



Dairy for life

# ANNUAL FINANCIAL RESULTS

FOR THE YEAR ENDED  
31 JULY 2016

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## DIRECTORS' STATEMENT

FOR THE YEAR ENDED 31 JULY 2016

The Directors of Fonterra Co-operative Group Limited (Fonterra) are pleased to present to Shareholders the Annual Report<sup>1</sup> and financial statements for Fonterra and its subsidiaries (together the Group) and the Group's interest in its equity accounted investments for the year ended 31 July 2016.

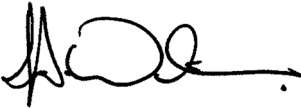
The Directors present financial statements for each financial year which fairly present the financial position of the Group and its financial performance and cash flows for that period.

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

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

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

The Directors hereby approve and authorise for issue the Annual Report for the year ended 31 July 2016. For and on behalf of the Board:



**JOHN WILSON**  
CHAIRMAN

20 September 2016



**DAVID JACKSON**  
DIRECTOR

20 September 2016

<sup>1</sup> This document, in conjunction with the Fonterra Annual Review 2016, constitutes the 2016 Annual Report to Shareholders of Fonterra Co-operative Group Limited.



## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 JULY 2016

	GROUP \$ MILLION	
	31 JULY 2016	31 JULY 2015
<b>Profit after tax</b>	<b>834</b>	<b>506</b>
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Cash flow hedges:		
– Net fair value gains/(losses)	439	(1,361)
– Transferred and reported in revenue from sale of goods	396	501
– Tax (expense)/credit on cash flow hedges	(234)	241
Net investment hedges:		
– Net fair value gains/(losses) on hedging instruments	93	(164)
– Transferred and reported in other operating income	8	–
– Tax (expense)/credit on net investment hedges	(28)	46
Available-for-sale investments:		
– Net fair value gains/(losses) on available-for-sale investments	5	(2)
Foreign currency translation (losses)/gains attributable to equity holders	(376)	385
Foreign currency translation reserve (gains)/losses transferred to income statement	(15)	78
Hyperinflation (losses)/gains attributable to equity holders	(16)	20
Share of equity accounted investees' movements in reserves	5	4
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>277</b>	<b>(252)</b>
<b>Items that will not be reclassified subsequently to profit or loss:</b>		
Foreign currency translation losses attributable to non-controlling interests	(84)	(6)
Hyperinflation movements attributable to non-controlling interests	(10)	13
<b>Total items that will not be reclassified subsequently to profit or loss</b>	<b>(94)</b>	<b>7</b>
<b>Total other comprehensive income/(expense) recognised directly in equity</b>	<b>183</b>	<b>(245)</b>
<b>Total comprehensive income</b>	<b>1,017</b>	<b>261</b>
<b>Total comprehensive income is attributable to:</b>		
Equity holders of the Co-operative	1,087	214
Non-controlling interests	(70)	47
<b>Total comprehensive income</b>	<b>1,017</b>	<b>261</b>

The accompanying notes form part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

AS AT 31 JULY 2016

	NOTES	GROUP \$ MILLION	
		31 JULY 2016	31 JULY 2015
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		369	342
Trade and other receivables	9	1,625	2,322
Inventories	10	2,401	3,025
Tax receivable		13	22
Derivative financial instruments		451	44
Assets held for sale	16	87	90
Other current assets		145	232
<b>Total current assets</b>		<b>5,091</b>	<b>6,077</b>
<b>Non-current assets</b>			
Property, plant and equipment	13	6,172	6,159
Equity accounted investments	17	960	1,185
Livestock	14	342	331
Intangible assets	15	3,142	3,273
Deferred tax assets	19	410	732
Derivative financial instruments		417	373
Other non-current assets		584	185
<b>Total non-current assets</b>		<b>12,027</b>	<b>12,238</b>
<b>Total assets</b>		<b>17,118</b>	<b>18,315</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Bank overdraft		12	39
Borrowings	7	955	1,681
Trade and other payables	11	2,169	1,984
Owing to suppliers	12	719	159
Tax payable		18	39
Derivative financial instruments		43	993
Provisions	20	47	77
Other current liabilities		35	59
<b>Total current liabilities</b>		<b>3,998</b>	<b>5,031</b>
<b>Non-current liabilities</b>			
Borrowings	7	5,397	5,879
Derivative financial instruments		569	415
Provisions	20	152	186
Deferred tax liabilities	19	44	109
Other non-current liabilities		11	36
<b>Total non-current liabilities</b>		<b>6,173</b>	<b>6,625</b>
<b>Total liabilities</b>		<b>10,171</b>	<b>11,656</b>
<b>Net assets</b>		<b>6,947</b>	<b>6,659</b>
<b>EQUITY</b>			
Subscribed equity		5,833	5,814
Retained earnings		1,384	1,289
Foreign currency translation reserve		(428)	(110)
Cash flow hedge reserve		64	(537)
Other reserves		6	17
<b>Total equity attributable to equity holders of the Co-operative</b>		<b>6,859</b>	<b>6,473</b>
Non-controlling interests		88	186
<b>Total equity</b>		<b>6,947</b>	<b>6,659</b>

The accompanying notes form part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JULY 2016

## ATTRIBUTABLE TO EQUITY HOLDERS OF THE CO-OPERATIVE

GROUP \$ MILLION	SUBSCRIBED EQUITY	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION RESERVE	CASH FLOW HEDGE RESERVE	OTHER RESERVES	TOTAL	NON- CONTROLLING INTERESTS	TOTAL EQUITY
<b>As at 1 August 2015</b>	<b>5,814</b>	<b>1,289</b>	<b>(110)</b>	<b>(537)</b>	<b>17</b>	<b>6,473</b>	<b>186</b>	<b>6,659</b>
Profit after tax	-	810	-	-	-	810	24	834
Other comprehensive income/(expense)	-	5	(318)	601	(11)	277	(94)	183
<b>Total comprehensive income/(expense)</b>	<b>-</b>	<b>815</b>	<b>(318)</b>	<b>601</b>	<b>(11)</b>	<b>1,087</b>	<b>(70)</b>	<b>1,017</b>
<b>Transactions with equity holders in their capacity as equity holders:</b>								
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)
<b>As at 31 July 2016</b>	<b>5,833</b>	<b>1,384</b>	<b>(428)</b>	<b>64</b>	<b>6</b>	<b>6,859</b>	<b>88</b>	<b>6,947</b>
<b>As at 1 August 2014</b>	<b>5,807</b>	<b>1,059</b>	<b>(455)</b>	<b>82</b>	<b>(1)</b>	<b>6,492</b>	<b>42</b>	<b>6,534</b>
Profit after tax	-	466	-	-	-	466	40	506
Other comprehensive income/(expense)	-	4	345	(619)	18	(252)	7	(245)
<b>Total comprehensive income/(expense)</b>	<b>-</b>	<b>470</b>	<b>345</b>	<b>(619)</b>	<b>18</b>	<b>214</b>	<b>47</b>	<b>261</b>
<b>Transactions with equity holders in their capacity as equity holders:</b>								
Dividend paid to equity holders of the Co-operative	-	(240)	-	-	-	(240)	-	(240)
Acquisition of subsidiaries	-	-	-	-	-	-	120	120
Equity instruments issued	7	-	-	-	-	7	-	7
Dividend paid to non-controlling interests	-	-	-	-	-	-	(23)	(23)
<b>As at 31 July 2015</b>	<b>5,814</b>	<b>1,289</b>	<b>(110)</b>	<b>(537)</b>	<b>17</b>	<b>6,473</b>	<b>186</b>	<b>6,659</b>

The accompanying notes form part of these financial statements.

**CASH FLOW STATEMENT**

FOR THE YEAR ENDED 31 JULY 2016

	GROUP \$ MILLION	
	31 JULY 2016	31 JULY 2015
<b>Cash flows from operating activities</b>		
Profit before net finance costs and tax	1,431	942
Adjustments for:		
Foreign exchange gains	(365)	(70)
Depreciation and amortisation	570	561
Other	(44)	(60)
	161	431
Decrease/(increase) in working capital:		
Inventories	597	713
Trade and other receivables	485	186
Amounts owing to suppliers	560	(1,612)
Payables and accruals	171	35
Other movements	(42)	28
Total	1,771	(650)
<b>Cash generated from operations</b>	<b>3,363</b>	<b>723</b>
Net taxes paid	(85)	(55)
<b>Net cash flows from operating activities</b>	<b>3,278</b>	<b>668</b>
<b>Cash flows from investing activities</b>		
Cash was provided from:		
– Proceeds from sale of business operations	230	62
– Proceeds from disposal of property, plant and equipment	26	20
– Proceeds from sale of livestock	35	30
– Proceeds from sale of available-for-sale assets	78	–
– Other cash inflows	26	36
Cash was applied to:		
– Acquisition of business operations	–	(771)
– Acquisition of property, plant and equipment	(859)	(1,189)
– Acquisition of livestock	(95)	(121)
– Acquisition of intangible assets	(85)	(104)
– Co-operative support loans	(383)	–
– Advances to and investments in equity accounted investees	(41)	–
– Other cash outflows	(26)	(3)
<b>Net cash flows from investing activities</b>	<b>(1,094)</b>	<b>(2,040)</b>
<b>Cash flows from financing activities</b>		
Cash was provided from:		
– Proceeds from borrowings	4,909	7,470
– Interest received	7	8
– Other cash inflows	–	28
Cash was applied to:		
– Interest paid	(415)	(455)
– Repayment of borrowings	(5,815)	(5,443)
– Dividends paid to non-controlling interests	(28)	(23)
– Dividends paid to equity holders of the Co-operative	(701)	(233)
– Other cash outflows	(7)	–
<b>Net cash flows from financing activities</b>	<b>(2,050)</b>	<b>1,352</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>134</b>	<b>(20)</b>
Cash and cash equivalents at the beginning of the year	303	319
Effect of exchange rate changes on cash balances	(80)	4
<b>Cash and cash equivalents at the end of the year</b>	<b>357</b>	<b>303</b>
<b>Reconciliation of closing cash balances to the statement of financial position:</b>		
Cash and cash equivalents	369	342
Bank overdraft	(12)	(39)
<b>Closing cash balances</b>	<b>357</b>	<b>303</b>

The accompanying notes form part of these financial statements.



## BASIS OF PREPARATION

FOR THE YEAR ENDED 31 JULY 2016

### A) GENERAL INFORMATION

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

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

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

### B) BASIS OF PREPARATION

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

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

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

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

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

#### Intangible assets (Note 15)

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

#### Investment in Beingmate Baby & Child Food Co., Ltd. (Beingmate) (Note 17)

In line with the continued volatility in the Chinese share market, Beingmate's share price is below the price Fonterra paid for its investment. As a result of this, the carrying value of the investment in Beingmate (\$739 million) has been assessed for impairment. In performing this assessment, management have estimated the future cash flows expected to be generated from this investment. The strong market fundamentals and recent changes to the regulatory regime in China are expected to have a positive impact on Beingmate's future cash flows. The value of the investment calculated using management's estimate of future cash flows supports the carrying value of the investment held by Fonterra, therefore no impairment has been recognised.

#### Provisions and contingent liabilities (Note 20)

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

#### Taxation (Note 19)

Estimates are required relating to the amount of tax that will ultimately be payable and the availability and utilisation of losses to be carried forward. Judgement is required in determining the provision for taxes as tax

treatment is often by its nature complex, and may not be finally determined until a formal resolution has been reached with the relevant tax authority. Judgement is also required in assessing the amount of deferred tax asset that can be recognised. Deferred tax assets relating to tax losses carried forward can only be recognised if it is probable that they can be used. A deferred tax asset can be used if there are future taxable profits to offset against the losses carried forward. This requires management to assess the likelihood, timing and expected amount of future taxable profits.

### C) BASIS OF CONSOLIDATION

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

#### Translation of the financial statements into NZD

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

## **D) NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

### **i) New and amended standards adopted by the Group**

The Group has not adopted any new or amended standards.

### **ii) New and amended standards issued but not yet effective**

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

- NZ IFRS 15 Revenue from Contracts with Customers establishes the framework for revenue recognition.
- NZ IFRS 16 Leases replaces the current guidance on lease accounting. It requires a lease liability reflecting future lease payments, and a 'right of use asset', to be recognised for virtually all lease contracts. This includes leases currently classified as operating leases for which no asset or liability is reflected on the balance sheet under existing accounting rules.

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

### **Impact of adopting NZ IFRS 9 Financial Instruments**

NZ IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets, financial liabilities, impairment of financial assets and hedge accounting. Fonterra intends to adopt IFRS 9 from 1 August 2016.

NZ IFRS 9 hedge accounting rules align hedge accounting more closely with Fonterra's risk management activities in the following areas:

- The adoption of NZ IFRS 9 will permit Fonterra to achieve hedge accounting for certain interest rate swaps, which is not possible under current accounting standards. While this is expected to reduce income statement volatility over time, the interest rate swaps in place on transition to NZ IFRS 9 may not be fully effective hedges so a portion of the mark to market adjustment for these will continue to be reflected in finance costs. This change will be recognised prospectively.
- Option premium costs and the time value of options will be recognised in other comprehensive income as a 'cost of hedging', until the hedged sales transaction is recognised. Currently they are recorded in the income statement as they are incurred. While this change is required to be recognised retrospectively, it did not have a material impact on Fonterra's financial statements for the year ended 31 July 2016.

The impact of the changes in accounting treatment as a result of adopting NZ IFRS 9 on the financial results of Fonterra for the financial year ending 31 July 2017 is unable to be quantified as it depends on future movements in interest rates and foreign currency exchange rates.

No significant changes are expected as a result of the classification, measurement and impairment requirements of NZ IFRS 9.

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2016

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## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2016

### PERFORMANCE

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

This section includes the following Notes:

Note 1: Segment reporting

Note 2: Cost of goods sold

Note 3: Earnings per share

Note 4: Profit before net finance costs and tax

### 1 SEGMENT REPORTING

#### a) Operating segments

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

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

From 1 August 2015, Fonterra's organisational structure was realigned and as a result the Fonterra Farm Source™ stores have moved out of Oceania into Global Ingredients and Operations. Comparatives have been restated to reflect these changes.

## a) Operating segments continued

	GROUP \$ MILLION						
	GLOBAL INGREDIENTS AND OPERATIONS	OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	ELIMINATIONS	TOTAL GROUP
<b>Segment income statement</b>							
<i>Year ended 31 July 2016</i>							
External revenue	10,636	2,425	1,630	1,008	1,500	-	17,199
Inter-segment revenue	1,505	439	171	13	5	(2,133)	-
<b>Revenue from sale of goods</b>	<b>12,141</b>	<b>2,864</b>	<b>1,801</b>	<b>1,021</b>	<b>1,505</b>	<b>(2,133)</b>	<b>17,199</b>
Cost of goods sold	(10,343)	(2,362)	(1,213)	(742)	(1,042)	2,135	(13,567)
<b>Segment gross profit</b>	<b>1,798</b>	<b>502</b>	<b>588</b>	<b>279</b>	<b>463</b>	<b>2</b>	<b>3,632</b>
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)
<b>Segment operating expenses</b>	<b>(1,168)</b>	<b>(464)</b>	<b>(353)</b>	<b>(227)</b>	<b>(346)</b>	<b>30</b>	<b>(2,528)</b>
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
<b>Segment earnings before net finance costs and tax</b>	<b>864</b>	<b>137</b>	<b>235</b>	<b>64</b>	<b>125</b>	<b>6</b>	<b>1,431</b>
Normalisation adjustments	(96)	23	-	-	-	-	(73)
<b>Normalised segment earnings before net finance costs and tax</b>	<b>768</b>	<b>160</b>	<b>235</b>	<b>64</b>	<b>125</b>	<b>6</b>	<b>1,358</b>
Normalisation adjustments							73
Finance income							18
Finance costs							(517)
<b>Profit before tax</b>							<b>932</b>
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 <sup>1</sup>	68	-	-	-	-	-	68
Disposal and impairment of the Australian yoghurt and dairy desserts business <sup>2</sup>	-	(23)	-	-	-	-	(23)
Time value of options <sup>3</sup>	28	-	-	-	-	-	28
<b>Total normalisation adjustments</b>	<b>96</b>	<b>(23)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>73</b>
Segment asset information:							
<i>As at and for the year ended 31 July 2016</i>							
Equity accounted investments	188	-	-	763	9	-	960
Capital expenditure <sup>4</sup>	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 YEAR ENDED 31 JULY 2016

**a) Operating segments** continued

	GROUP \$ MILLION						
	GLOBAL INGREDIENTS AND OPERATIONS	OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	ELIMINATIONS	TOTAL GROUP
<b>Segment income statement</b>							
<i>Year ended 31 July 2015</i>							
External revenue	11,861	2,438	1,551	807	2,188	–	18,845
Inter-segment revenue	1,570	480	181	–	2	(2,233)	–
<b>Revenue from sale of goods</b>	<b>13,431</b>	<b>2,918</b>	<b>1,732</b>	<b>807</b>	<b>2,190</b>	<b>(2,233)</b>	<b>18,845</b>
Cost of goods sold	(11,866)	(2,577)	(1,224)	(599)	(1,516)	2,215	(15,567)
<b>Segment gross profit</b>	<b>1,565</b>	<b>341</b>	<b>508</b>	<b>208</b>	<b>674</b>	<b>(18)</b>	<b>3,278</b>
Selling and marketing expenses	(147)	(103)	(176)	(135)	(132)	–	(693)
Distribution expenses	(221)	(160)	(33)	(10)	(276)	–	(700)
Administrative and other operating expenses	(805)	(264)	(105)	(81)	(162)	50	(1,367)
<b>Segment operating expenses</b>	<b>(1,173)</b>	<b>(527)</b>	<b>(314)</b>	<b>(226)</b>	<b>(570)</b>	<b>50</b>	<b>(2,760)</b>
Net other operating income	131	29	2	18	158	(50)	288
Net foreign exchange gains/(losses)	83	(1)	(4)	–	(8)	–	70
Share of profit of equity accounted investees	67	2	–	(5)	2	–	66
<b>Segment earnings before net finance costs and tax</b>	<b>673</b>	<b>(156)</b>	<b>192</b>	<b>(5)</b>	<b>256</b>	<b>(18)</b>	<b>942</b>
Normalisation adjustments	38	118	3	1	(128)	–	32
<b>Normalised segment earnings before net finance costs and tax</b>	<b>711</b>	<b>(38)</b>	<b>195</b>	<b>(4)</b>	<b>128</b>	<b>(18)</b>	<b>974</b>
Normalisation adjustments							(32)
Finance income							39
Finance costs							(557)
<b>Profit before tax</b>							<b>424</b>
Profit before tax includes the following amounts:							
Depreciation	(326)	(61)	(10)	(19)	(37)	–	(453)
Amortisation	(79)	(23)	(3)	(1)	(2)	–	(108)
Normalisation adjustments consist of the following amounts:							
Net gain on Latin America strategic realignment <sup>1</sup>	–	–	–	–	129	–	129
Impairment of the Australian yoghurt and dairy desserts business <sup>2</sup>	–	(108)	–	–	–	–	(108)
Restructuring and redundancy provisions <sup>3</sup>	(18)	(10)	(3)	(1)	(1)	–	(33)
Time value of options <sup>4</sup>	(20)	–	–	–	–	–	(20)
<b>Total normalisation adjustments</b>	<b>(38)</b>	<b>(118)</b>	<b>(3)</b>	<b>(1)</b>	<b>128</b>	<b>–</b>	<b>(32)</b>
Segment asset information:							
<i>As at and for the year ended 31 July 2015</i>							
Equity accounted investments	311	7	–	858	9	–	1,185
Capital expenditure <sup>5</sup>	939	84	36	382	90	–	1,531

1 Of the \$129 million normalisation adjustment, \$141 million relates to other operating income, \$4 million to cost of goods sold and \$8 million to other operating expenses.

2 Of the \$108 million normalisation adjustment, \$58 million relates to other operating expenses and \$50 million to cost of goods sold.

3 The \$33 million normalisation adjustment relates to administrative and other operating expenses.

4 The \$20 million normalisation adjustment relates to net foreign exchange losses.

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

## 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 JULY 2016								
	INGREDIENTS	CONSUMER AND FOODSERVICE					CHINA FARMS	UNALLOCATED COSTS AND ELIMINATIONS	TOTAL
	OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL				
Volume <sup>1</sup> (liquid milk equivalents, billion)	22.4	1.8	1.6	0.9	0.6	4.9	0.2	(3.8)	23.7
Volume <sup>1</sup> (metric tonnes, thousand)	3,074	698	292	167	643	1,800	229	(577)	4,526
Sales revenue <sup>1</sup> (\$ 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 <sup>2</sup> (\$ million)	7,724	489	127	22	284	922	873	(127)	9,392
Return on capital <sup>3</sup>	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.

	GROUP								
	31 JULY 2015								
	INGREDIENTS	CONSUMER AND FOODSERVICE					CHINA FARMS	UNALLOCATED COSTS AND ELIMINATIONS	TOTAL
	OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL				
Volume <sup>1</sup> (liquid milk equivalents, billion)	21.5	1.7	1.6	0.6	0.6	4.5	0.2	(3.4)	22.8
Volume <sup>1</sup> (metric tonnes, thousand)	2,982	619	284	122	660	1,685	164	(528)	4,303
Sales revenue <sup>1</sup> (\$ million)	14,341	2,021	1,918	729	2,033	6,701	141	(2,338)	18,845
Normalised EBIT (\$ million)	973	51	202	45	110	408	(44)	(363)	974
Capital employed <sup>2</sup> (\$ million)	8,592	465	145	45	403	1,058	594	(757)	9,487
Return on capital <sup>3</sup>	9.3%	5.0%	96.2%	71.5%	18.6%	25.5%	(7.3)%		8.9%

For the year ended 31 July 2015 the Group's return on capital including intangible assets, goodwill and equity accounted investments, was 6.9 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.

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 31 JULY 2016

**c) Geographical revenue**

	GROUP \$ MILLION								TOTAL
	CHINA	REST OF ASIA	AUSTRALIA	NEW ZEALAND	UNITED STATES	EUROPE	LATIN AMERICA	REST OF WORLD	
<i>Geographical segment external revenue:</i>									
Year ended 31 July 2016	2,394	4,829	1,471	1,939	1,305	745	2,053	2,463	17,199
Year ended 31 July 2015	2,111	5,222	1,560	1,882	1,198	725	3,113	3,034	18,845

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

**d) Non-current assets**

	GROUP \$ MILLION							TOTAL GROUP	
	GLOBAL INGREDIENTS AND OPERATIONS		OCEANIA		ASIA	GREATER CHINA	LATIN AMERICA		
	NEW ZEALAND	REST OF WORLD	NEW ZEALAND	AUSTRALIA					
<i>Geographical segment reportable non-current assets:</i>									
As at 31 July 2016		5,459	301	1,292	740	779	1,648	981	11,200
As at 31 July 2015		4,783	464	1,394	814	822	1,751	1,105	11,133

	GROUP \$ MILLION	
	AS AT 31 JULY 2016	AS AT 31 JULY 2015
<i>Reconciliation of geographical segment's non-current assets to total non-current assets:</i>		
Geographical segment non-current assets	11,200	11,133
Deferred tax assets	410	732
Derivative financial instruments	417	373
<b>Total non-current assets</b>	<b>12,027</b>	<b>12,238</b>

**2 COST OF GOODS SOLD**

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

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

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

	GROUP \$ MILLION	
	31 JULY 2016	31 JULY 2015
Opening inventory	3,025	3,701
Cost of milk:		
– New Zealand sourced	6,205	7,121
– Non-New Zealand sourced	944	1,151
Other purchases	5,794	6,619
Closing inventory	(2,401)	(3,025)
<b>Total cost of goods sold</b>	<b>13,567</b>	<b>15,567</b>



### 3 EARNINGS PER SHARE

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

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

	GROUP	
	31 JULY 2016	31 JULY 2015
Basic and diluted earnings per share attributable to equity holders of the Co-operative (\$)	0.51	0.29
Earnings attributable to equity holders of the Co-operative (\$ million)	810	466
Weighted average number of shares (thousands of shares)	1,600,825	1,598,464

### 4 PROFIT BEFORE NET FINANCE COSTS AND TAX

	GROUP \$ MILLION	
	31 JULY 2016	31 JULY 2015
The following items have been included in profit before net finance costs and tax:		
Auditors' remuneration:		
– Fees paid for the audit or review of the financial statements	5	5
– Fees paid for other services <sup>1</sup>	–	1
Operating lease expense	94	76
Research and development costs	88	83
Donations	1	1
Research and development grants received from government	(4)	(5)
Total employee benefits expense	2,019	2,178
Contributions to defined contribution plans included in employee benefits expense	69	74

<sup>1</sup> The Group uses the services of PricewaterhouseCoopers on assignments additional to their statutory audit duties where their expertise and experience with the Group are important and auditor independence is not impaired. Other services include other assurance and attestation services \$0.1 million (31 July 2015: \$0.1 million) and advisory services of nil (31 July 2015: \$0.5 million).

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 31 JULY 2016

**DEBT AND EQUITY**

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

This section includes the following Notes:

Note 5: Subscribed equity instruments

Note 7: Borrowings

Note 6: Dividends paid

Note 8: Net finance costs

**5 SUBSCRIBED EQUITY INSTRUMENTS**

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

**Co-operative shares, including shares held within the Group**

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

	CO-OPERATIVE SHARES (THOUSANDS)
<b>Balance at 1 August 2015</b>	<b>1,599,094</b>
Shares issued <sup>2</sup>	3,609
Shares surrendered	–
<b>Balance at 31 July 2016</b>	<b>1,602,703</b>
<b>Balance at 1 August 2014</b>	<b>1,597,834</b>
Shares issued	1,260
Shares surrendered	–
<b>Balance at 31 July 2015</b>	<b>1,599,094</b>

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

2 3,609,118 shares (31 July 2015: 1,260,116 shares) with a total value of \$19 million (31 July 2015: \$7 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/Our Governance' section of Fonterra's website.

**Units in the Fonterra Shareholders' Fund**

The Custodian holds legal title of Co-operative shares of which the Economic Rights have been sold to the Fund on trust for the benefit of the Fund. At 31 July 2016, 111,991,937 Co-operative shares (31 July 2015: 105,480,366) were legally owned by the Custodian, on trust for the benefit of the Fund.

	UNITS (THOUSANDS)
<b>Balance at 1 August 2015</b>	<b>105,480</b>
Units issued	27,137
Units surrendered	(20,625)
<b>Balance at 31 July 2016</b>	<b>111,992</b>
<b>Balance at 1 August 2014</b>	<b>109,778</b>
Units issued	21,906
Units surrendered	(26,204)
<b>Balance at 31 July 2015</b>	<b>105,480</b>

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

**Capital management and structure**

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

## 5 SUBSCRIBED EQUITY INSTRUMENTS CONTINUED

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

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

## 6 DIVIDENDS PAID

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

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

DIVIDENDS	\$ MILLION	
	YEAR ENDED 31 JULY 2016	YEAR ENDED 31 JULY 2015
2016 Interim dividend – 10 cents per share <sup>1</sup>	160	–
2016 Interim dividend – 20 cents per share <sup>2</sup>	320	–
2015 Final dividend – 15 cents per share <sup>3</sup>	240	–
2015 Interim dividend – 10 cents per share <sup>4</sup>	–	160
2014 Final dividend – 5 cents per share <sup>5</sup>	–	80

1 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.

2 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.

3 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.

4 Declared on 24 March 2015 and paid on 20 April 2015 to all Co-operative shares on issue at 10 April 2015. The Dividend Reinvestment Plan applied to this interim dividend.

5 Declared on 23 September 2014 and paid on 20 October 2014 to all Co-operative shares on issue at 9 October 2014.

### Dividends declared after balance date

On 18 August 2016, the Board declared a dividend of 10 cents per share. This dividend totalling \$160 million was paid on 9 September 2016 to all Co-operative shares on issue at 1 September 2016.

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

## 7 BORROWINGS

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

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method, with the hedged risks on certain debt instruments measured at fair value. Changes in fair value of those hedged risks are recognised in the income statement, except where they relate to borrowings classified as net investment hedges and cash flow hedges and recorded directly in other comprehensive income.

### Economic net interest-bearing debt

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

	GROUP \$ MILLION	
	AS AT 31 JULY 2016	AS AT 31 JULY 2015
<b>Net interest-bearing debt position</b>		
Total borrowings	6,352	7,560
Cash and cash equivalents	(369)	(342)
Interest-bearing advances included in other non-current assets	(464)	(65)
Bank overdraft	12	39
<b>Net interest-bearing debt</b>	<b>5,531</b>	<b>7,192</b>
Value of derivatives used to manage changes in hedged risks	(58)	(72)
<b>Economic net interest-bearing debt</b>	<b>5,473</b>	<b>7,120</b>

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 31 JULY 2016

**7 BORROWINGS** CONTINUED

Total borrowings in the table above are represented by:

	GROUP \$ MILLION	
	AS AT 31 JULY 2016	AS AT 31 JULY 2015
Commercial paper	454	473
Bank loans	879	1,717
Finance leases <sup>1</sup>	143	169
Capital notes <sup>2</sup>	35	35
NZX-listed bonds	499	500
Medium-term notes	4,342	4,666
<b>Total borrowings</b>	<b>6,352</b>	<b>7,560</b>
Included within the statement of financial position as follows:		
Total current borrowings	955	1,681
Total non-current borrowings	5,397	5,879
<b>Total borrowings</b>	<b>6,352</b>	<b>7,560</b>

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

2 Capital notes are unsecured subordinated borrowings.

3 All other borrowings are unsecured and unsubordinated.

**Leverage ratios**

The Board closely monitors the Group's leverage ratios, which include the gearing ratio and debt coverage ratios (debt payback and interest coverage ratios). The primary debt payback ratios comprise funds from operations divided by economic net interest-bearing debt, and economic net interest-bearing debt divided by EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation). Debt pay-back ratios are adjusted for the impact of operating leases. The gearing ratio is calculated as economic net interest-bearing debt divided by total capital. Economic net interest-bearing debt is calculated in the table above. Total capital is calculated as equity, as presented in the statement of financial position (excluding the cash flow hedge reserve), plus economic net interest-bearing debt. The gearing ratio as at 31 July 2016 was 44.3 per cent (31 July 2015: 49.7 per cent). The Group is not subject to externally imposed capital requirements.

Finance leases included in total borrowings are represented by:

	GROUP \$ MILLION	
	AS AT 31 JULY 2016	AS AT 31 JULY 2015
<b>Finance leases – minimum lease payments</b>		
Not later than one year	17	37
Later than one year and not later than five years	161	175
Later than five years	6	8
	<b>184</b>	<b>220</b>
Future finance charges on finance leases	(41)	(51)
<b>Present value of finance leases</b>	<b>143</b>	<b>169</b>
The present value of finance leases is as follows:		
Not later than one year	6	26
Later than one year and not later than five years	131	136
Later than five years	6	7
<b>Total present value of finance leases</b>	<b>143</b>	<b>169</b>

**Liquidity risk**

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

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

The Group manages its liquidity by retaining cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Fonterra's funding facilities are reviewed at least annually, which is one of the key financial risk management activities undertaken by the Group to ensure an appropriate maturity profile given the nature of the Group's business. At balance date the Group had undrawn lines of credit totalling \$3,723 million (31 July 2015: \$2,520 million).

**7 BORROWINGS** CONTINUED

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

*Exposure to liquidity risk*

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

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

1 Maximum cash flows under guarantees provided by the Group.

	GROUP \$ MILLION					
	AS AT 31 JULY 2015					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	3 MONTHS OR LESS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS
<b>Non-derivative financial liabilities</b>						
Borrowings						
- Commercial paper	(473)	(475)	(415)	(60)	-	-
- Bank loans	(1,717)	(1,818)	(150)	(320)	(1,348)	-
- Finance leases	(169)	(220)	(21)	(16)	(175)	(8)
- Capital notes	(35)	(44)	(1)	(1)	(7)	(35)
- NZX-listed bonds	(500)	(610)	(13)	(163)	(61)	(373)
- Medium-term notes	(4,666)	(6,104)	(285)	(528)	(2,117)	(3,174)
Bank overdraft	(39)	(40)	(16)	(24)	-	-
Owing to suppliers	(159)	(159)	(159)	-	-	-
Trade and other payables (excluding employee entitlements)	(1,697)	(1,697)	(1,697)	-	-	-
Financial guarantees issued <sup>1</sup>	-	(31)	(31)	-	-	-
<b>Total non-derivative financial liabilities</b>	<b>(9,455)</b>	<b>(11,198)</b>	<b>(2,788)</b>	<b>(1,112)</b>	<b>(3,708)</b>	<b>(3,590)</b>
<b>Derivative financial instruments</b>						
Gross settled derivatives						
- Inflow		18,308	9,123	5,572	1,578	2,035
- Outflow		(19,379)	(9,388)	(6,187)	(1,726)	(2,078)
<b>Total gross settled derivative financial instruments</b>	<b>(877)</b>	<b>(1,071)</b>	<b>(265)</b>	<b>(615)</b>	<b>(148)</b>	<b>(43)</b>
Net settled derivatives	(114)	(102)	(20)	34	(100)	(16)
<b>Total financial instruments</b>	<b>(10,446)</b>	<b>(12,371)</b>	<b>(3,073)</b>	<b>(1,693)</b>	<b>(3,956)</b>	<b>(3,649)</b>

1 Maximum cash flows under guarantees provided by the Group.

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 31 JULY 2016

**7 BORROWINGS** CONTINUED**Interest rate risk**

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

The Group borrows a mixture of fixed and variable rate debt in a range of currencies. The Group actively hedges its repricing profile using interest rate swaps in accordance with its Treasury Policy in order to manage the volatility of finance costs.

*Exposure to interest rate risk and analysis of fair value sensitivity*

Sensitivities to interest rate risk have been assessed on the basis of a 100 basis point movement in interest rates. A 100 basis point movement is considered reasonably possible over the short term.

A 100 basis point movement in interest rates to which the Group is exposed would result in the following post-tax increase/(decrease) to equity and profit. The fair value sensitivity to a 100 basis point movement in interest rates (based on financial assets and liabilities held at the balance date) is as follows:

	GROUP \$ MILLION			
	31 JULY 2016		31 JULY 2015	
	EQUITY	PROFIT	EQUITY	PROFIT
Fair value gain/(loss) from 100 basis point increase	(10)	40	(11)	61
Fair value gain/(loss) from 100 basis point decrease	10	(46)	14	(65)

*Cash flow sensitivity analysis*

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

	GROUP \$ MILLION	
	31 JULY 2016	31 JULY 2015
One year cash flow impact of 100 basis point increase	(3)	(4)
One year cash flow impact of 100 basis point decrease	3	4

**8 NET FINANCE COSTS**

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

*Fonterra Co-operative Support Loans*

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

	GROUP \$ MILLION	
	31 JULY 2016	31 JULY 2015
<b>Finance income<sup>1</sup></b>	<b>18</b>	<b>39</b>
Interest expense on financial liabilities measured at amortised cost	(412)	(404)
Interest expense on derivatives classified as held for trading	(22)	(10)
Total interest expense calculated on an amortised cost basis	(434)	(414)
Change in fair value of hedged risks on debt instruments designated in a fair value hedge relationship	(111)	(40)
Change in fair value of derivative instruments designated as a fair value hedge <sup>2</sup>	129	42
Change in fair value of derivatives classified as held for trading	(101)	(145)
<b>Finance costs</b>	<b>(517)</b>	<b>(557)</b>
<b>Net finance costs<sup>3</sup></b>	<b>(499)</b>	<b>(518)</b>

1 Includes a \$2 million gain (31 July 2015: \$31 million gain) on restatement of the net monetary position of hyperinflationary foreign operations.

2 This includes the fair value impact of the basis risk and credit valuation adjustments inherent in the valuation of cross currency interest rate swaps that do not form part of the debt instrument hedging relationship.

3 Net finance costs includes a net impact of \$27 million (31 July 2015: nil) relating to the Fonterra Co-operative Support Loans.

## WORKING CAPITAL

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

This section includes the following Notes:

Note 9: Trade and other receivables

Note 11: Trade and other payables

Note 10: Inventories

Note 12: Owing to suppliers

## 9 TRADE AND OTHER RECEIVABLES

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

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

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

	GROUP \$ MILLION	
	AS AT 31 JULY 2016	AS AT 31 JULY 2015
Trade receivables	1,302	2,023
Less: provision for impairment of trade receivables	(20)	(15)
Trade receivables net of provision for impairment	1,282	2,008
Receivables from related parties <sup>1</sup>	18	24
Other receivables	201	190
<b>Total receivables</b>	<b>1,501</b>	<b>2,222</b>
Prepayments	124	100
<b>Total trade and other receivables</b>	<b>1,625</b>	<b>2,322</b>

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

### Customer credit risk

Customer credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations.

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

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

GROUP \$ MILLION	PAST DUE BUT NOT IMPAIRED				TOTAL
	NEITHER PAST DUE NOR IMPAIRED	LESS THAN 1 MONTH PAST DUE	MORE THAN 1 MONTH BUT LESS THAN 3 MONTHS PAST DUE	MORE THAN 3 MONTHS PAST DUE	
As at 31 July 2016	1,303	130	38	30	1,501
As at 31 July 2015	1,934	206	62	20	2,222

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 31 JULY 2016

**10 INVENTORIES**

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

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

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

	GROUP \$ MILLION	
	AS AT 31 JULY 2016	AS AT 31 JULY 2015
Raw materials	647	700
Finished goods	1,793	2,428
Impairment of finished goods	(39)	(103)
<b>Total inventories</b>	<b>2,401</b>	<b>3,025</b>

**11 TRADE AND OTHER PAYABLES**

Trade and other payables, excluding amounts owing to farmer shareholders and New Zealand contract milk suppliers, are initially recognised at the amount invoiced by the supplier. They are subsequently measured at amortised cost using the effective interest method. Due to their short-term nature, trade and other payables are not discounted.

	GROUP \$ MILLION	
	AS AT 31 JULY 2016	AS AT 31 JULY 2015
Trade payables	1,640	1,569
Amounts due to related parties	16	19
Other payables	211	109
<b>Total trade and other payables (excluding employee entitlements)</b>	<b>1,867</b>	<b>1,697</b>
Employee entitlements	302	287
<b>Total trade and other payables</b>	<b>2,169</b>	<b>1,984</b>

**12 OWING TO SUPPLIERS**

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

These amounts are initially recognised at fair value, being the amount due to the supplier for the milk provided. They are subsequently measured at amortised cost using the effective interest method.

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

	AS AT 31 JULY 2016	AS AT 31 JULY 2015
Owing to suppliers (\$ million)	719	159
Final milk price for the season	\$3.90	\$4.40
Of this amount:		
– Total advance payments made during the year	\$3.48	\$4.33
– Total owing as at 31 July	\$0.42	\$0.07
Amount advanced during the year as a percentage of the milk price for the season ended 31 May	89%	98%



## LONG-TERM ASSETS

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

This section includes the following Notes:

Note 13: Property, plant and equipment

Note 14: Livestock

Note 15: Intangible assets

### 13 PROPERTY, PLANT AND EQUIPMENT

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

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

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

#### Depreciation

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

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

- Land Indefinite
- Buildings and leasehold improvements 15–50 years
- Plant, vehicles and equipment 3–25 years

	GROUP \$ MILLION				TOTAL
	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	PLANT, VEHICLES AND EQUIPMENT	CAPITAL WORK IN PROGRESS	
<b>As at 31 July 2016</b>					
Cost	339	2,479	7,231	718	10,767
Accumulated depreciation and impairment	–	(883)	(3,712)	–	(4,595)
<b>Net book value at 31 July 2016</b>	<b>339</b>	<b>1,596</b>	<b>3,519</b>	<b>718</b>	<b>6,172</b>
<b>As at 31 July 2015</b>					
Cost	366	2,316	6,789	1,103	10,574
Accumulated depreciation and impairment	–	(811)	(3,604)	–	(4,415)
<b>Net book value at 31 July 2015</b>	<b>366</b>	<b>1,505</b>	<b>3,185</b>	<b>1,103</b>	<b>6,159</b>

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 31 JULY 2016

**13 PROPERTY, PLANT AND EQUIPMENT** CONTINUED

	GROUP \$ MILLION				TOTAL
	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	PLANT, VEHICLES AND EQUIPMENT	CAPITAL WORK IN PROGRESS	
<i>Net book value</i>					
As at 1 August 2015	366	1,505	3,185	1,103	6,159
Additions <sup>1</sup>	1	6	21	769	797
Transfer from capital work in progress	11	313	794	(1,118)	-
Hyperinflationary movements	2	4	3	1	10
Depreciation charge	-	(108)	(357)	-	(465)
Impairment losses	-	(2)	(16)	-	(18)
Disposals	(5)	(6)	(24)	(3)	(38)
Foreign currency translation	(36)	(116)	(87)	(34)	(273)
<b>As at 31 July 2016</b>	<b>339</b>	<b>1,596</b>	<b>3,519</b>	<b>718</b>	<b>6,172</b>
<i>Net book value</i>					
As at 1 August 2014	327	1,283	2,971	510	5,091
Additions <sup>1</sup>	-	6	16	1,316	1,338
Transfer from capital work in progress	10	181	540	(731)	-
Acquisition of subsidiaries	18	85	81	10	194
Hyperinflationary movements	16	28	27	5	76
Transfer to assets held for sale	(6)	(18)	(66)	-	(90)
Depreciation charge	-	(93)	(360)	-	(453)
Impairment losses	-	(17)	(39)	-	(56)
Disposals	(2)	(1)	(10)	-	(13)
Foreign currency translation	3	51	25	(7)	72
<b>As at 31 July 2015</b>	<b>366</b>	<b>1,505</b>	<b>3,185</b>	<b>1,103</b>	<b>6,159</b>

1 Additions include borrowing costs of \$19 million (2015: \$15 million) capitalised using a weighted average interest rate of 6.00 per cent (2015: 6.30 per cent).

During the year ended 31 July 2015 Fonterra recorded impairment losses of \$108 million in relation to the Australian yoghurt and dairy desserts business. This impairment reflected the continuing challenges in that business's market environment. \$50 million was for property, plant and equipment, and \$58 million was for intangible assets. The impairment was determined by reference to Fonterra's estimate of the business's fair value less costs to sell, which is a level 3 measurement in the fair value hierarchy. This impairment was recorded in the Oceania segment.

**Leased assets**

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

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

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

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

	GROUP \$ MILLION	
	AS AT 31 JULY 2016	AS AT 31 JULY 2015
Land	5	5
Building and leasehold improvements	97	102
Plant and equipment	25	29
<b>Net book value of property, plant and equipment subject to finance leases</b>	<b>127</b>	<b>136</b>

## 14 LIVESTOCK

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

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

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

Mature livestock includes dairy cows that have produced their first calf and begun milk production. Costs incurred in relation to mature livestock are recognised in the income statement. The fair value of mature dairy cows is determined by reference to an independent valuer's report. The independent valuer primarily uses a discounted cash flow methodology. The Group also holds immaterial quantities of other livestock (such as bulls, beef and sheep).

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

	HEADCOUNT	
	AS AT 31 JULY 2016	AS AT 31 JULY 2015
Immature dairy cows	58,055	55,755
Mature dairy cows	36,516	31,444
Other livestock	2,802	2,825
<b>Total livestock headcount</b>	<b>97,373</b>	<b>90,024</b>

During the year the Group collected 279 million litres of milk (31 July 2015: 200 million litres) from its dairy cows.

The value of livestock at 31 July is as follows:

	GROUP \$ MILLION	
	AS AT 31 JULY 2016	AS AT 31 JULY 2015
<b>Opening balance</b>	<b>331</b>	<b>202</b>
Purchase of livestock	17	32
Rearing costs of immature livestock	77	89
Change in fair value – birth and growth	20	(7)
Change in fair value – price changes	1	17
Sale of livestock	(68)	(44)
Effect of movements in exchange rates	(36)	42
<b>Closing balance</b>	<b>342</b>	<b>331</b>
<b>Livestock – at fair value less costs to sell</b>		
Immature dairy cows	197	189
Mature dairy cows	144	141
Other livestock	1	1
<b>Total livestock at fair value less costs to sell at 31 July</b>	<b>342</b>	<b>331</b>

### Valuation techniques and significant unobservable inputs

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

TYPE	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	RELATIONSHIP BETWEEN KEY UNOBSERVABLE INPUTS AND FAIR VALUE MEASUREMENT
Mature livestock	Discounted cash flows	Raw milk yield	A 5% increase/(decrease) in the raw milk yield would result in a \$10 million (31 July 2015: \$9 million) increase/(decrease) in fair value.
		Milk price	A 5% increase/(decrease) in the selling price of milk would result in a \$19 million (31 July 2015: \$20 million) increase/(decrease) in fair value.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2016

### 15 INTANGIBLE ASSETS

Intangible assets include goodwill, brands and other intangibles, and computer software. Amortisation of intangible assets, with the exception of goodwill and brands with indefinite useful lives, is recorded over the assets' estimated useful lives.

Intangible assets are reviewed for impairment whenever there is an indication that the carrying amount may not be recoverable. In addition, goodwill and intangible assets with indefinite useful lives are tested annually for impairment. If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the income statement. The recoverable amount of an asset is the higher of its fair value less costs to sell and value in use.

Intangible assets (excluding goodwill) that have been impaired are reviewed for possible reversal of impairment at each balance date. A reversal of an impairment loss shall not exceed the carrying amount that would have been determined, net of amortisation or depreciation, had no impairment loss been recognised for the asset in prior years.

#### Goodwill

Goodwill represents the premium paid by the Group over the fair value of the Group's share of the net identifiable assets of an acquired subsidiary at the date of acquisition.

Goodwill is initially recognised at cost and is subsequently measured at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units (CGU) for the purposes of impairment testing. Goodwill is allocated to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

#### Brands and other identifiable intangible assets

Brands and other intangible assets purchased by the Group are recognised if the asset is controlled through custody or legal rights and could be sold separately from the rest of the business. Brands and other intangible assets have a combination of both indefinite and finite useful lives.

Intangibles with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses, and are amortised on a straight line basis to allocate the cost over their licence period (three to 25 years).

#### Computer software

Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. The costs incurred to acquire specific software licenses are capitalised. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Computer software licences and development costs recognised as assets are amortised on a straight line basis over their estimated useful lives, being three to 10 years.

	GROUP \$ MILLION					TOTAL INTANGIBLES
	GOODWILL	BRANDS	SOFTWARE	SOFTWARE WIP	OTHER	
<b>As at 31 July 2016</b>						
Cost	1,082	1,733	1,192	67	77	4,151
Accumulated amortisation and impairment	(3)	(111)	(838)	–	(57)	(1,009)
<b>Net book value at 31 July 2016</b>	<b>1,079</b>	<b>1,622</b>	<b>354</b>	<b>67</b>	<b>20</b>	<b>3,142</b>
<b>As at 31 July 2015</b>						
Cost	1,101	1,892	1,091	92	102	4,278
Accumulated amortisation and impairment	(2)	(193)	(741)	–	(69)	(1,005)
<b>Net book value at 31 July 2015</b>	<b>1,099</b>	<b>1,699</b>	<b>350</b>	<b>92</b>	<b>33</b>	<b>3,273</b>

## 15 INTANGIBLE ASSETS CONTINUED

	GROUP \$ MILLION					TOTAL INTANGIBLES
	GOODWILL	BRANDS	SOFTWARE	SOFTWARE WIP	OTHER	
<i>Net book value</i>						
As at 1 August 2015	1,099	1,699	350	92	33	3,273
Additions	-	-	2	83	1	86
Transfer from work in progress	-	-	108	(108)	-	-
Amortisation	-	(3)	(101)	-	(1)	(105)
Impairment loss	-	(7)	-	-	-	(7)
Disposals	-	(8)	-	-	(13)	(21)
Foreign currency translation	(20)	(59)	(5)	-	-	(84)
As at 31 July 2016	1,079	1,622	354	67	20	3,142
<i>Net book value</i>						
As at 1 August 2014	938	1,382	367	73	31	2,791
Additions	-	-	2	98	-	100
Acquisition of subsidiaries	176	340	-	-	-	516
Transfer from work in progress	-	-	79	(79)	-	-
Amortisation	-	(6)	(100)	-	(2)	(108)
Impairment loss	-	(66)	-	-	-	(66)
Foreign currency translation	(15)	49	2	-	4	40
As at 31 July 2015	1,099	1,699	350	92	33	3,273

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

### Goodwill and other indefinite life intangibles

#### Impairment testing

Goodwill and indefinite life brands have been tested for impairment on a value in use basis. Impairment testing was undertaken at 31 March 2016, using external sources of information where appropriate.

Cash flow forecasts used as inputs to determine value in use are based on the Group's three-year business plans, applying a long-term growth rate. Notwithstanding the challenging economic environment in Brazil, the cash flow forecasts used to support the Brazil CGU show strong growth over the three-year business plan period, reflecting Fonterra's strategic business plan and associated initiatives. The Brazil CGU includes goodwill and brands with a carrying value of \$415 million. For Australia the cash flow forecasts reflect the positive impact of the strategic initiatives implemented. The Australia CGU includes goodwill and brands with a carrying value of \$268 million.

The discount rates applied to the future cash flows are between 7.7 per cent and 13.6 per cent (31 July 2015: between 7.5 per cent and 11 per cent) and long-term growth rates applied to future cash flows are between 2.2 per cent and 5.3 per cent (31 July 2015: between 2.6 per cent and 4.5 per cent).

There was sufficient headroom between the recoverable amount and the carrying value of goodwill and brands therefore no impairment was recognised.

#### Goodwill

Of those CGUs tested, the goodwill of the Fonterra Brands New Zealand CGU is considered significant in the context of the carrying value of goodwill for the Group. For the Fonterra Brands New Zealand CGU the carrying value of goodwill is \$650 million (31 July 2015: \$650 million) and the carrying value of indefinite life brands attributable to the CGU is \$389 million (31 July 2015: \$389 million).

#### Indefinite life brands

Of the total brands held, 99 per cent (\$1,603 million) have indefinite useful lives (31 July 2015: 99 per cent, \$1,661 million). In concluding that a brand has an indefinite life, management considers its intention to acquire, hold and support brands through advertising and promotional spending for an indefinite period.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2016

### INVESTMENTS

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

This section includes the following Notes:

Note 16: Assets held for sale

Note 17: Equity accounted investments

#### 16 ASSETS HELD FOR SALE

##### Darnum manufacturing plant – Australia

On 16 March 2015, Fonterra acquired an 18.8 per cent shareholding in Beingmate Baby & Child Food Co., Ltd. (Beingmate). In conjunction with this investment, Fonterra and Beingmate confirmed their intention to establish a partnership to purchase the Darnum manufacturing plant in Australia. Fonterra remains committed to this transaction, which is expected to complete during the financial year ending 31 July 2017 following receipt of the required regulatory approvals. The final regulatory approval was received on 18 September 2016.

The carrying value of these assets as at 31 July 2016 is \$87 million (31 July 2015: \$90 million).

#### 17 EQUITY ACCOUNTED INVESTMENTS

##### Associates and joint ventures

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

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

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

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

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

EQUITY ACCOUNTED INVESTEE NAME	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	OWNERSHIP INTERESTS (%)	
		AS AT 31 JULY 2016	AS AT 31 JULY 2015
DMV Fonterra Excipients GmbH & Co KG	Germany	50	50
DairiConcepts, L.P. <sup>1</sup>	United States	–	50
DairiConcepts Management, L.L.C. <sup>1</sup>	United States	–	50
Beingmate Baby & Child Food Co., Ltd	China	18.8	18.8

All investees have balance dates of 31 December.

1 On 31 December 2015 the Group sold its 50 per cent interest in DairiConcepts, L.P. and DairiConcepts Management, L.L.C.

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

	GROUP \$ MILLION					
	ASSOCIATES		JOINT VENTURES		TOTAL	
	AS AT 31 JULY 2016	AS AT 31 JULY 2015	AS AT 31 JULY 2016	AS AT 31 JULY 2015	AS AT 31 JULY 2016	AS AT 31 JULY 2015
Carrying amount of investment	739	863	221	322	960	1,185
Profit from continuing operations	(7)	(3)	61	69	54	66
Other comprehensive income	–	–	5	4	5	4
<b>Total comprehensive income</b>	<b>(7)</b>	<b>(3)</b>	<b>66</b>	<b>73</b>	<b>59</b>	<b>70</b>

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

The Group's equity accounted investees have entered into non-cancellable operating leases, and the Group's share of the future aggregate minimum lease payments under these leases is \$32 million (31 July 2015: \$21 million).

The Group's share of capital expenditure contracted for at balance date but not recognised by equity accounted investees is \$26 million (31 July 2015: \$1 million).

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

## FINANCIAL RISK MANAGEMENT

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

This section includes the following Note:

Note 18: Financial risk management

### 18 FINANCIAL RISK MANAGEMENT

#### Overview

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

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

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

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

Fonterra manages financial risk, including foreign exchange risk, interest rate risk, credit risk, liquidity risk and commodity price risk. The table below shows where information on how each of these risks is managed can be found.

ITEM	DISCLOSURE
Foreign exchange risk	See section a) below.
Interest rate risk	See Note 7 - Borrowings.
Credit risk	See Note 9 - Trade and other receivables and section b) below.
Liquidity risk	See Note 7 - Borrowings.
Capital management and structure	See Note 5 - Subscribed equity instruments.
Dairy commodity price risk	See section c) below.
Fair values and classifications	See section d) below.
Offsetting of financial assets and liabilities	See section e) below.

#### a) Foreign exchange risk

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

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

- transaction risk: variations in the New Zealand Dollar value of the Group's sales receipts and other cash flows, and transactions that are denominated in currencies other than the operation's functional currency; and
- translation risk: the value of the Group's investment in foreign operations and the Group's foreign currency debt designated as a net investment hedge.

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

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

Approximately 97 per cent (31 July 2015: 96 per cent) of the Group's net transaction foreign exchange exposure, before taking into consideration hedging activity, is against the United States Dollar.

In respect of translation hedging, the Group principally uses foreign currency denominated borrowings to hedge exposures arising from net investments in foreign operations. For foreign currency debt that is not in a net investment hedge, the Group uses forward foreign exchange contracts, currency options and cross currency interest rate swaps to hedge its exposure.

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 31 JULY 2016

**18 FINANCIAL RISK MANAGEMENT** CONTINUED

Of the Group's translation exposure arising from investment in foreign operations, before taking into consideration hedging activity, approximately 23 per cent (31 July 2015: 24 per cent) is against the Australian Dollar, 15 per cent (31 July 2015: 14 per cent) is against the Hong Kong Dollar, 15 per cent (31 July 2015: 13 per cent) is against the Chinese Renminbi and 13 per cent (31 July 2015: 12 per cent) is against the Singapore Dollar.

Of the Group's translation exposure arising from foreign currency debt, before taking into consideration hedging activity, approximately 41 per cent (31 July 2015: 44 per cent) is against the United States Dollar, 27 per cent (31 July 2015: 19 per cent) is against the Australian Dollar and 17 per cent (31 July 2015: 19 per cent) is against the Chinese Renminbi.

**Net foreign exchange gains***Foreign currency transactions*

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

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

	GROUP \$ MILLION	
	31 JULY 2016	31 JULY 2015
Net foreign exchange gains/(losses) on debt instruments designated in a fair value hedge relationship	193	(352)
Net foreign exchange (losses)/gains on derivative instruments designated as a fair value hedge	(195)	357
Net foreign exchange gains/(losses) on financial instruments classified as held for trading	138	(267)
Net foreign exchange (losses)/gains on financial assets classified as loans and receivables	(271)	618
Net foreign exchange gains/(losses) on financial liabilities measured at amortised cost	135	(286)
Other net foreign exchange gains	7	-
<b>Net foreign exchange gains</b>	<b>7</b>	<b>70</b>

*Foreign exchange sensitivity*

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

	GROUP \$ MILLION			
	31 JULY 2016		31 JULY 2015	
	EQUITY	PROFIT	EQUITY	PROFIT
Impact of a 10% strengthening of the NZD	(28)	4	28	14
Impact of a 10% weakening of the NZD	96	(5)	(46)	(11)

**b) Credit risk**

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

The maximum credit risk on cash and cash equivalents, trade and other receivables, derivative financial instruments and other investments is best represented by their carrying values. The Group has no undue concentrations of credit risk.

**c) Dairy commodity price risk**

Dairy commodity price risk is the risk of volatility in profit or loss from a movement in dairy commodity prices to which the Group may be exposed. Volatility in global dairy commodity prices can have an adverse impact on Fonterra's earnings and milk price by eroding selling prices or increasing input costs.

The Group primarily manages its dairy commodity price risk by:

- determining the most appropriate mix of products to manufacture based on the supply curve and global demand for dairy products;
- governing the length and terms of sales contracts so that sales revenue is reflective of current market prices and is, where possible, linked to GlobalDairyTrade (GDT) prices; and



**18 FINANCIAL RISK MANAGEMENT** CONTINUED

– using derivative contracts to manage earnings volatility. The Group has direct trading in dairy commodity derivatives. Fonterra aims to use its industry knowledge to obtain the best price for future sales. The markets for these types of derivatives are relatively limited and this reduces the scope for using derivatives to manage earnings volatility. As markets for these derivatives grow, the scope of such commodity risk management activities may increase.

*Commodity price risk sensitivity analysis*

The table below summarises the impact on dairy commodity derivatives for changes in dairy commodity prices on the Group's profit after tax. The analysis is based on the assumption that dairy based commodity derivative prices had changed by 10 per cent with all other variables held constant:

	GROUP \$ MILLION	
	31 JULY 2016 PROFIT	31 JULY 2015 PROFIT
Impact of 10% increase in quoted dairy commodity derivative prices	(3)	(14)
Impact of 10% decrease in quoted dairy commodity derivative prices	3	14

**d) Fair values and classifications**

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

Financial assets are classified on initial recognition into the following categories: fair value through profit or loss, loans and receivables, and available-for-sale. Financial liabilities are classified as either fair value through profit or loss, or financial liabilities measured at amortised cost. The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of its financial assets and liabilities at initial recognition.

After initial recognition, financial instruments are measured at their fair values, except for loans and receivables, which are measured at amortised cost less any provision for impairment, and financial liabilities measured at amortised cost.

Financial assets and liabilities at fair value through profit or loss are either designated as fair value through profit or loss, or classified as held-for-trading. All derivatives are classified as held-for-trading except when they are in hedge accounting relationships. Other financial assets and financial liabilities may be designated at fair value through profit or loss where this eliminates an accounting mismatch, or where they are managed on a fair value basis.

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

**Derivative financial instruments and hedging activities**

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

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

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

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

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

*Fair value hedges*

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

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

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2016

### 18 FINANCIAL RISK MANAGEMENT CONTINUED

#### *Cash flow hedges*

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

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

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

#### *Net investment hedges*

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

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

#### *Valuation techniques for determining fair values*

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

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

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

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

Specific valuation techniques used to value financial instruments include:

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

#### *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).

**18 FINANCIAL RISK MANAGEMENT** CONTINUED

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 31 JULY 2016	AS AT 31 JULY 2015	AS AT 31 JULY 2016	AS AT 31 JULY 2015	AS AT 31 JULY 2016	AS AT 31 JULY 2015
Derivative assets						
– Commodity derivatives	5	13	1	3	–	–
– Foreign exchange derivatives	–	–	473	16	–	–
– Interest rate derivatives	–	–	389	386	–	–
Derivative liabilities						
– Commodity derivatives	(16)	(29)	(3)	(4)	–	–
– Foreign exchange derivatives	–	–	(25)	(1,009)	–	–
– Interest rate derivatives <sup>1</sup>	–	–	(568)	(367)	–	–
Available-for-sale investments	6	74	–	–	–	–
Livestock	–	–	–	–	342	331
<b>Fair value</b>	<b>(5)</b>	<b>58</b>	<b>267</b>	<b>(975)</b>	<b>342</b>	<b>331</b>

1 Includes cross-currency interest rate swaps.

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

	GROUP \$ MILLION					
	CARRYING VALUE		LEVEL 1		LEVEL 2	
	AS AT 31 JULY 2016	AS AT 31 JULY 2015	AS AT 31 JULY 2016	AS AT 31 JULY 2015	AS AT 31 JULY 2016	AS AT 31 JULY 2015
<b>Financial assets</b>						
Long-term advances	464	65	–	–	466	64
<b>Financial liabilities</b>						
Borrowings						
– NZX listed bonds	(499)	(500)	(510)	(502)	–	–
– Capital notes	(35)	(35)	(33)	(35)	–	–
– Medium-term notes	(4,342)	(4,666)	–	–	(4,665)	(4,960)
– Finance leases	(143)	(169)	–	–	(167)	(192)

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

	GROUP \$ MILLION	
	31 JULY 2016	31 JULY 2015
Within 12 months	189	(591)
Later than 12 months	(100)	(156)
<b>Total carrying value</b>	<b>89</b>	<b>(747)</b>

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

	GROUP \$ MILLION	
	31 JULY 2016	31 JULY 2015
Cash flow hedge	116	(748)
Fair value hedge	199	243
Net investment hedge	6	(5)
<b>Total fair value of derivatives in hedge relationships</b>	<b>321</b>	<b>(510)</b>

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 31 JULY 2016

**18 FINANCIAL RISK MANAGEMENT** CONTINUED**e) Offsetting of financial assets and liabilities**

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

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

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

	GROUP \$ MILLION				
	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION			AMOUNTS NOT OFFSET	NET
	GROSS FINANCIAL ASSETS/ (LIABILITIES)	GROSS FINANCIAL ASSETS/ (LIABILITIES) SET OFF	NET FINANCIAL ASSETS/ (LIABILITIES) PRESENTED		
Derivative financial assets	1,037	(169)	868	(510)	358
Trade and other receivables (excluding prepayments)	1,964	(463)	1,501	–	1,501
	3,001	(632)	2,369	(510)	1,859
Derivative financial liabilities	(781)	169	(612)	373	(239)
Trade and other payables (excluding employee entitlements)	(2,257)	390	(1,867)	–	(1,867)
Owing to suppliers	(792)	73	(719)	–	(719)
Borrowings	(6,352)	–	(6,352)	137	(6,215)
	(10,182)	632	(9,550)	510	(9,040)
<b>31 July 2016</b>	<b>(7,181)</b>	<b>–</b>	<b>(7,181)</b>	<b>–</b>	<b>(7,181)</b>
Derivative financial assets	557	(140)	417	(283)	134
Trade and other receivables (excluding prepayments)	2,579	(357)	2,222	–	2,222
	3,136	(497)	2,639	(283)	2,356
Derivative financial liabilities	(1,548)	140	(1,408)	283	(1,125)
Trade and other payables (excluding employee entitlements)	(1,987)	290	(1,697)	–	(1,697)
Owing to suppliers	(226)	67	(159)	–	(159)
Borrowings	(7,560)	–	(7,560)	–	(7,560)
	(11,321)	497	(10,824)	283	(10,541)
<b>31 July 2015</b>	<b>(8,185)</b>	<b>–</b>	<b>(8,185)</b>	<b>–</b>	<b>(8,185)</b>

## OTHER

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

This section includes the following Notes:

Note 19: Taxation

Note 22: Group entities

Note 20: Contingent liabilities, provisions and commitments

Note 23: Net tangible assets per security

Note 21: Related party transactions

## 19 TAXATION

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

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

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

Deferred tax is not recognised on the following temporary differences:

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

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

### a) Taxation – income statement

The total taxation expense/(credit) in the income statement is summarised as follows:

	GROUP \$ MILLION	
	31 JULY 2016	31 JULY 2015
Current tax expense	108	97
Prior period adjustments to current tax	5	–
Deferred tax movements:		
– Origination and reversal of temporary differences	(15)	(179)
<b>Tax expense/(credit)</b>	<b>98</b>	<b>(82)</b>

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 31 JULY 2016

**19 TAXATION** CONTINUED

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

	GROUP \$ MILLION	
	31 JULY 2016	31 JULY 2015
<b>Profit before tax</b>	932	424
Prima facie tax expense at 28%	261	119
Add/(deduct) tax effect of:		
– Effect of tax rates in foreign jurisdictions	(24)	(31)
– Non-deductible expenses/additional assessable income	90	44
– Non-assessable income/additional deductible expenses	(66)	(71)
– Prior year under provision	5	–
<b>Tax expense before distributions and deferred tax</b>	266	61
<b>Effective tax rate before distributions and deferred tax<sup>1</sup></b>	28.5%	14.4%
Tax effect of distributions to farmer shareholders	(170)	(107)
<b>Tax expense/(credit) before deferred tax</b>	96	(46)
<b>Effective tax rate before deferred tax<sup>1</sup></b>	10.3%	(10.8)%
Add/(deduct) tax effect of:		
– Origination and reversal of other temporary differences	(1)	2
– Losses of overseas Group entities not recognised/(recognised)	3	(38)
<b>Tax expense/(credit)</b>	98	(82)
<b>Effective tax rate<sup>1</sup></b>	10.5%	(19.3)%
<b>Imputation credits</b>		
Imputation credits available for use in subsequent reporting periods	20	20
<b>Tax losses</b>		
Gross tax losses available for which no deferred tax asset has been recognised	48	55

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

**19 TAXATION** CONTINUED**b) Taxation – statement of financial position**

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

	GROUP \$ MILLION	
	AS AT 31 JULY 2016	AS AT 31 JULY 2015
<b>Deferred tax</b>		
Property, plant and equipment	(53)	(47)
Intangible assets	(522)	(535)
Derivative financial instruments	(30)	230
Employee entitlements	75	55
Inventories	52	85
Receivables, payables and provisions	71	66
New Zealand tax losses	480	484
Offshore tax losses	287	303
Other	6	(18)
<b>Total deferred tax</b>	<b>366</b>	<b>623</b>
<b>Movements for the year</b>		
<b>Opening balance</b>	<b>623</b>	<b>226</b>
Recognised in the income statement	15	179
Deferred tax on acquisition	–	(91)
Recognised directly in other comprehensive income	(262)	281
Foreign currency translation	(10)	28
<b>Closing balance</b>	<b>366</b>	<b>623</b>
Included within the statement of financial position as follows:		
Deferred tax assets	410	732
Deferred tax liabilities	(44)	(109)
<b>Total deferred tax</b>	<b>366</b>	<b>623</b>
Balance expected to be recovered or settled:		
Within 12 months	221	475
Later than 12 months	145	148
<b>Total deferred tax</b>	<b>366</b>	<b>623</b>

Tax loss carry forwards of \$471 million (31 July 2015: \$2,039 million) are recognised by Group operations which reported a taxable loss in the current or prior year. Fonterra considers it probable that these tax losses can be offset against future taxable income, taking into consideration Fonterra's future expectations including approved business plans for those operations.

The Group has not recognised deferred tax liabilities in respect of unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries. As at 31 July 2016, these earnings amount to \$675 million (31 July 2015: \$729 million). These could be subject to withholding and other taxes on remittance.

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2016

### 20 CONTINGENT LIABILITIES, PROVISIONS AND COMMITMENTS CONTINUED

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 expected to be issued by the end of 2016.

Based on current information available and the claims made to date in both proceedings, Fonterra will vigorously defend its position in these proceedings. Uncertainty exists regarding the outcome of the proceedings. Fonterra has provided \$11 million (31 July 2015: \$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 which are pending at the date of these financial statements that require provision or disclosure.

The Group has no other contingent liabilities as at 31 July 2016 (31 July 2015: nil).

#### Provisions

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

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

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

Included within the statement of financial position as follows:

Current liabilities	47
Non-current liabilities	152
<b>Total provisions</b>	<b>199</b>

	GROUP \$ MILLION			
	RESTRUCTURING AND RATIONALISATION PROVISIONS	LEGAL CLAIMS PROVISIONS	OTHER PROVISIONS	TOTAL
As at 1 August 2014	17	24	71	112
Additional provisions	36	9	22	67
Unused amounts reversed	(4)	(1)	(2)	(7)
Charged to income statement	32	8	20	60
Utilised during the year	(11)	(5)	(13)	(29)
Foreign currency translation	1	1	8	10
Acquisition of subsidiary	–	71	39	110
As at 31 July 2015	39	99	125	263

Included within the statement of financial position as follows:

Current liabilities	77
Non-current liabilities	186
<b>Total provisions</b>	<b>263</b>



**20 CONTINGENT LIABILITIES, PROVISIONS AND COMMITMENTS** CONTINUED

The nature of the provisions are:

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

**Commitments****a) Capital commitments**

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

	GROUP \$ MILLION	
	AS AT 31 JULY 2016	AS AT 31 JULY 2015
Buildings	79	75
Plant, vehicles and equipment	48	208
Software	8	15
Livestock	3	8
<b>Total commitments</b>	<b>138</b>	<b>306</b>

**b) Operating lease commitments**

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

	GROUP \$ MILLION	
	AS AT 31 JULY 2016	AS AT 31 JULY 2015
Less than one year	109	104
One to five years	227	217
Greater than five years	177	181
<b>Total operating lease commitments</b>	<b>513</b>	<b>502</b>

**21 RELATED PARTY TRANSACTIONS**

Equity accounted investees (refer to Note 17 for a list) and key management personnel are related parties of the Group. Key management personnel comprises the Board and the Fonterra Management Team.

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

**Key management personnel remuneration**

	GROUP \$ MILLION	
	31 JULY 2016	31 JULY 2015
Short-term employee benefits	16	15
Long-term employee benefits	3	–
Termination benefits	1	–
Directors' remuneration	3	3
<b>Total key management personnel remuneration</b>	<b>23</b>	<b>18</b>

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 31 JULY 2016

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

	GROUP \$ MILLION	
	31 JULY 2016	31 JULY 2015
<b>Equity accounted investees</b>		
Revenue from the sale of goods <sup>1</sup>	73	85
Sale of services <sup>2</sup>	5	1
Royalty and other income <sup>3</sup>	2	3
Dividends received	77	58
Interest income from financing arrangements	1	1
Purchases of goods <sup>4</sup>	(10)	(16)
Purchases of services <sup>5</sup>	(44)	(35)
<b>Key management personnel</b>		
Purchases of goods <sup>4</sup>	(78)	(87)
Co-operative support loans	(6)	–

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

2 Services provided to related parties include management fees and are provided under normal trade terms.

3 Royalty and other income received from related parties are provided under normal trade terms.

4 Goods purchased from related parties are primarily commodity products, which are acquired under normal trade terms. Key management personnel may also engage in transactions with other Group entities under normal trade terms.

5 Services purchased from related parties are primarily freight services and are under normal trade terms.

**Outstanding balances with related parties**

	GROUP \$ MILLION	
	AS AT 31 JULY 2016	AS AT 31 JULY 2015
<b>Equity accounted investees</b>		
Total receivables arising from the sale or purchase of goods or services <sup>6</sup>	18	24
Total receivables arising from financing arrangements <sup>7</sup>	50	49
Total payables arising from the sale or purchase of goods or services	(15)	(19)
Total payables arising from financing arrangements	–	(1)
<b>Key management personnel</b>		
Total payables arising from the sale or purchase of goods or services <sup>8</sup>	(9)	(2)
Total receivables arising from Co-operative support loans	6	–

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

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

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

**Financial guarantees**

The Group has provided financial guarantees for several equity accounted investees. The aggregate drawn down amount of equity accounted investees' liabilities for which the Group is jointly and severally liable is nil (31 July 2015: \$17 million).

**Transactions with related entities**

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

	GROUP \$ MILLION	
	31 JULY 2016	31 JULY 2015
Dividends paid to key management personnel	9	3

**Commitments**

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

## 22 GROUP ENTITIES

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

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

Equity accounted investments are discussed in further detail in Note 17.

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

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

The significant subsidiaries of the Group are listed below:

SUBSIDIARY NAME	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	OWNERSHIP INTERESTS (%)	
		AS AT 31 JULY 2016	AS AT 31 JULY 2015
Fonterra Australia Pty Limited	Australia	100	100
Fonterra Brands (Australia) Pty Limited	Australia	100	100
Dairy Partners Americas Brasil Limitada <sup>2</sup>	Brazil	51	51
Soprole S.A. <sup>2</sup>	Chile	99.9	99.9
Prolesur S.A. <sup>2</sup>	Chile	86.26	86.23
Fonterra Commercial Trading (Shanghai) Company Limited <sup>2</sup>	China	100	100
Fonterra (Yutian) Dairy Farm Co. Limited <sup>2</sup>	China	100	100
Fonterra (Ying) Dairy Company Limited <sup>2</sup>	China	100	100
PT Fonterra Brands Indonesia	Indonesia	100	100
Fonterra Brands (Malaysia) Sdn Bhd	Malaysia	100	100
Fonterra (Ing.) Limited <sup>1</sup>	Mauritius	51	51
Fonterra (Europe) Coöperatie U.A.	Netherlands	100	100
Fonterra Europe Manufacturing B.V.	Netherlands	100	100
Fonterra Brands (Singapore) Pte Limited	Singapore	100	100
Fonterra (SEA) Pte Limited	Singapore	100	100
Fonterra Brands Lanka (Private) Limited	Sri Lanka	100	100
Fonterra (USA) Inc.	United States	100	100
Corporación Inlaca CA	Venezuela	60	60
Canpac International Limited	New Zealand	100	100
Fonterra Brands (New Zealand) Limited	New Zealand	100	100
Fonterra Brands (Tip Top) Limited	New Zealand	100	100
Fonterra Limited	New Zealand	100	100
Fonterra (New Zealand) Limited	New Zealand	100	100
RD1 Limited	New Zealand	100	100
Kotahi Logistics LP	New Zealand	91	90

1 Principal place of business is Taiwan.

2 Balance date 31 December.

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 31 JULY 2016

**22 GROUP ENTITIES** CONTINUED

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

OVERSEAS SUBSIDIARIES 50% OR LESS OWNERSHIP	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	OWNERSHIP INTERESTS (%)	
		AS AT 31 JULY 2016	AS AT 31 JULY 2015
Fonterra (Japan) Limited	Japan	50	50
Fonterra Brands (Middle East) L.L.C.	UAE	49	49

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

**23 NET TANGIBLE ASSETS PER SECURITY**

	GROUP	
	AS AT 31 JULY 2016	AS AT 31 JULY 2015
<b>Net tangible assets per security<sup>1</sup></b>		
\$ per listed debt security on issue	6.32	5.62
\$ per equity instrument on issue	2.37	2.12
Listed debt securities on issue (million)	603	603
Equity instruments on issue (million)	1,603	1,599

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

# INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 JULY 2016



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

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the Group financial statements of Fonterra Co-operative Group Limited ('the Company') on pages 2 to 42, which comprise the statement of financial position as at 31 July 2016, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements that include significant accounting policies and other explanatory information for the Group. The Group comprises the Company and the entities it controlled at 31 July 2016 or from time to time during the financial year.

#### Directors' Responsibility for the Financial Statements

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditors' Responsibility

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

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

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

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

#### Opinion

In our opinion, the financial statements on pages 2 to 42 present fairly, in all material respects, the financial position of the Group as at 31 July 2016, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

### RESTRICTION ON DISTRIBUTION OR USE

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

#### Chartered Accountants

Auckland  
20 September 2016

## STATUTORY INFORMATION

FOR THE YEAR ENDED 31 JULY 2016

### EQUITY SECURITIES HELD AT BALANCE DATE

In accordance with Rules of the Fonterra Shareholders' Market (FSM) Rule 9.4.4(c), the following table identifies the Equity Securities in which each Director has a Relevant Interest as at 31 July 2016.

	UNITS ISSUED BY THE FONTERRA SHAREHOLDERS' FUND <sup>1</sup>	CO-OPERATIVE SHARES
Leonie Guiney	–	878,824
John Monaghan	–	140,179
Nicola Shadbolt	–	366,705
Reindert (Michael) Spaans	–	195,812
Ashley Waugh	–	115,812
John Wilson	–	4,555,314

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

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

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

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

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

### CO-OPERATIVE STATUS

In accordance with section 10 of the Co-operative Companies Act 1996, the Directors of Fonterra unanimously resolved on 24 August 2016 that the Company was, for the year ended 31 July 2016, a co-operative company. The opinion was based upon the fact that:

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

## REMUNERATION OF DIRECTORS

The total remuneration and value of other benefits received by each Director in the 12 month period from 1 August 2015 to 31 July 2016 are scheduled below:

	BOARD FEES	COMMITTEE CHAIR FEES	TRAVEL ALLOWANCE	TOTAL REMUNERATION (\$)
Malcolm Bailey (Chair of the Risk Committee, part year)	165,000	28,417	–	193,417
Clinton Dines	112,538	–	–	112,538
Ian Farrelly	165,000	–	–	165,000
Leonie Guiney	165,000	–	–	165,000
Simon Israel	165,000	–	70,000 <sup>1</sup>	235,000
David Jackson (Chair of the Audit and Finance Committee)	165,000	31,000	–	196,000
David MacLeod	165,000	–	–	165,000
John Monaghan (Chair of the Co-operative Relations Committee)	165,000	31,000	–	196,000
Sir Ralph Norris	55,000	–	–	55,000
Blue Read	55,000	–	–	55,000
Nicola Shadbolt (Chair of the Risk Committee, part year)	165,000	5,167	–	170,167
Michael Spaans	165,000	–	–	165,000
John Waller (Chair of the Milk Price Panel)	165,000	31,000	–	196,000
Ashley Waugh	112,538	–	–	112,538
John Wilson (Chairman of the Board of Directors)	405,000	–	–	405,000

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

## SUBSIDIARY COMPANY DIRECTORS

The following companies were subsidiaries of Fonterra as at 31 July 2016. Directors as at that date are listed; those who resigned during the year are denoted with an R. Alternate Directors are denoted with an A.

### Anchor Ethanol Limited:

G A Duncan, P D Washer

### Canpac International Limited:

G A Duncan, M R Spiers

### Civil Whey Distributors Limited:

G A Duncan, M R Spiers

### Dairy Industry Superannuation Scheme Trustee Limited:

M A Apiata-Wade, B J Kerr, D M Marshall, T P McGuinness, D W C Scott, A K Williams, P D Wynen

### Dairy Transport Logistics Limited:

M E Leslie, R J Spurway

### Fonterra (Asia) Limited:

G A Duncan, M W Smith

### Fonterra (Delegated Compliance Trading Services) Limited:

G A Duncan, S D T Till

### Fonterra (International) Limited:

G A Duncan, C E Rowe

### Fonterra (Kotahi) Limited:

M E Leslie, R J Spurway

### Fonterra (Middle East) Limited:

G A Duncan, P D Washer

### Fonterra (New Zealand) Limited:

G A Duncan, C E Rowe

### Fonterra (North Asia) Limited:

G A Duncan, K A Wickham (R), S D T Till

### Fonterra (Number One) Limited:

G A Duncan, S D T Till

### Fonterra Brands (New Zealand) Limited:

G A Duncan (R), M R Cronin, L M Clement

### Fonterra Brands (Tip Top Investments) Limited:

G A Duncan, K M Turner

### Fonterra Brands (Tip Top) Limited:

G A Duncan (R), M R Cronin, L M Clement

### Fonterra Brands Limited:

G A Duncan, L J Paravicini

### Fonterra Commodities Limited:

G A Duncan, B M Turner

### Fonterra Dairy Solutions Limited:

G A Duncan, R McNickle

### Fonterra Enterprises Limited:

G A Duncan, J P Minkhorst

### Fonterra Equities Limited:

G A Duncan, S D T Till

### Fonterra Farming Ventures Limited:

G A Duncan, J P Minkhorst

### Fonterra Finance Corporation Limited:

G A Duncan, S D T Till

### Fonterra Holdings (Americas) Limited:

G A Duncan, R M Kennerley

### Fonterra Holdings (Brazil) Limited:

G A Duncan, R M Kennerley

### Fonterra Holdings (Venezuela) Limited:

G A Duncan, R M Kennerley

### Fonterra Ingredients Limited:

G A Duncan, L J Paravicini

### Fonterra Investments (China) Limited:

G A Duncan, K A Wickham

### Fonterra Limited:

K A Wickham, R J Spurway

## STATUTORY INFORMATION CONTINUED

FOR THE YEAR ENDED 31 JULY 2016

**Fonterra PGGRC Limited:**

G A Duncan, J P Minkhorst

**Fonterra Research Centre Limited:**

G A Duncan

**Fonterra TM Limited:**

G A Duncan, S D T Till

**Food Solutions Group 2000 Limited (removed 1 August 2016):**

G A Duncan, S D T Till

**Glencol Energy Limited:**

G A Duncan, M R Spiers

**GlobalDairyTrade Holdings Limited:**

G A Duncan, L J Paravicini

**Kotahi GP Limited:**

H M J Kean (R), M E Leslie, K G Winders, R J Spurway, R M Kennerley

**MIH Limited:**

G A Duncan, J P Minkhorst

**Milktest GP Limited:**

P G Brown, B Greaney, M E Leslie, C J Mortland (R), R G Townshend, T A Winter, P D S Grave

**MyMilk Limited:**

M W Hurrell, R M Kennerley

**New Zealand Dairy Board:**

G A Duncan, C E Rowe

**New Zealand Milk (International) Limited:**

G A Duncan, L J Paravicini

**New Zealand Milk Brands Limited:**

G A Duncan, S D T Till

**NZAgbiz Limited:**

G A Duncan, J P Minkhorst

**RD1 Limited:**

J P Minkhorst, K M Turner

**SAITL Limited:**

B Greaney, M E Leslie

**Tangshan Dairy Farm (NZ) Limited:**

G A Duncan, K A Wickham

**Whareroa Co-Generation Limited:**

G A Duncan, M R Spiers

**A.C.N. 008 668 602 Pty Ltd [Australia]:**

G A Duncan, D A Steele (R), A Maharaj

**A.C.N. 009 163 268 Pty Ltd [Australia]:**

G A Duncan, D A Steele (R), A Maharaj

**A.C.N. 009 235 492 Pty Ltd [Australia]:**

G A Duncan, D A Steele (R), A Maharaj

**A.C.N. 113 345 430 Pty Ltd [Australia]:**

G A Duncan, D A Steele (R), A Maharaj

**Anchor Insurance Pte. Limited [Singapore]:**

L J Paravicini, S S Herbert, M W Smith, C L Khoon (A)

**Annum (Malaysia) Sdn. Bhd. [Malaysia]:**

M F Bin Wahab (R), M W Smith, J M Porraz, J Ling

**Auckland Limited [Barbados]:**

M F Maldonado, K J Murray (R), A Turnbull, J Chow (R), L Hartmann, F Spinelli, L J Paravicini

**Australasian Food Holdings Pty Limited [Australia]:**

G A Duncan, D A Steele (R), A Maharaj

**Bonlac Finance Pty Limited [Australia]:**

G A Duncan, D A Steele (R), A Maharaj

**Bonlac Staff Retirement Pty Ltd [Australia]:**

G A Duncan, D A Steele (R), A Maharaj

**Bonland Cheese Trading Pty Ltd [Australia]:**

G A Duncan, D A Steele (R), A Maharaj

**Comercial Dos Alamos S.A. [Chile]:**

T J Appleton (R), H Covarrubias Lalanne (R), G Rencoret Mujica (R), J C Petersen, R Waldspurger, M Kunstmann

**Comercial Santa Elena S.A. [Chile]:**

T J Appleton (R), H Covarrubias Lalanne, G Rencoret Mujica (R), J Barria, E Aldunate

**Corporación Inlaca C.A [Venezuela]:**

M F Maldonado, O N de Massiani (R), M M Perez, J R Odon, F C Ortega

**Dairy Enterprises (Chile) Limitada [Chile]:**

M P Campbell (R), A J Duncan (R), K J Murray (R), R Sepúlveda Seminario, M W Smith (R), J P Egaña Bertoglia (A), J C Gumucio Schönthaler (A)(R), L O Herrera Larraín (A)(R), A Montaner Lewin (A)(R), S Obach González (A)(R), F Spinelli, G A Duncan, R Lavados (A), P L Linhares (A)

**Dairy Enterprises International (Chile) Limited [Cayman Islands]:**

M P Campbell, E A Teisaire (R), G A Duncan

**Dairy Fresh Pty. Ltd. [Australia] (removed 3 August 2016):**

G A Duncan, D A Steele (R), A Maharaj

**Dairymas (Malaysia) Sdn Bhd [Malaysia]:**

M F Bin Wahab (R), M W Smith, J M Porraz, J Ling

**Dairy Partners Americas Brasil Limitada [Brazil]:**

V Cornut (R), O C L Faccina, J C M De Oliveira Frederico (R), M C O Davila (R), O E Citta (R), M J L Barros, L P L Rivero, D G Cano, F A Sporques, L Medeiros (acting), F Goncalves (acting)

**Dairy Partners Americas Nordeste-Productos Alimenticios Ltda [Brazil]:**

V Cornut (R), O C L Faccina, J C M De Oliveira Frederico (R), M C O Davila (R), O E Citta (R), M J L Barros, D G Cano, F A Sporques, L P L Rivero (acting), L Medeiros (acting), F Goncalves (acting)

**Darnum Park Pty Ltd [Australia]:**

J Swales

**Falcon Dairy Holdings Limited [Hong Kong]:**

R M Kennerley, G A Duncan, J S White (R), J F Ginascol, R O Frey, M P Campbell

**Fast Forward FFW Limited [United Kingdom]:**

M P Campbell, G Sweeney (R), H Huistra, M Gallagher, A Waugh, K Baine

**Fazenda MIH Ltda [Brazil]:**

R Santos, R Carneiro

**Fonterra (Brasil) Ltda [Brazil]:**

F Spinelli, R Carneiro

**Fonterra (Canada), Inc. [Canada]:**

G A Duncan, B Kipping, M Piper (R), B M Ryan, J P Coote

**Fonterra (Centro America) S.A. [Guatemala]:**

A J Cordner, G A Duncan, K J Murray

**Fonterra (China) Limited [Hong Kong]:**

G A Duncan, Sin W Y (R), K A Wickham (R), C Zhu, M Namboodiri

**Fonterra (CIS) Limited Liability Company [Russian Federation]:**

M Bates

**Fonterra (Europe) Coöperatie U.A. [Netherlands]:**

G A Duncan, W Zwaan (R), H Huistra, A Wright

**Fonterra (Europe) GmbH [Germany]:**

J van der Windt (R), A Wright

**Fonterra (France) SAS [France]:**

J van der Windt (R), H Huistra

**Fonterra (Ing.) Limited [Mauritius]:**

G Lee, B M Ryan

**Fonterra (Japan) Limited [Japan]:**

K Kumagai, H Ono, Y Saito, K Ueta, B M Ryan, K A Wickham



**Fonterra (Korea) Limited [Korea]:**

G A Duncan, Y Saito

**Fonterra (Logistics) Ltd [United Kingdom]:**

G R Sharma, J van der Windt (R), W Zwaan (R), A Wright

**Fonterra (Mexico) S.A. de C.V. [Mexico]:**

G A Duncan, M M Pérez Ortiz, P D Washer, L Barona Mariscal (A), F R Camacho (A), G A Castro Palafox (A)

**Fonterra (SEA) Pte. Ltd. [Singapore]:**

G N Kane (R), M W Smith (R), B Connolly, J C M Fair

**Fonterra (Switzerland) SA [Switzerland] (in liquidation):**

J Gauthier, K M Turner

**Fonterra (Thailand) Limited [Thailand]:**

G N Kane (R), K Vunthanadit, B Connolly

**Fonterra (USA) Inc. [United States]:**

G A Duncan, M Piper (R), B M Ryan, J P Coote

**Fonterra (Ying) Dairy Farm Company Limited [China]:**

R M Kennerley, A van der Nagel, G A Duncan

**Fonterra (Yutian) Dairy Farm Company Limited [China]:**

R M Kennerley, A van der Nagel, G A Duncan

**Fonterra Argentina S.R.L. [Argentina]:**

L P Wiener

**Fonterra Australia Pty Ltd [Australia]:**

G A Duncan, J Swales

**Fonterra Beijing Farm Management Consulting Company Limited [China]:**

R M Kennerley, A van der Nagel, L O'Neil

**Fonterra Brands (Asia Holdings) Pte. Ltd [Singapore]:**

M W Smith, J C Pestana (R), J H Priem (R), M R Cronin

**Fonterra Brands (Australia) Pty Ltd [Australia]:**

G A Duncan, J Swales

**Fonterra Brands (Centram), S.A. [Panama]:**

A J Cordner, G A Duncan, K J Murray

**Fonterra Brands (Far East) Limited [Hong Kong]:**

G A Duncan, C Sin (R), K A Wickham (R), M Namboodiri, S C Deschamps

**Fonterra Brands (Guangzhou) Ltd [China]:**

K A Wickham, A R R Kasireddy, R M Kennerley

**Fonterra Brands (Guatemala), S.A. [Guatemala]:**

A J Cordner, G A Duncan, K J Murray

**Fonterra Brands (Hong Kong) Limited [Hong Kong]:**

G A Duncan, C Sin (R), K A Wickham (R), M Namboodiri, S C Deschamps

**Fonterra Brands (Malaysia) Sdn Bhd [Malaysia]:**

M F Bin Wahab (R), M W Smith, J M Porraz, J Ling

**Fonterra Brands (New Young) Pte. Ltd. [Singapore]:**

Y Lin, C Lin, J Ling, M W Smith, J H Priem (R), S C Deschamps, Y Li

**Fonterra Brands (Singapore) Pte. Ltd [Singapore]:**

M W Smith, J C Pestana (R), J H Priem (R), M R Cronin

**Fonterra Brands (Thailand) Ltd [Thailand]:**

S Aramthip (R), A M Fitzsimmons (R), C Phaonimongkol, M W Smith, P A Richards

**Fonterra Brands (Viet Nam) Company Limited [Vietnam]:**

A M Fitzsimmons, M W Smith

**Fonterra Brands Indonesia, PT [Indonesia]:**

P A Richards (R), J C P Soto (R), M W Smith, A Afiffudin, J Fryer (R), M Namjoshi, A R R Kasireddy, J H Priem

**Fonterra Brands Lanka (Private) Limited [Sri Lanka]:**

L M Clement (R), J H P Gallage, M W Smith, S Sethi

**Fonterra Brands Manufacturing Indonesia, PT [Indonesia]:**

M W Smith, J C Pestana (R), P A Richards (R), M A Nasution, T A Siswanto, J Fryer (R), A R R Kasireddy, M Namjoshi, J H Priem

**Fonterra Brands Myanmar Co Ltd [Myanmar]:**

G A Duncan, M W Smith

**Fonterra Brands Phils. Inc. [Philippines]:**

L T Barin, R A Mendoza, E T Ogsimer, M W Smith, S Choo, M T Boness

**Fonterra Commercial Trading (Shanghai) Company Limited [China]:**

W F Chu, G A Duncan, A R R Kasireddy, R M Kennerley, K A Wickham

**Fonterra Egypt Limited [Egypt]:**

G A Duncan, A Anwar

**Fonterra Europe Manufacturing B.V. [Netherlands]:**

H Berghorst, C Rowe

**Fonterra Europe Manufacturing Holding B.V. [Netherlands]:**

G A Duncan, W Zwaan (R), H Huistra

**Fonterra Farming Ventures (Australia) Pty Ltd [Australia]:**

G A Duncan, D A Steele (R), A Maharaj

**Fonterra Foods Pty Ltd [Australia] (Removed 3 August 2016):**

G A Duncan, D A Steele (R), A Maharaj

**Fonterra Foodservices (USA), Inc. [United States]:**

G A Duncan, M Piper (R), R J Pedersen, J P Coote

**Fonterra Global Business Services Asia Sdn Bhd [Malaysia]:**

J Ling, J M Porraz

**Fonterra Holdings (Thailand) Limited [Thailand]:**

G N Kane, K Vunthanadit

**Fonterra India Private Limited [India]:**

G N Kane, K M Turner, H D Gowans

**Fonterra Ingredients Australia Pty Ltd [Australia]:**

G A Duncan, D A Steele (R), J Swales, A Maharaj

**Fonterra Investments Netherlands Coöperatie U.A. [Netherlands]:**

A D Turnbull (R), H Huistra, B M Ryan

**Fonterra Investments Pty Limited [Australia] (Removed 3 August 2016):**

G A Duncan, D A Steele (R), A Maharaj

**Fonterra Middle East FZE [United Arab Emirates]:**

G A Duncan, A M Fitzsimmons

**Fonterra MIH Holdings Brasil Ltda [Brazil]:**

R Santos (R), R Carneiro, F Spinelli

**Fonterra Milk Australia Pty Ltd [Australia]:**

G A Duncan, D A Steele (R), A Maharaj

**Fonterra Tangshan Dairy Farm (HK) Limited [Hong Kong]:**

A van der Nagel, R M Kennerley

**Fonterra Venezuela, S.A. [Venezuela]:**

F C Ortega Becea, G A Duncan, M M Perez

## STATUTORY INFORMATION CONTINUED

FOR THE YEAR ENDED 31 JULY 2016

### **Inversiones Dairy Enterprises S.A. [Chile]:**

M P Campbell (R), A J Duncan (R), J P Egaña Bertoglia (A), L O Herrera Larraín (A)(R), S Obach González (A)(R), J C Gumuccio Schönthaler (A)(R), A Montaner Lewin (A)(R), K J Murray (R), M W Smith (R), R Sepúlveda Seminario, F Spinelli, R Lavados (A), P L Linhares (A), G A Duncan

### **Key Ingredients, Inc. [United States]:**

G A Duncan, M Piper (R), B M Ryan, J P Coote

### **Lactaid Holdings Ltd [Barbados]:**

M F Maldonado, K J Murray (R), A D Turnbull, J Chow (R), L Hartmann, F Spinelli, L J Paravicini

### **Lacven Corp [Barbados]:**

M F Maldonado, A Turnbull, J Chow (R), L Hartmann, L J Paravicini, F Spinelli

### **Milk Products Holdings (Middle East) EC [Bahrain]:**

M W Smith, G A Duncan, A Fitzsimmons

### **Milk Products Holdings (North America) Inc. [United States]:**

G A Duncan, M Piper (R), B M Ryan, R Pedersen, J P Coote

### **Murrumbidgee Dairy Products Pty Ltd [Australia]:**

G A Duncan, D A Steele (R), A Maharaj

### **New Tai Milk Products Co Ltd [Taiwan]:**

G N Kane, C Lee, J Lee (R), G Lee, M Lee, B M Ryan, J H Priem, K Lee, K A Wickham

### **New Zealand Milk (Australasia) Pty Ltd [Australia]:**

G A Duncan, D A Steele (R), A Maharaj

### **New Zealand Milk (Barbados) Ltd [Barbados]:**

G A Duncan, K J Murray (R), F Spinelli

### **New Zealand Milk (LATAM) Ltd [Bermuda]:**

G A Duncan, K J Murray (R), F Spinelli

### **New Zealand Milk Products (Ethiopia) SC [Ethiopia]:**

A Fitzsimmons, M Woodward, M W Smith, M Smith, A B Abubeker, M B Abubeker

### **Newdale Dairies (Private) Limited [Sri Lanka]:**

L M Clement (R), J H P Gallage, M W Smith, S Sethi

### **NZMP (AEM) Ltd [United Kingdom]:**

G R Sharma, W Zwaan (R), A Wright

### **NZMP Fonterra Nigeria Limited [Nigeria]:**

G A Duncan, H Huistra

### **Pure Source Dairy Farm Company Limited [Hong Kong]:**

R M Kennerley, A van der Nagel, J F Ginascol, Y Chen

### **Sociedad Agrícola y Lechera Praderas Australes S.A. ('Pradesur') [Chile]:**

T J Appleton (R), H Covarrubias Lalanne (R), G Rencoret Mujica (R), J C Petersen, R Waldspurger, M Kunstmann

### **Sociedad Procesadora de Leche Del Sur S.A. [Chile]:**

E Alcalde Undurraga, A Cussen Mackenna, J Milic Barros, K J Murray (R), S Obach González (R), J R Valente Vias, G Varela Alfonso, J M Alcalde Undurraga (A), G Jiménez Barahona (A), J P Matus Pickering (A), S Oddo Gómez (A), C Perez-Cotapos Subercaseaux (A), J P Egana Bertoglia (A), F Spinelli, T Walker Prieto, R Lavados McKenzie

### **Solid Fresh Food & Beverage (M) Sdn. Bhd. [Malaysia]:**

M F Bin Wahab (R), M W Smith, J M Porraz, J Ling

### **Soprole Inversiones SA [Chile]:**

G A Bitrán Dicowsky (R), A D Turnbull, J R Valente Vias, G Varela Alfonso, A Walker Prieto (R), S Diez Arriagada (A), C Herrera Barriga (A), R Sepúlveda Seminario (A), M Somarriva Labra (A), R Tisi Lanchares (A), L J Paravicini, F Spinelli, P L Linhares, R Carneiro

### **Soprole S.A. [Chile]:**

G A Bitrán Dicowsky (R), J R Valente Vias, G Varela Alfonso, C Herrera Barriga (A), R Sepúlveda Seminario (A), R A Tisi Lanchares (A), A D Turnbull, P L Linhares (A)(R), S Diez Arriagada (A), L J Paravicini, R Carneiro,

### **Tangshan Fonterra Dairy Farm Ltd [China]:**

R M Kennerley, G Lee (R), J L Zhang, A van der Nagel, G A Duncan

### **Unilac Australia Pty Ltd [Australia]:**

G A Duncan, D A Steele (R), A Maharaj

### **United Milk Tasmania Pty Limited [Australia]:**

G A Duncan, D A Steele (R), A Maharaj

## REMUNERATION FRAMEWORK

An effective remuneration framework is an important consideration in attracting and retaining talent, driving change, and motivating employees to succeed.

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

Packages are compared against peer companies in the relevant market, using information obtained from independent remuneration consultants. Adjustments to packages may occur regularly, such as an annual base salary review, or on an as-needed basis to recognise additional responsibilities. The framework is designed to differentiate rewards for exceptional performance whilst also considering budget constraints, internal equity and governance factors such as local legislation.

## SHORT TERM INCENTIVE PLANS

Most permanent salaried employees in Fonterra participate in an annual STI plan.

STI plans align employees with what is important to Fonterra. At the beginning of each year a series of Group and business unit Key Performance Indicators (KPIs) are identified and agreed. These KPIs may include important financial measures, goals around Health & Safety (H&S), and other important operational and qualitative measures. Some employees have a portion of their STI aligned with their individual performance.

Incentive programmes drive Fonterra's performance by:

- Aligning the objectives of the Co-operative to ensure collaboration and a one team approach to achieve Fonterra's goals;
- Establishing targets which are challenging yet achievable;
- Linking specific levels of reward to individual, team (such as business unit) and Group-wide performance; and
- Provide the opportunity for employees to share in Fonterra's success.

At the end of each operating year, performance against the Fonterra Group KPIs is independently reviewed and approved by the People, Culture and Safety Committee.

## OTHER INCENTIVE PLANS

Some business units, both in New Zealand and offshore, adopt sales incentive plans to drive specific growth objectives and, in some cases, other outcomes-based plans for specific employee groups.

Employees in these plans do not, typically, participate in other short term incentive plans.

## LONG TERM INCENTIVE PLAN

For certain senior executives, Fonterra operates a Long Term Incentive plan (LTI). This plan is by invitation only and is designed to motivate, reward and retain key executives. This plan is based on achievement of specified long term strategic goals for the Co-operative.

## BENEFITS

As Fonterra operates a total remuneration approach, benefits are provided when required by legislation or when they represent typical market practice in that country or region.

FIXED REMUNERATION	STI PLANS	LTI PLAN
<ul style="list-style-type: none"> <li>• Provides 'stable' base level of reward</li> <li>• External and internal relativities and budget constraints taken into account</li> <li>• Typically set at market median (for local market) using independent external benchmark data</li> <li>• Varies based on employee skills and performance</li> </ul>	<ul style="list-style-type: none"> <li>• Most permanent salaried employees eligible</li> <li>• Comprehensive range of financial and non-financial measures</li> <li>• When targets are exceeded total remuneration will be above market median</li> <li>• Highest performance receives the highest reward, lowest performance receives no STI payment</li> </ul>	<ul style="list-style-type: none"> <li>• Restricted to senior executives</li> <li>• Focus on key long term strategic goals of the Co-operative</li> </ul>

## STATUTORY INFORMATION CONTINUED

FOR THE YEAR ENDED 31 JULY 2016

### EMPLOYEE REMUNERATION

The Group operates in a number of countries where remuneration market levels differ widely. During the year ended 31 July 2016, the number of employees, not being Directors of Fonterra, who received remuneration and the value of other benefits exceeding \$100,000 was as follows:

REMUNERATION RANGE (\$)	NEW ZEALAND <sup>1</sup>	OFFSHORE <sup>2</sup>	CESSATIONS <sup>3</sup>	TOTAL	REMUNERATION RANGE (\$)	NEW ZEALAND <sup>1</sup>	OFFSHORE <sup>2</sup>	CESSATIONS <sup>3</sup>	TOTAL
100,000 - 110,000	779	237	96	1,112	580,001 - 590,000	-	1	-	1
110,001 - 120,000	678	273	56	1,007	590,001 - 600,000	-	3	1	4
120,001 - 130,000	330	205	48	583	600,001 - 610,000	-	2	1	3
130,001 - 140,000	192	186	31	409	610,001 - 620,000	2	2	1	5
140,001 - 150,000	160	99	31	290	620,001 - 630,000	-	1	-	1
150,001 - 160,000	104	109	34	247	640,001 - 650,000	-	-	1	1
160,001 - 170,000	88	68	16	172	650,001 - 660,000	-	4	1	5
170,001 - 180,000	64	66	17	147	660,001 - 670,000	-	1	-	1
180,001 - 190,000	55	46	16	117	670,001 - 680,000	-	1	1	2
190,001 - 200,000	57	30	17	104	680,001 - 690,000	1	3	-	4
200,001 - 210,000	43	35	10	88	690,001 - 700,000	-	1	-	1
210,001 - 220,000	34	28	13	75	700,001 - 710,000	1	2	-	3
220,001 - 230,000	18	24	9	51	710,001 - 720,000	-	-	1	1
230,001 - 240,000	22	20	6	48	720,001 - 730,000	-	-	1	1
240,001 - 250,000	19	15	7	41	730,001 - 740,000	1	-	-	1
250,001 - 260,000	20	18	4	42	740,001 - 750,000	-	2	1	3
260,001 - 270,000	18	19	6	43	750,001 - 760,000	1	-	-	1
270,001 - 280,000	10	17	6	33	760,001 - 770,000	-	1	-	1
280,001 - 290,000	10	16	6	32	770,001 - 780,000	1	-	1	2
290,001 - 300,000	9	7	4	20	790,001 - 800,000	-	2	-	2
300,001 - 310,000	9	19	5	33	800,001 - 810,000	2	1	-	3
310,001 - 320,000	8	8	3	19	810,001 - 820,000	1	2	-	3
320,001 - 330,000	5	9	1	15	820,001 - 830,000	1	1	-	2
330,001 - 340,000	5	2	5	12	840,001 - 850,000	1	-	-	1
340,001 - 350,000	5	11	3	19	850,001 - 860,000	-	1	-	1
350,001 - 360,000	3	4	1	8	860,001 - 870,000	-	1	-	1
360,001 - 370,000	5	7	3	15	870,001 - 880,000	-	1	-	1
370,001 - 380,000	4	3	2	9	910,001 - 920,000	1	1	-	2
380,001 - 390,000	6	5	-	11	920,001 - 930,000	-	1	1	2
390,001 - 400,000	4	5	1	10	950,001 - 960,000	1	1	-	2
400,001 - 410,000	5	6	1	12	960,001 - 970,000	-	-	1	1
410,001 - 420,000	4	5	1	10	970,001 - 980,000	-	1	-	1
420,001 - 430,000	6	2	2	10	1,080,001 - 1,090,000	-	1	1	2
430,001 - 440,000	4	5	-	9	1,120,001 - 1,130,000	1	-	-	1
440,001 - 450,000	1	7	-	8	1,150,001 - 1,160,000	-	1	-	1
450,001 - 460,000	3	2	-	5	1,170,001 - 1,180,000	-	1	-	1
460,001 - 470,000	2	3	1	6	1,250,001 - 1,260,000	-	1	-	1
470,001 - 480,000	-	2	1	3	1,290,001 - 1,300,000	-	1	-	1
480,001 - 490,000	2	5	-	7	1,360,001 - 1,370,000	1	-	-	1
490,001 - 500,000	3	2	-	5	1,390,001 - 1,400,000	-	1	-	1
500,001 - 510,000	1	1	4	6	1,430,001 - 1,440,000	-	2	-	2
510,001 - 520,000	-	-	1	1	1,500,001 - 1,510,000	-	1	-	1
520,001 - 530,000	2	4	-	6	1,760,001 - 1,770,000	1	-	-	1
530,001 - 540,000	1	3	-	4	1,800,001 - 1,810,000	-	1	-	1
540,001 - 550,000	2	4	2	8	1,830,001 - 1,840,000	1	-	-	1
550,001 - 560,000	2	1	-	3	1,960,001 - 1,970,000	-	1	-	1
560,001 - 570,000	-	2	1	3	2,050,001 - 2,060,000	-	-	1	1
570,001 - 580,000	2	-	-	2	3,560,001 - 3,570,000	-	1	-	1
					4,650,001 - 4,660,000	1	-	-	1
					<b>Total</b>	<b>2,823</b>	<b>1,694</b>	<b>485</b>	<b>5,002</b>

1 Includes employees employed in New Zealand during the reporting period.

2 Includes employees employed in an offshore operation during the reporting period. Amounts paid in foreign currency have been translated at the average conversion rate for the period. As Fonterra has a significant offshore population, the number of offshore employees exceeding the fixed figure of \$100,000 increases if the New Zealand dollar currency weakens significantly. Should the New Zealand dollar strengthen against those markets' currencies, these same individuals may not be reported in future lists.

3 Cessations include employees that have been terminated or retired during the period. The amounts paid to former employees include salary and bonuses for the current period, prior period bonuses that have been paid in the current period (which were accrued at 31 July 2015) and termination entitlements including those arising from employment arrangements entered into by legacy companies prior to the formation of Fonterra.

## CURRENT CREDIT RATING STATUS

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

## EXCHANGE RULINGS AND WAIVERS

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

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

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

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

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

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

## NZX TRADING HALTS

No trading halts were placed on Fonterra securities by NZX Regulation in the financial year ended 31 July 2016.

## STOCK EXCHANGE LISTINGS

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

As at 12 August 2016 there were 1,602,702,695 Fonterra Co-operative shares on issue.

## STATUTORY INFORMATION CONTINUED

FOR THE YEAR ENDED 31 JULY 2016

### ANALYSIS OF SHAREHOLDING

Analysis of Fonterra's shareholding as at 12 August 2016:

#### FCG Largest Recorded Share Holdings<sup>1</sup>

NAME	NUMBER OF SHARES	% OF SHARES
Fonterra Farmer Custodian Limited	115,858,987	7.23
Ellis-Lea Farms (2000) Limited	1,032,996	0.06
McIntyre Williamson Partners	1,027,209	0.06
Singletree Dairies 2013 Limited	940,677	0.06
Stewart Partnership Limited	922,500	0.06
Pengxin New Zealand Farm Group Limited – Bennydale 2	919,765	0.06
Van't Klooster Farms Limited	885,190	0.06
Moffitt Dairy Limited	873,433	0.05
Poplar Partnership Limited	825,203	0.05
McIntyre Williamson Partners	816,708	0.05
Elderslie Holdings Limited	799,383	0.05
Plantation Road Dairies Limited	794,170	0.05
McBain Farms Limited	776,977	0.05
Pengxin New Zealand Farm Group Limited – Bennydale 1	768,255	0.05
Feather Holdings Limited	754,146	0.05
C.K.S. Investments Limited	744,561	0.05
Twin Terraces Limited	742,768	0.05
Coringa Park Dairies Limited	736,563	0.05
Rangitata Dairies Limited Partnership	734,342	0.05
Clarevale Farming Co Ltd	726,692	0.05

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

#### Substantial Product Holders

According to notices given to the Company under the Financial Markets Conduct Act 2013, as at 31 July 2016, the substantial product holders in the Company and their relevant interests are noted below. The total number of Co-operative shares on issue as at 12 August 2016 was 1,602,702,695.

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

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

**FCG Fonterra Co-operative Shares**

Analysis of Fonterra Co-operative Shares as at 12 August 2016:

FROM-TO	HOLDER COUNT	%	HOLDING QUANTITY	%
1-50,000	1,669	15.85	41,468,954	2.59
50,001-100,000	3,028	28.75	231,122,735	14.42
100,001-200,000	3,522	33.44	495,108,851	30.89
200,001-400,000	1,938	18.40	527,743,746	32.93
400,001 and over	375	3.56	307,258,409	19.17

**ANALYSIS OF CAPITAL NOTE AND RETAIL BOND HOLDING**

Analysis of Fonterra's Capital Note Holding as at 8 August 2016:

**FCGHA Capital Notes**

FROM-TO	HOLDER COUNT	%	HOLDING QUANTITY	%
1-1,000	11	1.35	4,958	0.01
1,001-5,000	27	3.33	67,821	0.07
5,001-10,000	271	33.37	1,916,979	1.87
10,001-100,000	464	57.14	13,666,262	13.33
100,001 and over	39	4.80	86,863,234	84.72

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

Analysis of Fonterra's Retail Bond Holding as at 8 August 2016:

**FCG030 \$350 million Retail Bond issue**

FROM-TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000-9,999	38	6.45	222,000	0.06
10,000-49,999	319	54.16	7,028,000	2.01
50,000-99,999	80	13.58	4,780,000	1.37
100,000-999,999	130	22.07	42,362,000	12.10
1,000,000 and over	22	3.74	295,608,000	84.46

**FCG040 \$150 million Retail Bond issue**

FROM-TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000-9,999	62	9.05	349,000	0.23
10,000-49,999	438	63.94	9,107,000	6.07
50,000-99,999	85	12.41	5,085,000	3.39
100,000-999,999	85	12.41	17,782,000	11.86
1,000,000 and over	15	2.19	117,677,000	78.45

## STATUTORY INFORMATION CONTINUED

FOR THE YEAR ENDED 31 JULY 2016

### ENTRIES IN THE INTERESTS REGISTER

#### Directors' interests in transactions

##### *General disclosures of interest*

The following general disclosures of interest were made in the period from 1 August 2015 to 31 July 2016:

Malcolm Bailey	Director of Central Economic Development Agency Limited; Chairman of New Zealand International Business Forum.
Clinton Dines	Director of North Queensland Airports, Aurecon Group Limited, Zanaga Iron Ore Company, KAZ Minerals Plc and Griffith University; ceased to be a Director of KAZ Minerals Plc.
Ian Farrelly	Director of FSF Management Company Limited.
Leonie Guiney	Director and shareholder of Bobby Square Limited.
David Jackson	Director of Tegel Group Holdings Limited.
Simon Israel	Chairman of Singapore Post Limited.
David MacLeod	Shareholder of Far South Farms Limited; Director and shareholder of Matau Technologies Limited; ceased to be a Director and shareholder of IGN Limited, Property Portfolio Limited and NGI Limited.
John Monaghan	Director of Sunset Holdings Limited, Elderslie Holdings Limited and Taupua Holdings Limited.
John Waller	Director of Hyundai Motors New Zealand Limited, Isuzu Utes New Zealand Limited, Sunrise Group NZ Limited, New World Motors Limited, Global Motors NZ Limited, IFX Services Limited and GS Group Services Limited.
Ashley Waugh	Director of The Colonial Motors Group Limited, Seeka Kiwifruit Industries Limited and Heat Group Australia; Chairman of Moa Group Limited; ceased to be a Director of Heat Group Australia.

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

#### Securities dealings of Directors

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

##### *New disclosures*

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

	RELEVANT INTERESTS IN CO-OPERATIVE SHARES
Ashley Waugh (on appointment 25 November 2015)	115,812



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

*Co-operative share transactions*

DIRECTOR	NUMBER OF SECURITIES ACQUIRED	NUMBER OF SECURITIES DISPOSED	CONSIDERATION \$	DATE
John Wilson	11,292	–	54,515	26 August 2015
John Wilson <sup>1</sup>	21,278 <sup>1</sup>	21,278 <sup>1</sup>	–	15 September 2015
John Wilson <sup>1</sup>	162,696 <sup>1</sup>	162,696 <sup>1</sup>	–	29 September 2015
John Wilson	–	97,618	–	29 September 2015
Ian Farrelly	–	17,488	97,233	29 September 2015
John Wilson <sup>1</sup>	10,421 <sup>1</sup>	10,421 <sup>1</sup>	–	30 September 2015
John Wilson <sup>1</sup>	486 <sup>1</sup>	486 <sup>1</sup>	–	9 October 2015
John Wilson	–	195,235	1,076,191	18 November 2015
John Wilson	–	86,000	508,073	30 March 2016

<sup>1</sup> Transfers between related entities.

*Unit transactions*

There were no transactions by Directors (or their associated persons) in Units reported during the period from 1 August 2015 to 31 July 2016.

*Retail Bond transactions*

There were no transactions by Directors (or their associated persons) in Retail Bonds reported during the period from 1 August 2015 to 31 July 2016. No current holdings of Retail Bonds have been advised by Directors (or their associated persons).

*Capital Note transactions*

There were no transactions by Directors (or their associated persons) in Capital Notes reported during the period from 1 August 2015 to 31 July 2016. No current holdings of Capital Notes have been advised by Directors (or their associated persons).

**Directors' remuneration**

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

At the Annual Meeting of shareholders held on 25 November 2015, shareholders approved, on the recommendation of the Directors' Remuneration Committee, the following amounts of remuneration to apply to Elected Directors from the date of that Annual Meeting of shareholders.

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

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

The Board has discretion to set the fees for Directors appointed under clause 12.4 of the Constitution (Appointed Directors). In the period to 31 July 2016 the Board applied the same remuneration levels as above to the Appointed Directors.

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

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

**Directors' indemnity and insurance**

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

**FIVE YEAR SUMMARY**

FOR THE YEAR ENDED 31 JULY 2016

	JULY 2016	JULY 2015	JULY 2014	JULY 2013	JULY 2012
<b>SHAREHOLDER SUPPLIER RETURNS</b>					
<b>Payout</b>					
Farmgate Milk Price (per kgMS) <sup>1</sup>	3.90	4.40	8.40	5.84	6.08
Dividend (per share)	0.40	0.25	0.10	0.32	0.32
<b>Cash payout<sup>2</sup></b>	<b>4.30</b>	<b>4.65</b>	<b>8.50</b>	<b>6.16</b>	<b>6.40</b>
Retentions (per share) <sup>3</sup>	0.11	0.04	–	0.14	0.10
<b>OPERATING PERFORMANCE</b>					
<b>Average commodity prices (US\$ per MT FOB)</b>					
Whole Milk Powder <sup>4</sup>	2,111	2,639	4,824	3,394	3,359
Skim Milk Powder <sup>4</sup>	1,803	2,552	4,504	3,625	3,285
Butter <sup>4</sup>	2,830	3,027	3,920	3,550	3,546
Cheese <sup>5</sup>	2,766	3,477	4,706	4,124	3,498
<b>Average NZD/USD spot exchange rate applying throughout the year<sup>6</sup></b>	<b>0.67</b>	<b>0.76</b>	<b>0.84</b>	<b>0.82</b>	<b>0.80</b>
Fonterra's average NZD/USD conversion rate <sup>7</sup>	0.71	0.79	0.81	0.80	0.77
<b>Revenue (\$ million)</b>					
Ingredients and other revenue	10,903	12,144	17,748	13,926	14,824
Consumer revenue	6,296	6,701	4,527	4,717	4,945
<b>Total revenue</b>	<b>17,199</b>	<b>18,845</b>	<b>22,275</b>	<b>18,643</b>	<b>19,769</b>
Dairy ingredients manufactured in New Zealand (000s MT)	2,466	2,753	2,519	2,312	2,353
Total ingredients sales volume (000s MT) <sup>8</sup>	3,074	2,982	3,052	2,765	2,660
<b>Segment earnings (\$ million)<sup>9</sup></b>					
Global Ingredients and Operations	864	673	280	480	477
Oceania	137	(156)	31	93	218
Asia	235	192	50	207	182
Greater China	64	(5)	30	–	–
Latin America	125	256	111	137	124
Eliminations	6	(18)	1	20	(14)
<b>Segment earnings</b>	<b>1,431</b>	<b>942</b>	<b>503</b>	<b>937</b>	<b>987</b>
Normalisation adjustments	(73)	32	–	65	41
<b>Normalised segment earnings</b>	<b>1,358</b>	<b>974</b>	<b>503</b>	<b>1,002</b>	<b>1,028</b>
<b>Profit after tax attributable to shareholders (\$ million)</b>	<b>810</b>	<b>466</b>	<b>157</b>	<b>718</b>	<b>609</b>
<b>Earnings per share<sup>10</sup></b>	<b>0.51</b>	<b>0.29</b>	<b>0.10</b>	<b>0.44</b>	<b>0.41</b>

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

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

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

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

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

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

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

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

9 Represents segment earnings before unallocated finance income, finance costs and tax. For the years ended 31 July 2016, 2015 and 2014, Greater China has been disclosed separately in alignment with the disclosures in the segment note. For the years ended 31 July 2013 and earlier, Greater China was part of Asia. The year ended 31 July 2015 has been restated to reflect changes to the organisation of business units that occurred in the year ended 31 July 2016. The year ended 31 July 2014 has been restated to reflect changes to the organisation of business units that occurred in the year ended 31 July 2015. The year ended 31 July 2012 has been restated to reflect changes to the organisation of business units within reported segments which occurred in the year ended 31 July 2013.

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

	JULY 2016	JULY 2015	JULY 2014	JULY 2013	JULY 2012
<b>KEY CAPITAL MEASURES (\$ million)</b>					
Equity excluding cash flow hedge reserve	6,883	7,196	6,452	6,830	6,592
Economic net interest-bearing debt <sup>11</sup>	5,473	7,120	4,732	4,467	4,229
Economic debt to debt plus equity ratio <sup>12</sup>	44.3%	49.7%	42.3%	39.6%	39.1%
Capital employed <sup>13</sup>	9,392	9,487	8,493	8,249	8,004
Return on capital <sup>14</sup>	12.4%	8.9%	4.7%	10.5%	11.1%
<b>STAFF EMPLOYED</b>					
Total staff employed (000s, permanent full time equivalents)	21.3	22.0	18.2	17.5	17.3
New Zealand	11.4	11.9	11.4	11.2	11.0
Overseas	9.9	10.1	6.8	6.3	6.3
<b>SEASON STATISTICS<sup>15</sup></b>					
Total NZ milk collected (million litres)	17,585	18,143	17,932	16,673	16,951
Highest daily volume collected (million litres)	86.9	89.7	87.1	84.8	81.2
NZ shareholder supply milk solids collected (million kgMS)	1,453	1,520	1,533	1,424	1,463
NZ contract supply milk solids collected (million kgMS)	113	94	51	39	30
<b>NZ milk solids collected (million kgMS)</b>	<b>1,566</b>	<b>1,614</b>	<b>1,584</b>	<b>1,463</b>	<b>1,493</b>
Total number of shareholders at 31 May	10,579	10,753	10,721	10,668	10,578
Total number of sharemilkers at 31 May	3,098	3,379	3,398	3,449	3,595
Total number of shares at 31 May (million)	1,602	1,599	1,598	1,598	1,433

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

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

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

14 Return on capital is calculated as normalised EBIT, less equity accounted investees' earnings, less a notional tax charge, divided by capital employed.

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



**Dairy for life**

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