100 million people. This success is shared not just by Fonterra, but also our joint venture partner, and local consumers who gain access to affordable, high quality nutrition.

Latin America

Overall, we delivered a good result in Latin America with sales volumes up on last year and normalised EBIT up nine per cent to $35 million for the period.

Our Soprole business in Chile continues to do well. During the first half, we had a successful relaunch of the brand and consumers are recognising the benefits of our new products that have been reformulated to meet even higher nutritional standards. This is driving growth.

The economy in Brazil continues to provide challenges, however we saw profitable market share growth through the period. This is made possible by the operational changes made in the last financial year giving us a lower cost base in order to compete on price and quality through a strong focus on product innovation.

In Venezuela, our operations have continued to focus on local sourcing of materials and delivering product when possible in order to supply food and nutrition for the population.

CHINA **FARMS**

This platform comprises the farming operations in China producing high-quality fresh milk as part of our integrated China strategy.

26%

SALES VOLUME

Sales volume increased by 26 per cent.

CHINA FARMS

Milk from our farms in China is now sold via our Global Ingredients sales team to leading customers in China.

HIGHLIGHTS

- Volume growth continues with all farms now operational
- Continued improvements in efficiency and cost management to offset low milk prices
- Milk sales now integrated into global ingredients sales

VOLUME

Our farming operations in China comprise two completed hubs producing high-quality fresh milk. Yutian is our most established hub consisting of three single farms and one double farm, with 18,000 milking cows.

USEFUL FACT

A typical hub consists of three to four farms in one region, with approximately 16,000 milking cows.

Our second hub, Ying, is now fully operational with all farms fully stocked with productive livestock. Ying consists of one single farm and two double farms, with 13,500 milking cows, and we will see further growth as the herd matures.

Sales volume of fresh milk increased by 22 per cent to 126 million LME compared with the same period last year. In addition, we sold 30 million LME of milk powder from inventory. Milk volume will continue to build as our herds progress to full year round production. When at full capacity, expected in financial year 2018 for Yutian and by 2020 for Ying, our farms will be able to produce a combined volume of around 380–400 million LME.

OPERATIONAL EFFICIENCY

Operational savings are being driven by scale and cost reduction.

NZD MILLION	SIX MONTHS ENDED 31 JANUARY 2017	SIX MONTHS ENDED 31 JANUARY 2016	CHANGE
Volume (LME, billion)	**0.2**	0.1	51%
Volume ('000 MT)	**130**	103	26%
Sales revenue	**122**	95	28%
Normalised EBIT	**(24)**	(29)	–

We are continuing to progress our third hub, a joint venture between Fonterra and Abbott, which leverages our expertise in dairy nutrition and farming, and Abbott's continued commitment to business development in China. Construction of the first farm is complete and further development will follow our rolling plan over coming years.

USEFUL FACT

A single farm can accommodate up to 3,200 milking cows, while a double farm has capacity for twice that number.

VALUE

Our strategy for China Farms is to produce high quality fresh milk with scale and efficient operations. This allows Fonterra to deliver value through integrating the sale of our milk into our Ingredients business in Greater China. We continue to investigate opportunities to develop downstream processing capacity to support our Consumer and Foodservice business.

Cost reductions continue to be delivered through both scale efficiencies as production increases and reductions in operating costs.

With the farm development programme now complete, capital expenditure will remain at low levels. Expenditure in the six months to 31 January 2017 covered the completion of our effluent investments and business-as-usual maintenance and animal rearing costs.

INTERIM **FINANCIAL STATEMENTS**

For the six months ended
31 January 2017

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DIRECTORS' STATEMENT

FOR THE SIX MONTHS ENDED 31 JANUARY 2017

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

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

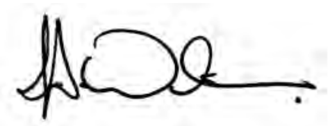
The Directors consider the financial statements of the Group have been prepared using accounting policies which have been consistently applied and supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the NZX Listing Rules.

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

The Directors hereby approve and authorise for issue the financial statements for the six months ended 31 January 2017 presented on pages 30 to 46.

For and on behalf of the Board:



JOHN WILSON
CHAIRMAN
21 March 2017

DAVID JACKSON
DIRECTOR
21 March 2017

INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 JANUARY 2017

		GROUP $ MILLION		
		SIX MONTHS ENDED		YEAR ENDED
	NOTES	**31 JAN 2017 UNAUDITED**	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED
Revenue from sale of goods		**9,241**	8,838	17,199
Cost of goods sold	2	**(7,480)**	(6,965)	(13,567)
Gross profit		**1,761**	1,873	3,632
Other operating income		**90**	127	266
Selling and marketing expenses		**(329)**	(363)	(703)
Distribution expenses		**(283)**	(311)	(585)
Administrative expenses		**(440)**	(445)	(844)
Other operating expenses		**(180)**	(193)	(396)
Net foreign exchange gains		**30**	22	7
Share of profit of equity accounted investees		**(5)**	42	54
Profit before net finance costs and tax		**644**	752	1,431
Finance income		**17**	6	18
Finance costs		**(174)**	(272)	(517)
Net finance costs		**(157)**	(266)	(499)
Profit before tax		**487**	486	932
Tax expense		**(69)**	(77)	(98)
Profit after tax		**418**	409	834
Profit after tax is attributable to:				
Equity holders of the Co-operative		**413**	404	810
Non-controlling interests		**5**	5	24
Profit after tax		**418**	409	834

	GROUP $		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2017 UNAUDITED	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED
Earnings per share:			
Basic and diluted earnings per share	**0.26**	0.25	0.51

The accompanying notes form part of these interim financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 JANUARY 2017

	GROUP $ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2017 UNAUDITED	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED
Profit after tax	**418**	409	834
Items that may be reclassified subsequently to profit or loss:			
Hedge reserves:			
– Net fair value gains/(losses) on cash flow hedges	**268**	(22)	439
– Transferred and reported in revenue from sale of goods	**(194)**	446	396
– Tax expense on cash flow hedges	**(21)**	(119)	(234)
– Changes in cost of hedging reserve	**3**	–	–
Net investment hedges:			
– Net fair value gains on hedging instruments	**45**	25	93
– Transferred and reported in other operating income	**–**	–	8
– Tax expense on net investment hedges	**(12)**	(7)	(28)
Available for sale investments:			
– Net fair value gains on available for sale investments	**–**	3	5
Foreign currency translation losses attributable to equity holders	**(159)**	(171)	(376)
Foreign currency translation reserve transferred to income statement	**(1)**	(1)	(15)
Hyperinflation movements attributable to equity holders	**4**	(9)	(16)
Share of equity accounted investees' movements in reserves	**1**	5	5
Other reserves movements	**(2)**	–	–
Total items that may be reclassified subsequently to profit or loss	**(68)**	150	277
Items that will not be reclassified subsequently to profit or loss:			
Foreign currency translation gains/(losses) attributable to non-controlling interests	**1**	(55)	(84)
Hyperinflation movements attributable to non-controlling interests	**3**	(6)	(10)
Net fair value gains on investments in shares	**2**	–	–
Non-controlling interest other movements	**(2)**	–	–
Total items that will not be reclassified subsequently to profit or loss	**4**	(61)	(94)
Total other comprehensive (expense)/income recognised directly in equity	**(64)**	89	183
Total comprehensive income	**354**	498	1,017
Total comprehensive income is attributable to:			
Equity holders of the Co-operative	**347**	554	1,087
Non-controlling interests	**7**	(56)	(70)
Total comprehensive income	**354**	498	1,017

The accompanying notes form part of these interim financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 JANUARY 2017

		GROUP $ MILLION		
		AS AT		
	NOTES	**31 JAN 2017 UNAUDITED**	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED
ASSETS				
Current assets				
Cash and cash equivalents		**348**	338	369
Trade and other receivables		**2,210**	2,282	1,625
Inventories		**4,566**	4,071	2,401
Tax receivable		**23**	13	13
Derivative financial instruments		**454**	43	451
Assets held for sale		**–**	107	87
Other current assets		**140**	117	145
Total current assets		**7,741**	6,971	5,091
Non-current assets				
Property, plant and equipment		**6,112**	6,086	6,172
Equity accounted investments		**916**	1,065	960
Livestock		**317**	358	342
Intangible assets		**3,071**	3,138	3,142
Deferred tax assets		**328**	579	410
Derivative financial instruments		**242**	483	417
Other non-current assets		**617**	396	584
Total non-current assets		**11,603**	12,105	12,027
Total assets		**19,344**	19,076	17,118
LIABILITIES				
Current liabilities				
Bank overdraft		**9**	15	12
Borrowings	5	**983**	1,397	955
Trade and other payables		**2,176**	1,983	2,169
Owing to suppliers		**2,359**	1,213	719
Tax payable		**31**	44	18
Derivative financial instruments		**49**	431	43
Provisions		**47**	48	47
Other current liabilities		**38**	36	35
Total current liabilities		**5,692**	5,167	3,998
Non-current liabilities				
Borrowings	5	**5,768**	6,314	5,397
Derivative financial instruments		**567**	429	569
Provisions		**158**	157	152
Deferred tax liabilities		**26**	83	44
Other non-current liabilities		**8**	21	11
Total non-current liabilities		**6,527**	7,004	6,173
Total liabilities		**12,219**	12,171	10,171
Net assets		**7,125**	6,905	6,947
EQUITY				
Subscribed equity		**5,841**	5,822	5,833
Retained earnings		**1,638**	1,458	1,384
Foreign currency translation reserve		**(555)**	(264)	(428)
Hedge reserves		**120**	(232)	64
Other reserves		**10**	11	6
Total equity attributable to equity holders of the Co-operative		**7,054**	6,795	6,859
Non-controlling interests		**71**	110	88
Total equity		**7,125**	6,905	6,947

The accompanying notes form part of these interim financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 JANUARY 2017

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE CO-OPERATIVE							
GROUP $ MILLION	SUBSCRIBED EQUITY	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION RESERVE	HEDGE RESERVES	OTHER RESERVES	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
As at 1 August 2016	**5,833**	**1,384**	**(428)**	**64**	**6**	**6,859**	**88**	**6,947**
Profit after tax	–	413	–	–	–	413	5	418
Other comprehensive income/(expense)	–	1	(127)	56	4	(66)	2	(64)
Total comprehensive income/(expense)	–	414	(127)	56	4	347	7	354
Transactions with equity holders in their capacity as equity holders:								
Dividend paid to equity holders of the Co-operative	–	(160)	–	–	–	(160)	–	(160)
Equity instruments issued	8	–	–	–	–	8	–	8
Dividend paid to non-controlling interests	–	–	–	–	–	–	(24)	(24)
As at 31 January 2017 (unaudited)	**5,841**	**1,638**	**(555)**	**120**	**10**	**7,054**	**71**	**7,125**
As at 1 August 2015	5,814	1,289	(110)	(537)	17	6,473	186	6,659
Profit after tax	–	404	–	–	–	404	5	409
Other comprehensive income/(expense)	–	5	(154)	305	(6)	150	(61)	89
Total comprehensive income/(expense)	–	409	(154)	305	(6)	554	(56)	498
Transactions with equity holders in their capacity as equity holders:								
Dividend paid to equity holders of the Co-operative	–	(240)	–	–	–	(240)	–	(240)
Equity instruments issued	8	–	–	–	–	8	–	8
Dividend paid to non-controlling interests	–	–	–	–	–	–	(20)	(20)
As at 31 January 2016 (unaudited)	5,822	1,458	(264)	(232)	11	6,795	110	6,905
As at 1 August 2015	5,814	1,289	(110)	(537)	17	6,473	186	6,659
Profit after tax	–	810	–	–	–	810	24	834
Other comprehensive income/(expense)	–	5	(318)	601	(11)	277	(94)	183
Total comprehensive income/(expense)	–	815	(318)	601	(11)	1,087	(70)	1,017
Transactions with equity holders in their capacity as equity holders:								
Dividend paid to equity holders of the Co-operative	–	(720)	–	–	–	(720)	–	(720)
Equity instruments issued	19	–	–	–	–	19	–	19
Dividend paid to non-controlling interests	–	–	–	–	–	–	(28)	(28)
As at 31 July 2016 (audited)	5,833	1,384	(428)	64	6	6,859	88	6,947

The accompanying notes form part of these interim financial statements.

CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 JANUARY 2017

	GROUP $ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2017 UNAUDITED	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED
Cash flows from operating activities			
Profit before net finance costs and tax	**644**	752	1,431
Adjustments for:			
Foreign exchange gains	**(38)**	(113)	(365)
Depreciation and amortisation	**289**	286	570
Other	**(12)**	(59)	(44)
	239	114	161
(Increase)/decrease in working capital:			
Inventories	**(2,161)**	(1,051)	597
Trade and other receivables	**(561)**	(67)	485
Amounts owing to suppliers	**1,641**	1,054	560
Payables and accruals	**78**	162	171
Other movements	**(6)**	(9)	(42)
Total	**(1,009)**	89	1,771
Cash generated from operations	**(126)**	955	3,363
Net taxes paid	**(41)**	(31)	(85)
Net cash flows from operating activities	**(167)**	924	3,278
Cash flows from investing activities			
Cash was provided from:			
– Proceeds from sale of business operations	**–**	187	230
– Proceeds from disposal of property, plant and equipment	**97**	6	26
– Proceeds from sale of livestock	**41**	20	35
– Proceeds from the sale of investments in shares	**–**	78	78
– Other cash inflows	**7**	1	26
Cash was applied to:			
– Acquisition of property, plant and equipment	**(277)**	(530)	(859)
– Acquisition of livestock	**(53)**	(61)	(95)
– Acquisition of intangible assets	**(29)**	(53)	(85)
– Co-operative Support loans	**–**	(215)	(383)
– Advances to and investments in equity accounted investees	**(36)**	–	(41)
– Other cash outflows	**–**	(11)	(26)
Net cash flows from investing activities	**(250)**	(578)	(1,094)
Cash flows from financing activities			
Cash was provided from:			
– Proceeds from borrowings	**2,788**	2,936	4,909
– Interest received	**6**	5	7
– Other cash inflows	**36**	–	–
Cash was applied to:			
– Interest paid	**(186)**	(205)	(415)
– Repayment of borrowings	**(2,058)**	(2,754)	(5,815)
– Dividends paid to non-controlling interests	**(24)**	(21)	(28)
– Dividends paid to equity holders of the Co-operative	**(152)**	(231)	(701)
– Other cash outflows	**–**	(2)	(7)
Net cash flows from financing activities	**410**	(272)	(2,050)
Net (decrease)/increase in cash and cash equivalents	**(7)**	74	134
Cash and cash equivalents at the beginning of the year	**357**	303	303
Effect of exchange rate changes on cash balances	**(11)**	(54)	(80)
Cash and cash equivalents at the end of the period	**339**	323	357
Reconciliation of closing cash balances to the statement of financial position:			
Cash and cash equivalents	**348**	338	369
Bank overdraft	**(9)**	(15)	(12)
Closing cash balances	**339**	323	357

The accompanying notes form part of these interim financial statements.

BASIS OF PREPARATION

FOR THE SIX MONTHS ENDED 31 JANUARY 2017

A) GENERAL INFORMATION

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

These consolidated interim financial statements of Fonterra, as at and for the six months ending 31 January 2017, comprise Fonterra and its subsidiaries (together the Group) and the Group's interest in its equity accounted investees.

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

B) BASIS OF PREPARATION

These consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34: Interim Financial Reporting and New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting. They have also been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They should be read in conjunction with the consolidated financial statements for the year ended 31 July 2016.

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

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing these consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 July 2016.

C) ACCOUNTING POLICIES

The same accounting policies are followed in these consolidated interim financial statements as were applied in the Group's financial statements for the year ended 31 July 2016 with the exception of the impact of adopting NZ IFRS 9 Financial Instruments.

Impact of adopting NZ IFRS 9 Financial Instruments

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

- Fonterra is now able to achieve hedge accounting for certain interest rate swaps, which was not possible under the accounting standards previously applied.
- For interest rate swaps in place on transition to NZ IFRS 9, the hedging relationship for accounting purposes can only commence on 1 August 2016. This means that these interest rate swaps will not be perfectly matched to the underlying exposure. Any hedge ineffectiveness will continue to be reflected in finance costs.
- Option premium costs and the time value of options are now recognised in other comprehensive income as 'costs of hedging reserve', until the hedged sales transaction is recognised. Under the accounting standards previously applied, these costs were recorded in the income statement when they were incurred. This change is required to be recognised retrospectively, however as it did not have a material impact on Fonterra's financial statements for the year ended 31 July 2016, no change has been made to the comparative numbers.
- NZ IFRS 9 required changes in classification, measurement and impairment requirements, none of which were material to Fonterra's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 JANUARY 2017

PERFORMANCE

1 SEGMENT REPORTING

a) Operating segments

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

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

a) **Operating segments** continued

	GROUP $ MILLION						
	GLOBAL INGREDIENTS AND OPERATIONS	OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	ELIMINATIONS	TOTAL GROUP
Segment income statement							
Six months ended 31 January 2017 (unaudited)							
External revenue	5,912	1,233	762	524	810	–	9,241
Inter-segment revenue	900	210	98	123	3	(1,334)	–
Revenue from sale of goods	6,812	1,443	860	647	813	(1,334)	9,241
Cost of goods sold	(6,033)	(1,173)	(581)	(461)	(569)	1,337	(7,480)
Segment gross profit	779	270	279	186	244	3	1,761
Selling and marketing expenses	(82)	(52)	(82)	(52)	(61)	–	(329)
Distribution expenses	(104)	(73)	(18)	(5)	(83)	–	(283)
Administrative and other operating expenses	(384)	(83)	(60)	(42)	(59)	8	(620)
Segment operating expenses	(570)	(208)	(160)	(99)	(203)	8	(1,232)
Net other operating income	22	53	2	17	1	(5)	90
Net foreign exchange gains/(losses)	33	1	(2)	(2)	–	–	30
Share of profit of equity accounted investees	25	–	–	(32)	2	–	(5)
Segment earnings before net finance costs and tax	289	116	119	70	44	6	644
Normalisation adjustments	5	(42)	–	–	–	–	(37)
Normalised segment earnings before net finance costs and tax	294	74	119	70	44	6	607
Normalisation adjustments							37
Finance income							17
Finance costs							(174)
Profit before tax							487
Profit before tax includes the following amounts:							
Depreciation	(176)	(25)	(6)	(13)	(20)	–	(240)
Amortisation	(37)	(9)	(2)	–	(1)	–	(49)
Normalisation adjustments consist of the following amounts:							
Gain on sale of Darnum manufacturing plant[1]	–	42	–	–	–	–	42
Time value of options[2]	(5)	–	–	–	–	–	(5)
Total normalisation adjustments	(5)	42	–	–	–	–	37
Segment asset information:							
As at and for the six months ended 31 January 2017 (unaudited)							
Equity accounted investments	201	–	–	706	9	–	916
Capital expenditure[3]	124	78	5	18	19	–	244

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

2 Of the $5 million normalisation adjustment, $9 million relates to revenue offset by $14 million of net foreign exchange losses.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2017

a) Operating segments continued

	GROUP $ MILLION						
	GLOBAL INGREDIENTS AND OPERATIONS	OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	ELIMINATIONS	TOTAL GROUP
Segment income statement							
Six months ended 31 January 2016 (unaudited)							
External revenue	5,482	1,232	837	514	773	–	8,838
Inter-segment revenue	789	230	85	13	4	(1,121)	–
Revenue from sale of goods	6,271	1,462	922	527	777	(1,121)	8,838
Cost of goods sold	(5,296)	(1,240)	(630)	(389)	(531)	1,121	(6,965)
Segment gross profit	975	222	292	138	246	–	1,873
Selling and marketing expenses	(76)	(55)	(103)	(70)	(59)	–	(363)
Distribution expenses	(113)	(91)	(20)	(6)	(81)	–	(311)
Administrative and other operating expenses	(393)	(102)	(65)	(44)	(52)	18	(638)
Segment operating expenses	(582)	(248)	(188)	(120)	(192)	18	(1,312)
Net other operating income	102	20	1	18	4	(18)	127
Net foreign exchange gains/(losses)	45	–	(2)	(5)	(16)	–	22
Share of profit of equity accounted investees	36	–	–	4	2	–	42
Segment earnings before net finance costs and tax	576	(6)	103	35	44	–	752
Normalisation adjustments	(99)	12	–	–	–	–	(87)
Normalised segment earnings before net finance costs and tax	477	6	103	35	44	–	665
Normalisation adjustments							87
Finance income							6
Finance costs							(272)
Profit before tax							486
Profit before tax includes the following amounts:							
Depreciation	(171)	(26)	(6)	(13)	(19)	–	(235)
Amortisation	(37)	(11)	(2)	–	(1)	–	(51)
Normalisation adjustments consist of the following amounts:							
Gain on sale of DairiConcepts investment[1]	68	–	–	–	–	–	68
Time value of options[2]	31	–	–	–	–	–	31
Impairment of assets in Australia[3]	–	(12)	–	–	–	–	(12)
Total normalisation adjustments	99	(12)	–	–	–	–	87
Segment asset information:							
As at and for the six months ended 31 January 2016 (unaudited)							
Equity accounted investments	217	7	–	832	9	–	1,065
Capital expenditure[4]	306	25	11	93	18	–	453

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

2 The $31 million normalisation adjustment relates to net foreign exchange gains.

3 Of the total $12 million, $6 million relates to cost of goods sold and $6 million to other operating expenses.

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

a) Operating segments continued

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2017

b) Strategic platforms

The Group also presents financial information that reflects Fonterra's strategic platforms. These strategic platforms are organised on a different basis than the Group's operating segments presented in section a) of this note. The basis of presentation is explained in the table below.

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

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

	GROUP 31 JANUARY 2017 (UNAUDITED)								
	INGREDIENTS	CONSUMER AND FOODSERVICE					CHINA FARMS	UNALLOCATED COSTS AND ELIMINATIONS	TOTAL
		OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL			
Volume[1] (liquid milk equivalents, billion)	**10.98**	**0.91**	**0.86**	**0.58**	**0.36**	**2.71**	**0.16**	**(2.14)**	**11.71**
Volume[1] (metric tonnes, thousand)	**1,659**	**335**	**156**	**112**	**305**	**908**	**130**	**(449)**	**2,248**
Sales revenue[1] ($ million)	**7,228**	**988**	**933**	**567**	**751**	**3,239**	**122**	**(1,348)**	**9,241**
Normalised EBIT ($ million)	**510**	**58**	**124**	**96**	**35**	**313**	**(24)**	**(192)**	**607**

	GROUP 31 JANUARY 2016 (UNAUDITED)								
	INGREDIENTS	CONSUMER AND FOODSERVICE					CHINA FARMS	UNALLOCATED COSTS AND ELIMINATIONS	TOTAL
		OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL			
Volume[1] (liquid milk equivalents, billion)	11.83	0.96	0.78	0.44	0.30	2.48	0.10	(1.82)	12.59
Volume[1] (metric tonnes, thousand)	1,624	339	145	82	321	887	103	(290)	2,324
Sales revenue[1] ($ million)	6,709	1,046	992	465	717	3,220	95	(1,186)	8,838
Normalised EBIT ($ million)	617	33	108	68	32	241	(29)	(164)	665

	GROUP 31 JULY 2016 (AUDITED)								
	INGREDIENTS	CONSUMER AND FOODSERVICE					CHINA FARMS	UNALLOCATED COSTS AND ELIMINATIONS	TOTAL
		OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL			
Volume[1] (liquid milk equivalents, billion)	22.39	1.83	1.55	0.87	0.62	4.87	0.23	(3.83)	23.66
Volume[1] (metric tonnes, thousand)	3,074	698	292	167	643	1,800	229	(577)	4,526
Sales revenue[1] ($ million)	13,005	2,051	1,944	916	1,385	6,296	183	(2,285)	17,199
Normalised EBIT ($ million)	1,204	97	244	131	108	580	(59)	(367)	1,358
Capital employed[2] ($ million)	7,724	489	127	22	284	922	873	(127)	9,392
Return on capital[3] (%)	13.4%	10.9%	133.4%	429.9%	23.6%	41.7%	(6.5)%		12.4%

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

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

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

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

c) Geographical revenue

	GROUP $ MILLION								
	CHINA	REST OF ASIA	AUSTRALIA	NEW ZEALAND	UNITED STATES	EUROPE	LATIN AMERICA	REST OF WORLD	TOTAL
Geographical segment external revenue:									
Six months ended 31 January 2017 (unaudited)	**1,565**	**2,404**	**785**	**977**	**650**	**430**	**1,065**	**1,365**	**9,241**
Six months ended 31 January 2016 (unaudited)	1,307	2,341	766	964	657	412	1,228	1,163	8,838
Year ended 31 July 2016 (audited)	2,394	4,829	1,471	1,939	1,305	745	2,053	2,463	17,199

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

d) Non-current assets

	GROUP $ MILLION							
	GLOBAL INGREDIENTS AND OPERATIONS		OCEANIA		ASIA	GREATER CHINA	LATIN AMERICA	TOTAL GROUP
	NEW ZEALAND	REST OF WORLD	NEW ZEALAND	AUSTRALIA				
Geographical segment reportable non-current assets:								
As at 31 January 2017 (unaudited)	**5,376**	**301**	**1,294**	**797**	**723**	**1,540**	**1,002**	**11,033**
As at 31 January 2016 (unaudited)	5,242	338	1,286	697	808	1,768	904	11,043
As at 31 July 2016 (audited)	5,459	301	1,292	740	779	1,648	981	11,200

	GROUP $ MILLION		
	AS AT		
	31 JAN 2017 UNAUDITED	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED
Reconciliation of geographical segment non-current assets to total non-current assets:			
Geographical segment non-current assets	**11,033**	11,043	11,200
Deferred tax assets	**328**	579	410
Derivative financial instruments	**242**	483	417
Total non-current assets	**11,603**	12,105	12,027

2 COST OF GOODS SOLD

	GROUP $ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2017 UNAUDITED	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED
Opening inventory	**2,401**	3,025	3,025
Cost of Milk:			
– New Zealand sourced	**6,078**	4,254	6,205
– Non-New Zealand sourced	**521**	601	944
Other purchases	**3,046**	3,156	5,794
Closing inventory	**(4,566)**	(4,071)	(2,401)
Total cost of goods sold	**7,480**	6,965	13,567

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2017

DEBT AND EQUITY

3 SUBSCRIBED EQUITY INSTRUMENTS

Co-operative shares, including shares held within the Group

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

	CO-OPERATIVE SHARES (THOUSANDS)
Balance at 1 August 2016	**1,602,703**
Shares issued[2]	**1,369**
Balance at 31 January 2017 (unaudited)	**1,604,072**
Balance at 1 August 2015	1,599,094
Shares issued[3]	1,591
Balance at 31 January 2016 (unaudited)	1,600,685
Balance at 1 August 2015	1,599,094
Shares issued[4]	3,609
Balance at 31 July 2016 (audited)	1,602,703

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

2 1,369,174 shares with a total value of $8 million were issued under the Dividend Reinvestment Plan during the six months ended 31 January 2017.

3 1,591,062 shares with a total value of $8 million were issued under the Dividend Reinvestment Plan during the six months ended 31 January 2016.

4 3,609,118 shares with a total value of $19 million were issued under the Dividend Reinvestment Plan during the year ended 31 July 2016.

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

Units in the Fonterra Shareholders' Fund

The Custodian holds legal title of Co-operative shares of which the Economic Rights have been sold to the Fund on trust for the benefit of the Fund. At 31 January 2017, 123,422,471 Co-operative shares (31 January 2016: 103,926,303; 31 July 2016: 111,991,937) were legally owned by the Custodian, on trust for the benefit of the Fund.

	UNITS (THOUSANDS)
Balance at 1 August 2016	**111,992**
Units issued	**22,222**
Units surrendered	**(10,792)**
Balance at 31 January 2017 (unaudited)	**123,422**
Balance at 1 August 2015	105,480
Units issued	16,375
Units surrendered	(17,929)
Balance at 31 January 2016 (unaudited)	103,926
Balance at 1 August 2015	105,480
Units issued	27,137
Units surrendered	(20,625)
Balance at 31 July 2016 (audited)	111,992

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

4 DIVIDENDS PAID

DIVIDENDS	$ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2017 UNAUDITED	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED
2016 Final dividend – 10 cents per share[1]	**160**	–	–
2016 Interim dividend – 10 cents per share[2]	**–**	–	160
2016 Interim dividend – 20 cents per share[3]	**–**	–	320
2015 Final dividend – 15 cents per share[4]	**–**	240	240

1 Declared on 18 August 2016 and paid on 9 September 2016 to all Co-operative shares on issue at 1 September 2016. The Dividend Reinvestment Plan applied to this dividend.

2 Declared on 16 May 2016 and paid on 7 June 2016 to all Co-operative shares on issue at 30 May 2016. The Dividend Reinvestment Plan applied to this interim dividend.

3 Declared on 22 March 2016 and paid on 20 April 2016 to all Co-operative shares on issue at 8 April 2016. The Dividend Reinvestment Plan applied to this interim dividend.

4 Declared on 23 September 2015 and paid on 20 October 2015 to all Co-operative shares on issue at 8 October 2015. The Dividend Reinvestment Plan applied to this dividend.

Dividends declared after balance date

On 21 March 2017, the Board declared an interim dividend of 20 cents per share, to be paid on 20 April 2017 to all Co-operative shares on issue at 5 April 2017.

Fonterra has a Dividend Reinvestment Plan, where eligible shareholders can choose to reinvest all or part of their future dividend in additional Co-operative shares. The Dividend Reinvestment Plan will apply to this dividend. Full details of the Dividend Reinvestment Plan are available in the 'Investors' section of Fonterra's website.

5 BORROWINGS

Economic net interest bearing debt

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

	GROUP $ MILLION		
	AS AT		
	31 JAN 2017 UNAUDITED	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED
Net interest bearing debt position			
Total borrowings	**6,751**	7,711	6,352
Cash and cash equivalents	**(348)**	(338)	(369)
Interest bearing advances included in other non-current assets	**(481)**	(295)	(464)
Bank overdraft	**9**	15	12
Net interest bearing debt	**5,931**	7,093	5,531
Value of derivatives used to manage changes in hedged risks	**184**	(185)	(58)
Economic net interest bearing debt	**6,115**	6,908	5,473

Total borrowings in the table above are represented by:

	GROUP $ MILLION		
	AS AT		
	31 JAN 2017 UNAUDITED	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED
Commercial paper	**313**	401	454
Bank loans	**1,226**	1,879	879
Finance leases	**139**	154	143
Capital notes	**35**	35	35
NZX-listed bonds	**499**	500	499
Medium-term notes	**4,539**	4,742	4,342
Total borrowings	**6,751**	7,711	6,352
Included within the statement of financial position as follows:			
Total current borrowings	**983**	1,397	955
Total non-current borrowings	**5,768**	6,314	5,397
Total borrowings	**6,751**	7,711	6,352

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2017

LONG TERM ASSETS

6 PROPERTY, PLANT AND EQUIPMENT

	GROUP $ MILLION		
	SIX MONTHS TO		YEAR ENDED
	31 JAN 2017 UNAUDITED	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED
Additions	**205**	371	797
Disposals	**(20)**	(2)	(38)
Capital commitments	**159**	162	127

INVESTMENTS

7 EQUITY ACCOUNTED INVESTMENTS

The Group's significant equity accounted investments are listed below. The ownership interest in these entities is 50 per cent or less and the Group is not considered to exercise a controlling interest.

		OWNERSHIP INTERESTS (%)		
		AS AT		
EQUITY ACCOUNTED INVESTEE NAME	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	**31 JAN 2017 UNAUDITED**	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED
DMV Fonterra Excipients GmbH & Co KG	Germany	**50**	50	50
Beingmate Baby & Child Food Co., Ltd	China	**18.8**	18.8	18.8

All investees have balance dates of 31 December.

OTHER

8 CONTINGENT LIABILITIES

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

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

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

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

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

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

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

9 FAIR VALUE

Fair value hierarchy

All financial instruments for which a fair value is recognised are categorised within level 1 or level 2 of the fair value hierarchy. The fair value of the Group's livestock is categorised within level 3. These categories are described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

	GROUP $ MILLION								
	LEVEL 1			LEVEL 2			LEVEL 3		
	AS AT			AS AT			AS AT		
	31 JAN 2017 UNAUDITED	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED	**31 JAN 2017 UNAUDITED**	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED	**31 JAN 2017 UNAUDITED**	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED
Derivative assets									
– Commodity derivatives	**22**	3	5	**1**	–	1	**–**	–	–
– Foreign exchange derivatives	**–**	–	–	**453**	49	473	**–**	–	–
– Interest rate derivatives[1]	**–**	–	–	**220**	474	389	**–**	–	–
Derivative liabilities									
– Commodity derivatives	**(26)**	(16)	(16)	**(1)**	(7)	(3)	**–**	–	–
– Foreign exchange derivatives	**–**	–	–	**(23)**	(420)	(25)	**–**	–	–
– Interest rate derivatives[1]	**–**	–	–	**(566)**	(417)	(568)	**–**	–	–
Investments in shares	**8**	2	6	**–**	–	–	**–**	–	–
Livestock	**–**	–	–	**–**	–	–	**317**	358	342
Fair value	**4**	(11)	(5)	**84**	(321)	267	**317**	358	342

1 Includes cross currency interest rate swaps.

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

	GROUP $ MILLION								
	CARRYING VALUE			LEVEL 1			LEVEL 2		
	AS AT			AS AT			AS AT		
	31 JAN 2017 UNAUDITED	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED	**31 JAN 2017 UNAUDITED**	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED	**31 JAN 2017 UNAUDITED**	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED
Financial assets									
Long-term advances	**481**	295	464	**–**	–	–	**489**	293	466
Financial liabilities									
Borrowings									
– NZX-listed bonds	**(499)**	(500)	(499)	**(490)**	(499)	(510)	**–**	–	–
– Capital notes	**(35)**	(35)	(35)	**(33)**	(35)	(33)	**–**	–	–
– Medium-term notes	**(4,539)**	(4,743)	(4,342)	**–**	–	–	**(4,780)**	(4,743)	(4,665)
– Finance leases	**(139)**	(154)	(143)	**–**	–	–	**(158)**	(154)	(167)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2017

10 NET TANGIBLE ASSETS PER SECURITY

	GROUP		
	AS AT		
	31 JAN 2017 UNAUDITED	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED
Net tangible assets per security[1]			
$ per listed debt security on issue	**6.73**	6.25	6.32
$ per equity instrument on issue	**2.53**	2.35	2.37
Listed debt securities on issue (million)	**603**	603	603
Equity instruments on issue (million)	**1,604**	1,601	1,603

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

NON-GAAP MEASURES

Fonterra uses several non-GAAP measures when discussing financial performance. For further details and definitions of non-GAAP measures used by Fonterra, refer to the glossary on page 48. These are non-GAAP measures and are not prepared in accordance with NZ IFRS.

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

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

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

	GROUP $ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2017	31 JAN 2016	31 JUL 2016
Profit after tax for the period	**418**	409	834
Add: Depreciation	**240**	235	465
Add: Amortisation	**49**	51	105
Add: Net finance costs	**157**	266	499
Add: Taxation expense	**69**	77	98
Total EBITDA	**933**	1,038	2,001
Add: Disposal and impairment of the Australian yoghurt and dairy desserts business	**–**	12	23
Add/(Less): Time value of options	**5**	(31)	(28)
Less: Gain on sale of Darnum manufacturing plant	**(42)**	–	–
Less: Gain on sale of DairiConcepts investment	**–**	(68)	(68)
Total normalisation adjustments	**(37)**	(87)	(73)
Normalised EBITDA	**896**	951	1,928

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

	GROUP $ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2017	31 JAN 2016	31 JUL 2016
Profit after tax for the period	**418**	409	834
Add: Net finance costs	**157**	266	499
Add: Taxation expense	**69**	77	98
Total EBIT	**644**	752	1,431
Less: Normalisation adjustments (as detailed above)	**(37)**	(87)	(73)
Total normalised EBIT	**607**	665	1,358

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

	GROUP $ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2017	31 JAN 2016	31 JUL 2016
Profit after tax for the period	**418**	409	834
Less: Normalisation adjustments (as detailed above)	**(37)**	(87)	(73)
Add: Tax on normalisation adjustments	**8**	50	52
Total normalised earnings	**389**	372	813
Less: Share attributable to non-controlling interests	**(5)**	(5)	(24)
Net normalised earnings attributable to equity holders of the Parent	**384**	367	789
Weighted average number of shares (thousands of shares)	**1,603,698**	1,599,889	1,600,825
Normalised earnings per share ($)	**0.24**	0.23	0.49

GLOSSARY

NON-GAAP MEASURES

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

Constant currency	means a measure that eliminates the effect of exchange rate movements. Constant currency variances are calculated by taking the current period financial measure in local currency less the prior period financial measure in local currency and dividing this by prior period financial measure in local currency using the prior period local currency to the New Zealand Dollar exchange rate.
Contribution margin	is calculated as segmental gross profit less distribution, selling and marketing expenses.
EBIT	means earnings before interest and tax and is calculated as profit for the period before net finance costs and tax.
EBIT margin %	is calculated as profit for the period before net finance costs and tax and divided by revenue.
EBITDA	means earnings before interest, tax, depreciation and amortisation and is calculated as profit for the period before net finance costs, tax, depreciation and amortisation.
Economic debt to debt plus equity ratio	is calculated as net interest-bearing debt divided by net interest-bearing debt plus equity. Net interest bearing debt includes the effect of debt hedging, and equity excludes the cash flow hedge reserve.
Farmgate Milk Price	means the base price that Fonterra pays for milk supplied to it in New Zealand for a season. The season refers to the 12 month milk season of 1 June to 31 May.
Net tangible assets	means total assets less total liabilities less intangible assets.
Normalisation adjustments	means transactions that are unusual by nature and size. Excluding these transactions can assist users with forming a view of the underlying performance of the business. Unusual transactions by nature are the result of a specific event or set of circumstances that are outside the control of the business, or relate to the major acquisitions or disposals of an asset/group of assets or business. It may also include certain fair value movements created by required accounting treatments, in particular if they are non-cash movements, and will have no impact on profit over time. Unusual transactions by size are those that are unusually large in a particular accounting period. Unusually large is defined as greater than $30 million or where a transaction or event has previously met the normalisation criteria, and where costs or income exceed $10 million in a subsequent period.
Normalised EBIT	means profit for the period before net finance costs, tax and after normalisation adjustments.
Normalised EBIT margin %	means profit for the period before net finance costs, tax and after normalisation adjustments divided by revenue.
Normalised EBITDA	means profit for the period before net finance costs, tax, depreciation, amortisation and after normalisation adjustments.
Normalised segment earnings	means segmental profit for the period before depreciation, amortisation, net finance costs, tax, and after normalisation adjustments.
Payout	means the total cash payment to farmer shareholders. It is the sum of the Farmgate Milk Price (kgMS) and the dividend per share. Both of these components have established policies and procedures in place on how they are determined.
Retentions	means net profit after tax attributable to farmer shareholders divided by the number of shares at 31 May, less dividend per share.
Segment earnings	means segmental profit for the period before net finance costs, tax and normalisation adjustments.

SHAREHOLDER INFORMATION

FONTERRA BOARD OF DIRECTORS

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Clinton Dines

Ian Farrelly

Leonie Guiney

Simon Israel

David Jackson

David MacLeod

John Monaghan

Nicola Shadbolt

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Scott St John

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