Annual Financial Results

FOR THE YEAR ENDED 31 JULY 2018

Fonterra
Dairy for life

Contents

Directors' Statement

FOR THE YEAR ENDED 31 JULY 2018

The Directors of Fonterra Co-operative Group Limited (Fonterra) present to Shareholders the Annual Report[1] and financial statements for Fonterra and its subsidiaries (together the Group) and the Group's interest in its equity accounted investments for the year ended 31 July 2018.

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 2018. For and on behalf of the Board:

John Monaghan
Chairman
12 September 2018

Bruce Hassall
Director
12 September 2018

1 This document, in conjunction with the Fonterra Annual Review 2018, constitutes the 2018 Annual Report to Shareholders of Fonterra Co-operative Group Limited.

Income Statement

FOR THE YEAR ENDED 31 JULY 2018

	NOTES	GROUP $ MILLION 31 JULY 2018	31 JULY 2017
Revenue from sale of goods		20,438	19,232
Cost of goods sold	2	(17,279)	(15,968)
Gross profit		3,159	3,264
Other operating income		192	190
Selling and marketing expenses		(651)	(641)
Distribution expenses		(572)	(550)
Administrative expenses	4	(873)	(810)
Other operating expenses	4	(400)	(334)
WPC 80 recall costs		(196)	–
Impairment of equity accounted investees	16	(405)	(35)
Net foreign exchange (losses)/gains		(12)	29
Share of profit of equity accounted investees	16	20	7
Profit before net finance costs and tax	4	262	1,120
Finance income	8	23	34
Finance costs	8	(439)	(389)
Net finance costs		(416)	(355)
(Loss)/profit before tax		(154)	765
Tax expense	18	(42)	(20)
(Loss)/profit after tax		(196)	745
(Loss)/profit after tax is attributable to:			
Equity holders of the Co-operative		(221)	734
Non-controlling interests		25	11
(Loss)/profit after tax		(196)	745

		GROUP $ 31 JULY 2018	31 JULY 2017
Earnings per share:			
Basic and diluted earnings per share	3	(0.14)	0.46

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 JULY 2018

	NOTES	GROUP $ MILLION 31 JULY 2018	31 JULY 2017
(Loss)/profit after tax		(196)	745
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges and other costs of hedging, net of tax		(459)	128
Net investment hedges and translation of foreign operations, net of tax		188	(124)
Hyperinflation gains/(losses) attributable to equity holders		17	(1)
Share of equity accounted investees' movements in reserves	16	–	–
Other reserve movements		(1)	(2)
Total items that may be reclassified subsequently to profit or loss		(255)	1
Items that will not be reclassified subsequently to profit or loss:			
Net fair value gains on investments in shares		8	2
Foreign currency translation losses attributable to non-controlling interests		(2)	(3)
Hyperinflation movements attributable to non-controlling interests		12	–
Non-controlling interests other movements		–	(2)
Total items that will not be reclassified subsequently to profit or loss		18	(3)
Total other comprehensive expense recognised directly in equity		(237)	(2)
Total comprehensive (expense)/income		(433)	743
Total comprehensive (expense)/income is attributable to:			
Equity holders of the Co-operative		(468)	737
Non-controlling interests		35	6
Total comprehensive (expense)/income		(433)	743

Statement of Financial Position

AS AT 31 JULY 2018

	NOTES	GROUP $ MILLION 31 JULY 2018	GROUP $ MILLION 31 JULY 2017
ASSETS			
Current assets			
Cash and cash equivalents		**446**	393
Trade and other receivables	9	**2,355**	2,303
Inventories	10	**2,917**	2,593
Tax receivable		**47**	32
Derivative financial instruments		**59**	580
Other current assets		**141**	181
Total current assets		**5,965**	6,082
Non-current assets			
Property, plant and equipment	13	**6,810**	6,391
Equity accounted investments	16	**615**	887
Livestock	14	**288**	319
Intangible assets	15	**3,227**	3,115
Deferred tax assets	18	**583**	363
Derivative financial instruments		**204**	239
Other non-current assets		**323**	446
Total non-current assets		**12,050**	11,760
Total assets		**18,015**	17,842
LIABILITIES			
Current liabilities			
Bank overdraft		**161**	11
Borrowings	7	**831**	1,112
Trade and other payables	11	**2,116**	2,117
Owing to suppliers	12	**1,579**	1,330
Tax payable		**35**	34
Derivative financial instruments		**296**	43
Provisions	19	**14**	40
Other current liabilities		**101**	44
Total current liabilities		**5,133**	4,731
Non-current liabilities			
Borrowings	7	**5,907**	5,151
Derivative financial instruments		**480**	547
Provisions	19	**130**	148
Deferred tax liabilities	18	**5**	9
Other non-current liabilities		**11**	8
Total non-current liabilities		**6,533**	5,863
Total liabilities		**11,666**	10,594
Net assets		**6,349**	7,248
EQUITY			
Subscribed equity		**5,887**	5,858
Retained earnings		**934**	1,637
Foreign currency translation reserve	17	**(364)**	(552)
Hedge reserves	17	**(267)**	192
Other reserves		**29**	5
Total equity attributable to equity holders of the Co-operative		**6,219**	7,140
Non-controlling interests		**130**	108
Total equity		**6,349**	7,248

Statement of Changes in Equity

FOR THE YEAR ENDED 31 JULY 2018

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE CO-OPERATIVE							
GROUP $ MILLION	SUBSCRIBED EQUITY	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION RESERVE	HEDGE RESERVES	OTHER RESERVES	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
As at 1 August 2017	**5,858**	**1,637**	**(552)**	**192**	**5**	**7,140**	**108**	**7,248**
(Loss)/profit after tax	**–**	**(221)**	**–**	**–**	**–**	**(221)**	**25**	**(196)**
Other comprehensive (expense)/income	**–**	**–**	**188**	**(459)**	**24**	**(247)**	**10**	**(237)**
Total comprehensive (expense)/income	**–**	**(221)**	**188**	**(459)**	**24**	**(468)**	**35**	**(433)**
Transactions with equity holders in their capacity as equity holders:								
Dividend paid to equity holders of the Co-operative	**–**	**(482)**	**–**	**–**	**–**	**(482)**	**–**	**(482)**
Equity instruments issued	**29**	**–**	**–**	**–**	**–**	**29**	**15**	**44**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(28)**	**(28)**
As at 31 July 2018	**5,887**	**934**	**(364)**	**(267)**	**29**	**6,219**	**130**	**6,349**
As at 1 August 2016	5,833	1,384	(428)	64	6	6,859	88	6,947
Profit after tax	–	734	–	–	–	734	11	745
Other comprehensive income/(expense)	–	–	(124)	128	(1)	3	(5)	(2)
Total comprehensive income/(expense)	–	734	(124)	128	(1)	737	6	743
Transactions with equity holders in their capacity as equity holders:								
Dividend paid to equity holders of the Co-operative	–	(481)	–	–	–	(481)	–	(481)
Equity instruments issued	25	–	–	–	–	25	42	67
Dividend paid to non-controlling interests	–	–	–	–	–	–	(28)	(28)
As at 31 July 2017	5,858	1,637	(552)	192	5	7,140	108	7,248

Cash Flow Statement

FOR THE YEAR ENDED 31 JULY 2018

	GROUP $ MILLION	
	31 JULY 2018	31 JULY 2017
Cash flows from operating activities		
Profit before net finance costs and tax	262	1,120
Adjustments for:		
Foreign exchange losses/(gains)	239	(1)
Depreciation and amortisation	544	526
Impairment of equity accounted investees	405	35
Other	5	(20)
	1,193	540
Decrease/(increase) in working capital:		
Inventories	(313)	(177)
Trade and other receivables	75	(634)
Amounts owing to suppliers	277	745
Payables and accruals	98	(100)
Other movements	42	(48)
Total	179	(214)
Cash generated from operations	1,634	1,446
Net taxes paid	(86)	(70)
Net cash flows from operating activities	1,548	1,376
Cash flows from investing activities		
Cash was provided from:		
– Proceeds from disposal of property, plant and equipment	26	105
– Proceeds from sale of livestock	79	62
– Co-operative support loans	149	41
– Other cash inflows	13	10
Cash was applied to:		
– Acquisition of property, plant and equipment	(858)	(690)
– Acquisition of livestock (including rearing costs)	(45)	(89)
– Acquisition of intangible assets	(147)	(103)
– Advances to and investments in equity accounted investees	(151)	(42)
– Other cash outflows	(14)	–
Net cash flows from investing activities	(948)	(706)
Cash flows from financing activities		
Cash was provided from:		
– Proceeds from borrowings	4,334	4,174
– Interest received	18	13
– Other cash inflows	–	38
Cash was applied to:		
– Interest paid	(446)	(393)
– Repayment of borrowings	(4,077)	(3,968)
– Dividends paid to non-controlling interests	(27)	(28)
– Dividends paid to equity holders of the Co-operative	(453)	(456)
– Other cash outflows	(74)	(2)
Net cash flows from financing activities	(725)	(622)
Net (decrease)/increase in cash	(125)	48
Opening cash	382	357
Effect of exchange rate changes	28	(23)
Closing cash	285	382
Reconciliation of closing cash balances to the statement of financial position:		
Cash and cash equivalents	446	393
Bank overdraft	(161)	(11)
Closing cash	285	382

Basis of Preparation

FOR THE YEAR ENDED 31 JULY 2018

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 a FMC Reporting Entity under the Financial Markets Conduct Act 2013. Fonterra is also required to comply with the Dairy Industry Restructuring Act 2001.

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

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

B) BASIS OF PREPARATION

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

These financial statements are prepared on a historical cost basis, except for derivative financial instruments, 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 green 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:

China Farms assets (Note 13)

The recoverable amount of the assets held by the China Farms operating segment is assessed at least annually to ensure they are not impaired. Performing this assessment requires management to estimate the future milk price in China, an asset specific pre-tax discount rate and the terminal growth rate.

Intangible assets (Note 15)

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

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

The recoverable amount of the investment in Beingmate is determined on a fair value basis using an estimate of what a market participant would pay for a similar long-term strategic equity stake in Beingmate under current market conditions. The key assumptions that management determine in performing the valuation assessment are the base share price and the acquisition premium.

Provisions and contingent liabilities (Note 19)

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

Deferred tax assets (Note 18)

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

C) BASIS OF CONSOLIDATION

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

Translation of the financial statements into NZD

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

Basis of Preparation CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

D) NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING 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, effective 1 August 2018

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

Fonterra is not materially impacted by the adoption of NZ IFRS 15.

Management has assessed the effect of applying NZ IFRS 15 through the detailed assessment of significant and more complex contracts across the Group. The majority of revenue earned by the Group is derived from the sale of products. Fonterra's obligations under the contracts are fulfilled when the product is provided to the customer. Revenue is currently recognised at the time the risks and rewards of ownership of the products passes to the customer. The detailed assessment of contracts performed by management has determined that the customer obtains control of products at the same time as the risks and rewards pass to the customer. This means that for Fonterra there is no change to the timing of revenue recognition under NZ IFRS 15.

In relation to the contract price, the detailed assessment performed by management has not identified any material changes to the accounting for rebates, discounts, or other items of variable consideration.

On transition to NZ IFRS 15 Fonterra will take advantage of the practical expedient to only apply NZ IFRS 15 to contracts that have not been completely fulfilled.

NZ IFRS 16, effective 1 August 2019

NZ IFRS 16 Leases replaces the current guidance on lease accounting. It requires a lease liability, reflecting future lease payments, and a 'right of use asset' to be recognised for most lease contracts. This includes many of the leases currently classified as operating leases for which no asset or liability is reflected on the statement of financial position under existing accounting rules.

Fonterra has continued to assess the impact of NZ IFRS 16, and established a project to ensure operational readiness. Fonterra has evaluated the transition options and has elected to utilise the modified retrospective approach, which means the cumulative effect of adopting NZ IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings on 1 August 2019 with no restatement of comparative information. Fonterra has also chosen to retain the current accounting treatment for short-term leases and leases of low value assets.

The adoption of NZ IFRS 16 is not expected to have a significant impact on Fonterra's net profit after tax. However, there will be an increase in profit before net finance costs and tax, because a portion of the lease costs currently reported in cost of goods sold or operating expenses will be recorded as finance costs. On the statement of financial position, many of Fonterra's current operating leases will be recognised as 'right of use assets' and a lease liability. Fonterra's operating lease commitments at 31 July 2018 are disclosed in Note 19.

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2018

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

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

The financial information reviewed by the Fonterra Management Team (FMT) has evolved over the past two years to reflect the changes in the management structure to support the operations of the Group. From 1 August 2017 the financial information reviewed by the Fonterra Management Team is solely based on the previously identified 'strategic platforms'.

a) Operating segments

Operating segments reflect the way financial information is regularly reviewed by the FMT. The measure of profit or loss used by the FMT to evaluate the underlying performance of operating segments is normalised segment earnings before net finance costs and tax. To enable underlying segment performance to be compared between reporting periods a normalised segment income statement has been presented. Comparative segment income statements have been re-presented on a normalised basis.

Transactions between segments are based on estimated market prices, with the exception of the sale of milk from China Farms to Ingredients. The transfer price used for these transactions is an amount reflective of long-term milk price trends in China.

Unallocated costs represent corporate costs including Corporate Affairs and Group services.

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

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

a) Operating segments continued

	GROUP $ MILLION								
	31 JULY 2018								
	INGREDIENTS	CONSUMER AND FOODSERVICE					CHINA FARMS	UNALLOCATED COSTS AND ELIMINATIONS	TOTAL
		OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL			
Normalised segment income statement									
External revenue[1]	13,485	2,001	1,849	1,564	1,532	6,946	–	–	20,431
Inter-segment revenue	2,821	158	16	–	2	176	262	(3,259)	–
Revenue from sale of goods	16,306	2,159	1,865	1,564	1,534	7,122	262	(3,259)	20,431
Cost of goods sold	(14,834)	(1,726)	(1,409)	(1,229)	(1,075)	(5,439)	(257)	3,251	(17,279)
Segment gross profit	1,472	433	456	335	459	1,683	5	(8)	3,152
Operating expenses	(808)	(373)	(289)	(183)	(368)	(1,213)	(31)	(444)	(2,496)
Net other operating income	111	8	18	14	24	64	22	(5)	192
Net foreign exchange gains/(losses)	50	(1)	(9)	(1)	(2)	(13)	–	(37)	–
Share of profit/(loss) of equity accounted investees	54	–	–	–	4	4	(5)	1	54
Normalised segment earnings before net finance costs and tax	879	67	176	165	117	525	(9)	(493)	902
Normalisation adjustments:									
Reduction in the carrying value of investment in Beingmate[2]	–	–	–	(439)	–	(439)	–	–	(439)
WPC80 recall costs[3]	(196)	–	–	–	–	–	–	–	(196)
Time value of options[4]	(5)	–	–	–	–	–	–	–	(5)
Segment earnings before net finance costs and tax	678	67	176	(274)	117	86	(9)	(493)	262
Finance income									23
Finance costs									(439)
(Loss)/profit before tax									(154)
Other segment information:									
Volume[5] (liquid milk equivalents, billion)	20.52	1.66	1.77	1.41	0.75	5.59	0.27	(4.18)	22.20
Volume[5] (metric tonnes, thousand)	2,986	623	331	266	578	1,798	22	(683)	4,123
Depreciation and amortisation ($ million)	(389)	(26)	(13)	(2)	(29)	(70)	(26)	(59)	(544)
Capital expenditure[6]	644	62	17	2	61	142	(25)	100	861
Equity accounted investments	308	–	–	204	10	214	85	8	615
Capital employed[7] ($ million)	9,156	515	95	(65)	332	877	788	(1,269)	9,552

1 Total Group revenue from the sale of goods is $20,438 million. The difference of $7 million relates to the normalisation of time value of options.

2 Of the $439 million normalisation adjustment, $405 million relates to impairment of equity accounted investees and $34 million relates to Fonterra's equity accounted share of Beingmate's losses.

3 The $196 million normalisation adjustment relates to operating expenses.

4 Of the $5 million normalisation adjustment, $7 million relates to revenue offset by $12 million of net foreign exchange losses.

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

6 Capital expenditure comprises purchases of property (less specific disposals where there is an obligation to repurchase), plant and equipment and intangible assets, and net purchases of livestock.

7 Capital employed is calculated as the average for the period of: net assets excluding net-interest bearing debt, deferred tax balances and brands, goodwill and equity accounted investments.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

a) Operating segments continued

	GROUP $ MILLION								
	31 JULY 2017								
	INGREDIENTS	CONSUMER AND FOODSERVICE					CHINA FARMS	UNALLOCATED COSTS AND ELIMINATIONS	TOTAL
		OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL			
Normalised segment income statement									
External revenue[1]	12,986	1,810	1,668	1,272	1,478	6,228	–	–	19,214
Inter-segment revenue	2,280	142	142	5	–	289	269	(2,838)	–
Revenue from sale of goods	15,266	1,952	1,810	1,277	1,478	6,517	269	(2,838)	19,214
Cost of goods sold	(13,793)	(1,514)	(1,309)	(918)	(1,032)	(4,773)	(246)	2,844	(15,968)
Segment gross profit	1,473	438	501	359	446	1,744	23	6	3,246
Operating expenses	(725)	(355)	(306)	(161)	(370)	(1,192)	(31)	(387)	(2,335)
Net other operating income	106	4	4	6	8	22	14	6	148
Net foreign exchange gains/(losses)	42	–	(5)	–	3	(2)	(1)	9	48
Share of profit/(loss) of equity accounted investees	47	–	–	–	4	4	(4)	1	48
Normalised segment earnings before net finance costs and tax	943	87	194	204	91	576	1	(365)	1,155
Normalisation adjustments:									
Gain on sale of Darnum manufacturing plant[2]	42	–	–	–	–	–	–	–	42
Reduction in the carrying value of investment in Beingmate[3]	–	–	–	(76)	–	(76)	–	–	(76)
Time value of options[4]	(1)	–	–	–	–	–	–	–	(1)
Segment earnings before net finance costs and tax	984	87	194	128	91	500	1	(365)	1,120
Finance income									34
Finance costs									(389)
Profit before tax									765
Other segment information:									
Volume[5] (liquid milk equivalents, billion)	21.30	1.74	1.70	1.28	0.74	5.46	0.34	(4.16)	22.94
Volume[5] (metric tonnes, thousand)	3,019	636	310	237	600	1,783	26	(648)	4,180
Depreciation and amortisation ($ million)	(367)	(31)	(15)	(2)	(33)	(81)	(26)	(52)	(526)
Capital expenditure[6]	592	60	23	–	34	117	38	104	851
Equity accounted investments	209	–	–	617	10	627	45	6	887
Capital employed[7] ($ million)	7,950	463	117	22	270	872	789	(518)	9,093

The segment note for the year ended 31 July 2017 has been restated. $42 million of operating expenses and $4 million of other operating income has been reallocated from Unallocated Costs and Eliminations to the Consumer and Foodservice operating segments. The reallocation has been made to better reflect costs in the segment in which they are reported to the FMT, to aid comparability between years.

1 Total Group revenue from the sale of goods is $19,232 million. The difference of $18 million relates to the normalisation of time value of options.

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

3 Of the $76 million normalisation adjustment, $35 million relates to impairment of equity accounted investees and $41 million relates to Fonterra's equity accounted share of Beingmate's losses.

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

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

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

7 Capital employed is calculated as the average for the period of: net assets excluding net-interest bearing debt, deferred tax balances and brands, goodwill and equity accounted investments.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

b) Geographical revenue

	GROUP $ MILLION								
	CHINA	REST OF ASIA	AUSTRALIA	NEW ZEALAND	UNITED STATES	EUROPE	LATIN AMERICA	REST OF WORLD	TOTAL
Geographical segment external revenue:									
Year ended 31 July 2018	**3,980**	**5,684**	**1,836**	**2,076**	**793**	**681**	**2,272**	**3,116**	**20,438**
Year ended 31 July 2017	3,383	5,165	1,592	2,056	1,254	838	2,162	2,782	19,232

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

c) Non-current assets

	GROUP $ MILLION							
	INGREDIENTS		OCEANIA		ASIA	GREATER CHINA	LATIN AMERICA	TOTAL GROUP
	NEW ZEALAND	REST OF WORLD	NEW ZEALAND	AUSTRALIA				
Geographical segment non-current assets:								
As at 31 July 2018	**5,538**	**467**	**1,324**	**928**	**827**	**1,127**	**1,052**	**11,263**
As at 31 July 2017	5,479	347	1,285	840	738	1,481	988	11,158

	GROUP $ MILLION	
	AS AT 31 JULY 2018	AS AT 31 JULY 2017
Reconciliation of geographical segment's non-current assets to total non-current assets:		
Geographical segment non-current assets	**11,263**	11,158
Deferred tax assets	**583**	363
Derivative financial instruments	**204**	239
Total non-current assets	**12,050**	11,760

2 COST OF GOODS SOLD

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

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

New Zealand sourced cost of milk supplied by farmer shareholders comprises the volume of milk solids supplied at the Farmgate Milk Price as determined by the Board for the relevant season. In making that determination the Board takes into account the Farmgate Milk Price calculated in accordance with the Farmgate Milk Price Manual, which is independently audited. For the season ended 31 May 2018, the Fonterra Board determined a Farmgate Milk Price lower than that calculated in accordance with the Farmgate Milk Price Manual. 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 'Investors/Farmgate Milk Prices' section of the Fonterra website.

Other costs include those costs directly incurred to bring the inventory to its final point of sale location, costs directly related to the sale of the inventory, and costs of additional ancillary services invoiced to the customer.

2 COST OF GOODS SOLD CONTINUED

	GROUP $ MILLION	
	31 JULY 2018	31 JULY 2017
Opening inventory	2,593	2,401
Cost of milk:		
– New Zealand sourced	10,115	9,471
– Non-New Zealand sourced	1,245	932
Other costs	6,243	5,757
Closing inventory	(2,917)	(2,593)
Total cost of goods sold	17,279	15,968

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 2018	31 JULY 2017
Basic and diluted earnings per share attributable to equity holders of the Co-operative ($)	(0.14)	0.46
Earnings attributable to equity holders of the Co-operative ($ million)	(221)	734
Weighted average number of shares (thousands of shares)	1,610,005	1,604,744

4 PROFIT BEFORE NET FINANCE COSTS AND TAX

	GROUP $ MILLION	
	31 JULY 2018	31 JULY 2017
The following items have been included in profit before net finance costs and tax:		
Auditors' remuneration:		
– Fees paid for the audit of the financial statements	6	6
– Fees paid for other services[1]	1	–
Operating lease expense	98	84
Research and development costs	95	81
Donations	–	1
Research and development grants received from government	(5)	(4)
Total employee benefits expense	2,116	1,966
Contributions to defined contribution plans included in employee benefits expense	76	68

1 The Group uses the services of PricewaterhouseCoopers on assignments additional to their statutory audit duties where their expertise and experience with the Group are important and auditor independence is not impaired. Other services include other assurance and attestation services $0.1 million (31 July 2017: $0.2 million) and advisory services of $0.6 million (31 July 2017: nil) relating to Food Trust.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

Administrative expenses

Administrative expenses include the following costs:

- Staff costs for those staff who are not involved in the manufacture, selling and marketing, or distribution of products.
- Information technology related costs, including licence fees and support costs.
- Travel and entertainment costs.
- Communication costs.
- Professional and administration costs, including insurance and banking costs.

The increase in administrative expenses relates largely to staff and information technology costs which have increased to better support the future development and growth of the Co-operative.

Other operating expenses

Other operating expenses include all other expenses that do not directly relate to the following functional areas of the business; manufacturing, distribution, selling and marketing and administration. These include:

- Amortisation of software.
- Research and development costs investing in the future development of the Co-operative.
- Premises and property costs, including associated repairs and maintenance and disposal costs.
- Vehicle costs.
- Utility costs.

In addition to the above, other operating expense also include 'mark to market' movements on commodity trading derivatives (where these result in a loss in the period), and other non-recurring costs such as litigation costs.

DEBT AND EQUITY

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

This section includes the following Notes:

Note 5: Subscribed equity instruments
Note 6: Dividends paid
Note 7: Borrowings
Note 8: Net finance costs

5 SUBSCRIBED EQUITY INSTRUMENTS

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

Co-operative shares, including shares held within the Group

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

	CO-OPERATIVE SHARES (THOUSANDS)
Balance at 1 August 2017	1,606,933
Shares issued under the dividend reinvestment plan[2]	4,990
Balance at 31 July 2018	1,611,923
Balance at 1 August 2016	1,602,703
Shares issued under the dividend reinvestment plan[2]	4,230
Balance at 31 July 2017	1,606,933

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

2 Total value of $29 million (31 July 2017: $25 million).

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

5 SUBSCRIBED EQUITY INSTRUMENTS CONTINUED

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 2018, 111,423,603 Co-operative shares (31 July 2017: 126,047,304) were legally owned by the Custodian, on trust for the benefit of the Fund.

	UNITS (THOUSANDS)
Balance at 1 August 2017	126,047
Units issued	20,946
Units surrendered	(35,569)
Balance at 31 July 2018	**111,424**
Balance at 1 August 2016	111,992
Units issued	29,933
Units surrendered	(15,878)
Balance at 31 July 2017	126,047

The rights attaching to units are set out in the Fonterra Shareholders' Fund 2018 Annual Report, available in the 'Investors/Fonterra Shareholder's Fund' section of Fonterra's website.

Capital management and structure

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

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

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

6 DIVIDENDS PAID

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

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

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

	$ MILLION	
DIVIDENDS	YEAR ENDED 31 JULY 2018	YEAR ENDED 31 JULY 2017
2018 Interim dividend – 10 cents per share[1]	161	–
2017 Final dividend – 20 cents per share[2]	321	–
2017 Interim dividend – 20 cents per share[3]	–	321
2016 Final dividend – 10 cents per share[4]	–	160

1 Declared on 20 March 2018 and paid on 20 April 2018 to all Co-operative shares on issue at 6 April 2018.
2 Declared on 23 September 2017 and paid on 20 October 2017 to all Co-operative shares on issue at 9 October 2017.
3 Declared on 21 March 2017 and paid on 20 April 2017 to all Co-operative shares on issue at 5 April 2017.
4 Declared on 18 August 2016 and paid on 9 September 2016 to all Co-operative shares on issue at 1 September 2016.

7 BORROWINGS

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

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

Economic net interest-bearing debt

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

	GROUP $ MILLION	
	AS AT 31 JULY 2018	AS AT 31 JULY 2017
Net interest-bearing debt position		
Total borrowings	6,738	6,263
Cash and cash equivalents	(446)	(393)
Interest-bearing advances[1]	(332)	(435)
Bank overdraft	161	11
Net interest-bearing debt	6,121	5,446
Value of derivatives used to manage changes in hedged risks on debt instruments	78	155
Economic net interest-bearing debt	6,199	5,601

1 Includes Fonterra Co-operative Support Loan balance of $177 million (31 July 2017: $135 million) which are netted against amounts owing to suppliers.

Total borrowings in the table above are represented by:

	GROUP $ MILLION						
	BALANCE AS AT 1 AUGUST 2017	PROCEEDS	REPAYMENTS	FOREIGN EXCHANGE MOVEMENT	CHANGES IN FAIR VALUES	OTHER	BALANCE AS AT 31 JULY 2018
Commercial paper	164	1,054	(919)	–	–	5	304
Bank loans	854	2,849	(2,551)	(24)	–	–	1,128
Finance leases[1]	137	–	(7)	1	–	–	131
Capital notes[2]	35	–	–	–	–	–	35
NZX-listed bonds	500	–	–	–	–	–	500
Medium-term notes	4,573	431	(600)	293	(61)	4	4,640
Total borrowings[3]	6,263	4,334	(4,077)	270	(61)	9	6,738

	GROUP $ MILLION						
	BALANCE AS AT 1 AUGUST 2016	PROCEEDS	REPAYMENTS	FOREIGN EXCHANGE MOVEMENT	CHANGES IN FAIR VALUES	OTHER	BALANCE AS AT 31 JULY 2017
Commercial paper	454	951	(1,249)	–	–	8	164
Bank loans	879	2,698	(2,713)	(10)	–	–	854
Finance leases[1]	143	–	(6)	–	–	–	137
Capital notes[2]	35	–	–	–	–	–	35
NZX-listed bonds	499	–	–	–	1	–	500
Medium-term notes	4,342	525	–	(138)	(158)	2	4,573
Total borrowings[3]	6,352	4,174	(3,968)	(148)	(157)	10	6,263

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.

7 BORROWINGS CONTINUED

	GROUP $ MILLION	
	AS AT 31 JULY 2018	AS AT 31 JULY 2017
Included within the statement of financial position as follows:		
Total current borrowings	831	1,112
Total non-current borrowings	5,907	5,151
Total borrowings	6,738	6,263

Leverage ratios

The Board closely monitors the Group's leverage ratios. The primary ratios monitored by the Board are:

- Debt payback. The debt payback ratios are adjusted for the impact of operating leases. They are calculated as 1. Funds from operations divided by economic net interest-bearing debt, and 2. Economic net interest-bearing debt divided by earnings before interest, tax, depreciation and amortisation (EBITDA).
- Gearing. The gearing ratio is calculated as economic net interest-bearing debt, divided by equity plus economic net interest-bearing debt. Equity is as presented in the statement of financial position, excluding hedge reserves. The gearing ratio as at 31 July 2018 was 48.4 per cent (31 July 2017: 44.3 per cent).

The Group is not subject to externally imposed capital requirements.

Finance leases included in total borrowings are represented by:

	GROUP $ MILLION	
	AS AT 31 JULY 2018	AS AT 31 JULY 2017
Finance leases – minimum lease payments		
Not later than one year	16	17
Later than one year and not later than five years	131	144
Later than five years	4	5
	151	166
Future finance charges on finance leases	(20)	(29)
Present value of finance leases	131	137
The present value of finance leases is as follows:		
Not later than one year	7	6
Later than one year and not later than five years	121	126
Later than five years	3	5
Total present value of finance leases	131	137

Liquidity risk

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

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

The Group manages its liquidity by retaining cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Fonterra's funding facilities are reviewed at least annually, which is one of the key financial risk management activities undertaken by the Group to ensure an appropriate maturity profile given the nature of the Group's business. At balance date the Group had undrawn lines of credit totalling $3,732 million (31 July 2017: $3,811 million).

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.

7 BORROWINGS CONTINUED

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 2018					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	3 MONTHS OR LESS	3–12 MONTHS	1–5 YEARS	MORE THAN 5 YEARS
Non-derivative financial liabilities						
Borrowings						
– Commercial paper	(304)	(305)	(305)	–	–	–
– Bank loans	(1,128)	(1,698)	(147)	(314)	(1,237)	–
– Finance leases	(131)	(151)	(4)	(12)	(131)	(4)
– Capital notes	(35)	(42)	–	(1)	(6)	(35)
– NZX-listed bonds	(500)	(586)	(11)	(11)	(564)	–
– Medium-term notes	(4,640)	(5,949)	(31)	(435)	(2,107)	(3,376)
Bank overdraft	(161)	(161)	(161)	–	–	–
Owing to suppliers	(1,579)	(1,579)	(1,579)	–	–	–
Trade and other payables (excluding employee entitlements)	(1,840)	(1,840)	(1,840)	–	–	–
Financial guarantees issued[1]	–	(1)	(1)	–	–	–
Total non-derivative financial liabilities	(10,318)	(12,312)	(4,079)	(773)	(4,045)	(3,415)
Derivative financial instruments						
Gross settled derivatives						
– Inflow		20,637	10,568	6,644	1,331	2,094
– Outflow		(21,083)	(10,642)	(6,856)	(1,493)	(2,092)
Total gross settled derivative financial instruments	(397)	(446)	(74)	(212)	(162)	2
Net settled derivatives	(116)	(107)	(21)	(6)	(103)	23
Total financial instruments	(10,831)	(12,865)	(4,174)	(991)	(4,310)	(3,390)

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

1 Maximum cash flows under guarantees provided by the Group.

8 NET FINANCE COSTS

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

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

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

	GROUP $ MILLION	
	31 JULY 2018	31 JULY 2017
Finance income[1]	**23**	34
Total interest expense at amortised cost[2]	**(462)**	(427)
Changes in fair value relating to:		
– Borrowings designated in a hedge relationship	61	157
– Derivatives designated in a hedge relationship	**(42)**	(123)
– Derivatives where hedge accounting has not been applied	**4**	4
Total interest income from fair value movements	**23**	38
Finance costs	**(439)**	(389)
Net finance costs	**(416)**	(355)

1 Finance income includes $9 million (31 July 2017: $24 million) relating to the Fonterra Co-operative Support Loans.
2 Includes interest expense of $23 million (31 July 2017: $22 million) relating to derivatives where hedge accounting has not been applied and cash flow hedge effectiveness reclassified to profit or loss.

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

WORKING CAPITAL

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

This section includes the following Notes:

Note 9: Trade and other receivables
Note 10: Inventories
Note 11: Trade and other payables
Note 12: Owing to suppliers

9 TRADE AND OTHER RECEIVABLES

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

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

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

Notes to the Financial Statements CONTINUED
FOR THE YEAR ENDED 31 JULY 2018

	GROUP $ MILLION	
	AS AT 31 JULY 2018	AS AT 31 JULY 2017
Trade receivables	**1,987**	2,015
Less: provision for impairment of trade receivables	**(22)**	(23)
Trade receivables net of provision for impairment	**1,965**	1,992
Receivables from related parties[1]	**52**	32
Other receivables	**216**	162
Total receivables	**2,233**	2,186
Prepayments	**122**	117
Total trade and other receivables	**2,355**	2,303

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

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

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

GROUP $ MILLION	CURRENT	LESS THAN 1 MONTH PAST DUE	MORE THAN 1 MONTH BUT LESS THAN 3 MONTHS PAST DUE	MORE THAN 3 MONTHS PAST DUE	TOTAL
As at 31 July 2018	**1,946**	**147**	**67**	**73**	**2,233**
As at 31 July 2017	1,941	168	46	31	2,186

10 INVENTORIES

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

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

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

	GROUP $ MILLION	
	AS AT 31 JULY 2018	AS AT 31 JULY 2017
Raw materials	**711**	680
Finished goods	**2,239**	1,950
Impairment of finished goods	**(33)**	(37)
Total inventories	**2,917**	2,593

11 TRADE AND OTHER PAYABLES

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

	GROUP $ MILLION	
	AS AT 31 JULY 2018	AS AT 31 JULY 2017
Trade payables	1,677	1,683
Amounts due to related parties	32	21
Other payables	131	137
Total trade and other payables (excluding employee entitlements)	1,840	1,841
Employee entitlements	276	276
Total trade and other payables	2,116	2,117

12 OWING TO SUPPLIERS

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

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

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

	GROUP	
	AS AT 31 JULY 2018	AS AT 31 JULY 2017
Owing to suppliers[1] ($ million)	1,579	1,330
Farmgate Milk Price[2] (per kgMS)	$6.69	$6.12
Of this amount:		
– Total advance payments made during the year	$5.55	$5.21
– Total owing as at 31 July	$1.14	$0.91
Amount advanced during the year as a percentage of the milk price for the season ended 31 May	83%	85%

1 This amount is after offsetting $177 million Fonterra Co-operative Support Loan repayments relating to the 2017/18 season (31 July 2017: $135 million).

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

LONG-TERM ASSETS

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

This section includes the following Notes:

Note 13: Property, plant and equipment

Note 14: Livestock

Note 15: Intangible assets

13 PROPERTY, PLANT AND EQUIPMENT

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

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

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

Depreciation

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

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

	GROUP $ MILLION				
	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	PLANT, VEHICLES AND EQUIPMENT	CAPITAL WORK IN PROGRESS	TOTAL
As at 31 July 2018					
Cost	354	2,787	8,210	721	12,072
Accumulated depreciation and impairment	–	(1,042)	(4,220)	–	(5,262)
Net book value at 31 July 2018	354	1,745	3,990	721	6,810
As at 31 July 2017					
Cost	348	2,644	7,740	535	11,267
Accumulated depreciation and impairment	–	(953)	(3,923)	–	(4,876)
Net book value at 31 July 2017	348	1,691	3,817	535	6,391

13 PROPERTY, PLANT AND EQUIPMENT CONTINUED

	GROUP $ MILLION				
	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	PLANT, VEHICLES AND EQUIPMENT	CAPITAL WORK IN PROGRESS	TOTAL
Net book value					
As at 1 August 2017	**348**	**1,691**	**3,817**	**535**	**6,391**
Additions[1]	**–**	**5**	**20**	**756**	**781**
Transfer from capital work in progress	**12**	**103**	**467**	**(582)**	**–**
Hyperinflationary movements	**8**	**15**	**6**	**7**	**36**
Depreciation charge	**–**	**(93)**	**(351)**	**–**	**(444)**
Impairment reversal	**–**	**4**	**1**	**–**	**5**
Disposals	**(14)**	**(9)**	**(9)**	**–**	**(32)**
Foreign currency translation	**–**	**29**	**39**	**5**	**73**
As at 31 July 2018	**354**	**1,745**	**3,990**	**721**	**6,810**
Net book value					
As at 1 August 2016	339	1,596	3,519	718	6,172
Additions[1]	3	13	53	685	754
Transfer from capital work in progress	15	205	644	(864)	–
Hyperinflationary movements	2	4	2	2	10
Depreciation charge	–	(92)	(343)	–	(435)
Impairment reversal	–	2	–	–	2
Disposals	(8)	(9)	(29)	(2)	(48)
Foreign currency translation	(3)	(28)	(29)	(4)	(64)
As at 31 July 2017	348	1,691	3,817	535	6,391

1 Additions include borrowing costs of $8 million (2017: $10 million) capitalised using a weighted average interest rate of 5.52 per cent (2017: 5.85 per cent).

Carrying value of China Farms assets

As the China Farms operating segment is not achieving positive financial returns, management has performed an impairment test to support the $748 million carrying value of the net assets of China Farms. As at 31 July 2018 the net assets include property, plant and equipment of $480 million, livestock of $280 million and working capital balances.

The impairment test is performed using the same value in use methodology applied to goodwill and indefinite life brands (Note 15). The key assumptions used in the impairment test are the future milk price and the discount rate. The assumptions used in the impairment test are shown below.

- The future milk price of RMB4.0 per kg, which is higher than current market prices, is appropriate to use in the impairment test as it is reflective of long term milk price trends in China.
- The discount rate of 9.1 per cent (31 July 2017: 9.0 per cent) is specific to the underlying assets being tested.
- The future cash flows, based on the strategic business plan, are dependent on the farming operations continuing to achieve further production and cost efficiencies. The long-term growth rate applied to the future cash flows at year five of the forecast is 3.0 per cent (31 July 2017: 2.7 per cent).

Using these assumptions, the recoverable amount of the China Farms assets is equivalent to the carrying amount. Any adverse change in these assumptions would result in an impairment.

The following table shows the sensitivity of the recoverable amount assessment to changes in the key assumptions:

KEY ASSUMPTIONS	SENSITIVITY
Future milk price	An increase/(decrease) in the milk price of RMB 0.02 per kg would result in an increase/(decrease) in the recoverable amount of $23 million.
Discount rate	An increase in the discount rate of 0.5 per cent would result in a decrease in the recoverable amount of $56 million. A decrease in the discount rate of 0.5 per cent would result in an increase in the recoverable amount of $66 million.

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.

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

13 PROPERTY, PLANT AND EQUIPMENT CONTINUED

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

	GROUP $ MILLION	
	AS AT 31 JULY 2018	AS AT 31 JULY 2017
Land	**5**	5
Building and leasehold improvements	**89**	93
Plant and equipment	**20**	22
Net book value of property, plant and equipment subject to finance leases	**114**	120

14 LIVESTOCK

The Group's livestock balance primarily comprises dairy cows.

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 young and mature livestock.

Young 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 young livestock are capitalised to the statement of financial position. The fair value of young livestock is determined using a market approach, adjusted to reflect the age of the herd.

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

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

	HEADCOUNT	
	AS AT 31 JULY 2018	AS AT 31 JULY 2017
Young dairy cows	**32,630**	46,269
Mature dairy cows	**34,561**	39,280
Other livestock	**3,054**	3,664
Total livestock headcount	**70,245**	89,213

During the year the Group collected 312 million litres of milk (31 July 2017: 318 million litres) from its dairy cows.

The value of livestock at 31 July is as follows:

	GROUP $ MILLION	
	AS AT 31 JULY 2018	AS AT 31 JULY 2017
Opening balance	**319**	342
Purchase of livestock	**–**	7
Rearing costs of young livestock	**45**	82
Change in fair value – birth and growth	**–**	(5)
Change in fair value – price changes	**6**	10
Disposal of livestock	**(107)**	(98)
Effect of movements in exchange rates	**25**	(19)
Closing balance	**288**	319
Represented by:		
Young dairy cows	**134**	160
Mature dairy cows	**153**	158
Other livestock	**1**	1
Total livestock at 31 July	**288**	319

14 LIVESTOCK CONTINUED

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 per cent increase/(decrease) in the raw milk yield would result in a $9 million (31 July 2017: $11 million) increase/(decrease) in fair value.
		Milk price	A 5 per cent increase/(decrease) in the selling price of milk would result in a $21 million (31 July 2017: $22 million) increase/(decrease) in fair value.

15 INTANGIBLE ASSETS

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

Goodwill

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

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

Brands and other identifiable intangible assets

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

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

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

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

Software assets

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

Software assets amortised on a straight line basis over their estimated useful lives, being three to 14 years. They are tested for impairment when an indicator of impairment exists.

	GROUP $ MILLION					
	GOODWILL	BRANDS	SOFTWARE	SOFTWARE WIP	OTHER	TOTAL INTANGIBLES
As at 31 July 2018						
Cost	1,084	1,733	1,403	96	75	4,391
Accumulated amortisation and impairment	(3)	(95)	(1,007)	–	(59)	(1,164)
Net book value at 31 July 2018	**1,081**	**1,638**	**396**	**96**	**16**	**3,227**
As at 31 July 2017						
Cost	1,076	1,690	1,223	134	73	4,196
Accumulated amortisation and impairment	(3)	(114)	(910)	–	(54)	(1,081)
Net book value at 31 July 2017	1,073	1,576	313	134	19	3,115

15 INTANGIBLE ASSETS CONTINUED

	GROUP $ MILLION					
	GOODWILL	BRANDS	SOFTWARE	SOFTWARE WIP	OTHER	TOTAL INTANGIBLES
Net book value						
As at 1 August 2017	**1,073**	**1,576**	**313**	**134**	**19**	**3,115**
Additions	1	2	7	130	3	143
Transfer from work in progress	–	–	167	(167)	–	–
Amortisation	–	(2)	(92)	–	(1)	(95)
Impairment loss	–	–	–	–	(5)	(5)
Impairment reversal	–	22	–	–	–	22
Disposals	–	–	(2)	(1)	–	(3)
Foreign currency translation	7	40	3	–	–	50
As at 31 July 2018	**1,081**	**1,638**	**396**	**96**	**16**	**3,227**
Net book value						
As at 1 August 2016	1,079	1,622	354	67	20	3,142
Additions	–	–	6	107	–	113
Transfer from work in progress	–	–	40	(40)	–	–
Amortisation	–	(3)	(87)	–	(1)	(91)
Foreign currency translation	(6)	(43)	–	–	–	(49)
As at 31 July 2017	1,073	1,576	313	134	19	3,115

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

Impairment reversal is recognised in other operating income in the income statement.

Impairment testing of goodwill and indefinite life brands

The following table shows the allocation of goodwill and brands across the Group's cash generating units (CGUs).

	GROUP $ MILLION					
	AS AT 31 JULY 2018			AS AT 31 JULY 2017		
CGU	GOODWILL	BRANDS[1]	TOTAL	GOODWILL	BRANDS[1]	TOTAL
Ingredients CGUs	**78**	**120**	**198**	75	120	195
Consumer and Foodservice CGUs						
– Australia	**138**	**148**	**286**	135	150	285
– New Zealand	**611**	**393**	**1,004**	611	391	1,002
– Asia	**4**	**703**	**707**	4	624	628
– Brazil[2]	**132**	**246**	**378**	143	266	409
– Chile	**118**	**27**	**145**	105	24	129
– Other CGUs	**–**	**1**	**1**	–	1	1
Total	**1,081**	**1,638**	**2,719**	1,073	1,576	2,649

1 Of the total brands held, 98 per cent have indefinite useful lives (31 July 2017: 99 per cent).

2 This represents Fonterra's 51 per cent share of goodwill, the remaining 49 per cent is recognised in non-controlling interests.

Impairment testing is performed annually at the same time each year. Where appropriate, based on the market dynamics and go-to-market strategies, impairment testing is performed at a CGU level for both goodwill and indefinite life brands attributed to the CGU.

In completing the impairment testing for CGUs and indefinite life brands, the recoverable amounts are determined on a value in use basis, using a discounted cash flow methodology. The cash flow forecasts are based on the Board approved three-year business plan which has been prepared taking into account past performance as well as forecast future performance supported by strategic initiatives. The long-term growth rate is based on the long-term inflation rate of the jurisdictions where the sales are generated. Other key assumptions are based on external data where possible.

15 INTANGIBLE ASSETS CONTINUED

Consumer and Foodservice New Zealand

During the year, margin compression and operational challenges have negatively impacted the returns generated by the consumer and foodservice business in New Zealand. These challenges have impacted the forecast cash flows used to support the carrying value of the consumer and foodservice New Zealand CGU.

Fonterra has identified a number of strategic and operational initiatives that will, over time, refocus the business to generate margin growth and improve productivity. These initiatives are underway however their long-term nature means that not all the benefits are expected to be realised within the three-year business plan timeframe.

As a result, the business plan has been extended to a five-year forecast period. The cash flow forecast shows a higher rate of growth in years four and five compared to years one to three, as the benefits of the strategic and operational initiatives identified are achieved.

The margin growth and productivity improvements in years four and five are determined by assessing the expected financial impact of the initiatives identified based on past experience, the competitive landscape and market opportunities.

The key assumptions used in the impairment test and the sensitivity of the valuation to those assumptions is shown below. A change in any of the key assumptions by the amount shown in the table below would lead to elimination of the $94 million excess of recoverable amount over carrying amount.

KEY ASSUMPTIONS	VALUE ATTRIBUTED	SENSITIVITY
Revenue growth (5-year Culmulative Average Growth Rate (CAGR))	4.3 per cent	Decrease by 54 basis points
Productivity savings per year (5-year average)	$8 million	Decrease by $2 million per annum
Operating expense increase (5-year CAGR)	1.8 per cent	Increase by 77 basis points

The long-term growth rate applied to the future cash flows at year five of the forecast is 2.4 per cent (31 July 2017: 2.1 per cent). The discount rate applied is 8.1 per cent (31 July 2017: 8.1 per cent).

Consumer and Foodservice Brazil

The goodwill balance attributable to the consumer and foodservice business in Brazil arose in the financial year ended 31 July 2015 when Fonterra acquired a controlling interest of DPA Brazil.

Since that time the economy in Brazil has been challenging. During the year, the economy has shown signs of a slow recovery from the economic downturn, however there has been further retraction in the chilled dairy category.

Notwithstanding the challenging economic environment, the cash flow forecast used to support the carrying value of the consumer and foodservice business in Brazil shows significant growth in each year of the three-year business plan. This growth is supported by the strategic business plan and associated initiatives. Due to the long-term nature of many of the initiatives and the timing of the expected economic recovery, the forecast period has been extended to five years.

A forecast growth rate that includes volume growth plus inflation has been applied to the forecast cash flows in years six to 10 of the impairment model. This growth is aligned to the timing of the expected economic recovery in Brazil.

The key assumptions used in the impairment test and the sensitivity of the valuation to those assumptions is shown below. A change in either of the key assumptions by the amount shown in the table below would lead to elimination of the $124 million excess of recoverable amount over carrying amount. The achievement of the net sales growth is dependent on the continued economic recovery in Brazil.

KEY ASSUMPTIONS	VALUE ATTRIBUTED	SENSITIVITY
Revenue growth (year 1 to year 3 CAGR)	9.6 per cent	Decrease by 166 basis points
Productivity savings per year (year 1 to year 3 average)	$10 million	Decrease by $3 million per annum

The long-term growth rate applied to the future cash flows at year ten of the forecast is 4.5 per cent (31 July 2017: 4.5 per cent). The discount rate applied is 10.9 per cent (31 July 2017: 12.4 per cent).

Consumer and Foodservice Asia

For brands held in the Consumer and Foodservice business in Asia the recoverable amount is in excess of the carrying amount and reasonably possible changes in assumptions would not result in erosion of the excess. The average long-term growth rate applied to the future cash flows is 2.9 per cent (31 July 2017: 3.1 per cent) and the average discount rate applied is 9.2 per cent (31 July 2017: 9.2 per cent).

INVESTMENTS

This section provides information about Fonterra's interest in equity accounted investments.

This section includes the following Note:

Note 16: Equity accounted investments

16 EQUITY ACCOUNTED INVESTMENTS

Associates and joint ventures

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

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

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

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

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

Equity accounted investees with different balance dates from that of the Group are due to legislative requirements in the country the entities are domiciled or are aligned with their other investors' balance dates or to align with the milk season.

		OWNERSHIP INTERESTS (%)	
EQUITY ACCOUNTED INVESTEE NAME	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	AS AT 31 JULY 2018	AS AT 31 JULY 2017
DMV Fonterra Excipients GmbH & Co. KG	Germany	**50**	50
Beingmate Baby & Child Food Co., Ltd	China	**18.8**	18.8
Falcon Dairy Holdings Limited	Hong Kong	**51**	51

All investees have balance dates of 31 December.

Carrying amounts

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 2018	AS AT 31 JULY 2017	AS AT 31 JULY 2018	AS AT 31 JULY 2017	AS AT 31 JULY 2018	AS AT 31 JULY 2017
Carrying amount of investment	**241**	617	**374**	270	**615**	887
Profit/(loss) from continuing operations	**(35)**	(42)	**55**	49	**20**	7
Other comprehensive income	**–**	–	**–**	–	**–**	–
Total comprehensive income	**(35)**	(42)	**55**	49	**20**	7

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

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

16 EQUITY ACCOUNTED INVESTMENTS CONTINUED

Beingmate Baby & Child Food Co., Ltd. (Beingmate)

As part of Fonterra's long-term investment in the China market Fonterra holds an 18.8 per cent shareholding in Beingmate. The investment is recognised in the Consumer and Foodservice Greater China operating segment. During the year Beingmate's share price has traded significantly below the share price at the time Fonterra acquired its investment, and also below the base share price used in the valuation assessments at 31 July 2017 and 31 January 2018. As a result, the carrying value of the investment has been assessed for impairment at 31 July 2018. To assess the recoverable amount of the investment a fair value less costs to sell methodology has been applied.

The fair value of the investment has been determined using an estimate of what a market participant would pay for a similar long-term strategic equity stake in Beingmate under current market conditions. The key assumptions used in determining the fair value are the base share price and the net premium above the base share price (acquisition premium) that would be paid for a long-term strategic investment of a similar size. This valuation methodology requires judgement, and is Level 3 in the fair value hierarchy as it is not based on market observable inputs.

The assumptions underlying the calculation of the fair value of the 18.8 per cent strategic investment in Beingmate are:

	AS AT		
RMB PER SHARE	31 JULY 2018 AUDITED	31 JANUARY 2018 UNAUDITED	31 JULY 2017 AUDITED
Weighted average share price period	**30 trading days up to 31 July 2018**	15 trading days from 22 January 2018	30 trading days pre-trading halt date up to 10 July 2017
Weighted average base price	**4.91**	5.36	13.66
Net premium (including costs to sell)	**0.48**	0.52	2.45
Implied value per share	**5.39**	5.88	16.11

Base share price assumption

For the year ended 31 July 2018, to remove the impact of market volatility, a 30 trading-day period (20 June 2018 to 31 July 2018) was used to determine the base share price. The closing share price as at 31 July 2018 was RMB5.26 per share. The shares are traded on the Shenzhen stock exchange and accordingly the share price changes regularly, including during the period between balance date and the date these financial statements were authorised for issue. A change in the base share price to RMB4.50 per share would lead to elimination of the $18 million excess of recoverable amount over the carrying amount.

For the six months ended 31 January 2018, to remove the impact of market volatility, a 15 trading-day period immediately after the forecast earnings downgrade announced by Beingmate on the 21 January 2018 was used (22 January 2018 to 9 February 2018). It was appropriate to use information from immediately after the reporting date as the Beingmate share price continued to decline despite no new information being provided to the market. This was considered the most appropriate period as the market had fully reflected the earnings downgrade impact.

For the year ended 31 July 2017, Beingmate shares were on a trading halt from 12 July 2017 to 4 September 2017, therefore in the absence of an active market, the period immediately before the trading halt (26 May to 10 July 2017) was considered the most appropriate period to determine the base price given that during this period the shares traded at a relatively stable range.

Net premium assumption

The acquisition premium reflects that a market participant would expect to pay a premium above the quoted share price to acquire a long-term strategic investment. The premium is determined by considering recent transaction data and the characteristics of the investment and is calculated relative to the base share price.

The amount attributed to the acquisition premium reflects that Beingmate is an established local participant in a growth market and has a number of brands registered under the new regulations effective 1 January 2018. The significant reduction in the acquisition premium from 31 July 2017 reflects the poor financial performance, reduction in market share, and the operational and governance challenges experienced by Beingmate during the year. As at 31 July 2018 the valuation assessment is not sensitive to a reasonable change in the acquisition premium.

Carrying value of the investment

The carrying value of the investment in Beingmate has reduced from the prior year primarily due to an impairment loss recognised in the 31 January 2018 interim financial statements. As at 31 July 2018 the carrying value of the investment is supported by the fair value assessment therefore no further impairment has been recorded. A reconciliation of the carrying amount of the investment is shown below.

	GROUP $ MILLION		
	AS AT		
	31 JULY 2018 AUDITED	31 JANUARY 2018 UNAUDITED	31 JULY 2017 AUDITED
Opening balance	**617**	617	740
Share of losses	**(34)**	(28)	(41)
Impairment loss	**(405)**	(405)	(35)
Effect of movement in exchange rates	**26**	60	(47)
Closing balance	**204**	244	617

FINANCIAL RISK MANAGEMENT

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

This section includes the following Note:

Note 17: Financial Risk Management

17 FINANCIAL RISK MANAGEMENT

Financial risks faced by the Group

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

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

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

17 FINANCIAL RISK MANAGEMENT CONTINUED

Derivative financial instruments and hedge accounting

Derivatives are measured at fair value. Refer to Section 17g) Fair value measurement for details on how fair value is determined.

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

The Group may designate derivatives as:

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

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

Fair value hedges

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

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

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

Cash flow hedges

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

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

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

Net investment hedges

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

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

Costs of hedging

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

a) Foreign exchange risk

Nature and exposure of foreign exchange risk

Net foreign exchange gains or losses

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

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

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

- The Group's foreign currency transactions are predominantly denominated in United States Dollars.
- The Group has net investments in foreign operations of $5,679 million (31 July 2017: $5,518 million). This amount is before considering borrowings held by the Group in the same currency as the investment.
- The Group has borrowings denominated in foreign currency of $4,682 million (31 July 2017: $4,672 million).

17 FINANCIAL RISK MANAGEMENT CONTINUED

How foreign exchange risk is managed

Forecast foreign currency transactions

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

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

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

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

	GROUP $ MILLION						
	AS AT 31 JULY 2018[1]					YEAR ENDED 31 JULY 2018[2]	
		CARRYING AMOUNT				HEDGE EFFECTIVENESS IN RESERVES	
HEDGING INSTRUMENT USED	NOMINAL AMOUNT[3]	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	ACCUMULATED COST OF HEDGING	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	RECLASSIFIED TO THE INCOME STATEMENT[4]
Cash flow hedging							
Foreign currency forwards and options							
Maturity: 0-18 months Weighted average NZD:USD rate: 0.7119	9,381	10	(224)	(17)	(215)	(615)	11
Maturity: 0-11 months Weighted average USD:CNY rate: 6.6460	404	12	–	(1)	13	(8)	20
Total	9,785	22	(224)	(18)	(202)	(623)	31

1 Life-to-date amounts as at balance date.
2 Year-to-date amounts recognised during the year.
3 Nominal amount represents forecast foreign currency transactions in cash flow hedge relationships, translated into New Zealand Dollars using the exchange rate at balance date.
4 Recognised in revenue.

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

1 Life-to-date amounts as at balance date.
2 Year-to-date amounts recognised during the year.
3 Nominal amount represents forecast foreign currency transactions in cash flow hedge relationships, translated into New Zealand Dollars using the exchange rate at balance date.
4 Recognised in revenue.

Net investments in foreign operations

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

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

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

17 FINANCIAL RISK MANAGEMENT CONTINUED

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

	GROUP $ MILLION				
	AS AT 31 JULY 2018			YEAR ENDED 31 JULY 2018	
	CARRYING AMOUNT		NOMINAL AMOUNT	HEDGE EFFECTIVENESS	
HEDGED NET INVESTMENTS AND HEDGING INSTRUMENTS USED	AMOUNT OF NET INVESTMENT HEDGED[1]	FOREIGN CURRENCY BORROWINGS	FOREIGN CURRENCY SWAPS[2]	NET INVESTMENT GAIN/(LOSS) RECOGNISED IN OTHER COMPREHENSIVE INCOME	BORROWING/SWAPS GAIN/(LOSS) RECOGNISED IN OTHER COMPREHENSIVE INCOME
Net investment hedging					
United States Dollar-denominated Maturity of borrowings: 22-35 months	136	(136)	–	(12)	12
Australian Dollar-denominated Maturity of borrowings: 35-112 months	521	(521)	–	(7)	7
Euro-denominated Maturity of borrowings: 76 months	166	(166)	–	(14)	14
Chinese Renminbi-denominated Maturity of borrowings: 6-84 months Maturity of swaps: 0-2 months	758	(656)	(102)	(13)	13
Total	1,581	(1,479)	(102)	(46)	46

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

2 The carrying amount of foreign currency swaps at balance date is $1 million, and is presented within derivative assets.

	GROUP $ MILLION				
	AS AT 31 JULY 2017			YEAR ENDED 31 JULY 2017	
	CARRYING AMOUNT		NOMINAL AMOUNT	HEDGE EFFECTIVENESS	
HEDGED NET INVESTMENTS AND HEDGING INSTRUMENTS USED	AMOUNT OF NET INVESTMENT HEDGED[1]	FOREIGN CURRENCY BORROWINGS	FOREIGN CURRENCY SWAPS[2]	NET INVESTMENT GAIN/(LOSS) RECOGNISED IN OTHER COMPREHENSIVE INCOME	BORROWING/SWAPS GAIN/(LOSS) RECOGNISED IN OTHER COMPREHENSIVE INCOME
Net investment hedging					
United States Dollar-denominated Maturity of borrowings: 34-47 months	123	(123)	–	(7)	7
Australian Dollar-denominated Maturity of borrowings: 47 months	425	(425)	–	1	(1)
Euro-denominated Maturity of borrowings: 88 months	151	(151)	–	–	–
Chinese Renminbi-denominated Maturity of borrowings: 18 months Maturity of swaps: 1-4 months	341	(247)	(94)	(24)	24
Hong Kong Dollar-denominated Maturity of borrowings: 10 months	36	(36)	–	–	–
Total	1,076	(982)	(94)	(30)	30

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

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

Borrowings denominated in foreign currency

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

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

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

17 FINANCIAL RISK MANAGEMENT CONTINUED

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

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

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

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

	GROUP $ MILLION								
	AS AT 31 JULY 2018[1]					YEAR ENDED 31 JULY 2018[2]			
		CARRYING AMOUNT				HEDGE EFFECTIVENESS IN RESERVES		HEDGE EFFECTIVENESS	HEDGE INEFFECTIVENESS
HEDGING INSTRUMENTS USED	NOMINAL AMOUNT[3]	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	ACCUMULATED COST OF HEDGING	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	CASH FLOW HEDGE (OCI)	CASH FLOW HEDGE RECLASSIFIED TO INCOME STATEMENT[4]	FAIR VALUE HEDGE (INCOME STATEMENT) GAIN/(LOSS)[4]	RECOGNISED IN INCOME STATEMENT GAIN/(LOSS)[4]
Cash flow hedging and fair value hedging									
Cross-currency interest rate swaps									
USD	893	105	(7)	–	76	(4)	3	27	9
Maturity: 98-145 months Weighted average interest rate: floating Weighted average NZD:USD rate: 0.7841									
GBP	623	64	(261)	–	(213)	20	–	27	(4)
Maturity: 65 months Weighted average interest rate: floating Weighted average NZD:GBP rate: 0.3610									
EUR	386	25	–	(7)	31	36	(38)	3	–
Maturity: 76 months Weighted average interest rate: floating Weighted average NZD:EUR rate: 0.6559									
Fair value hedging	31	6	–	–	6	NA	NA	2	20
Maturity: 35 months Weighted average interest rate: floating Weighted average NZD:USD rate: 0.8160									
Total		200	(268)	(7)	(100)	52	(35)	59	25

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

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

3 Nominal amount is the face value, converted using the weighted average foreign exchange rate, of foreign denominated borrowings in hedge relationships. For those borrowings in fair value hedges, the carrying amount includes the life-to-date fair value hedge adjustment which increases borrowings by $18 million.

4 Recognised in net finance costs and net foreign exchange gains/(losses).

17 FINANCIAL RISK MANAGEMENT CONTINUED

	GROUP $ MILLION								
	AS AT 31 JULY 2017[1]					YEAR ENDED 31 JULY 2017[2]			
		CARRYING AMOUNT				HEDGE EFFECTIVENESS IN RESERVES		HEDGE EFFECTIVENESS	HEDGE INEFFECTIVENESS
HEDGING INSTRUMENTS USED	NOMINAL AMOUNT[3]	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	ACCUMULATED COST OF HEDGING	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	CASH FLOW HEDGE (OCI)	CASH FLOW HEDGE RECLASSIFIED TO INCOME STATEMENT[4]	FAIR VALUE HEDGE (INCOME STATEMENT) GAIN/(LOSS)[4]	RECOGNISED IN INCOME STATEMENT GAIN/(LOSS)[4]
Cash flow hedging and fair value hedging									
Cross-currency interest rate swaps									
USD	893	83	(18)	–	44	2	3	(87)	6
Maturity: 110-157 months Weighted average interest rate: floating Weighted average NZD:USD rate: 0.7841									
GBP	623	79	(319)	–	(260)	(19)	20	(27)	(8)
Maturity: 77 months Weighted average interest rate: floating Weighted average NZD:GBP rate: 0.3610									
EUR	386	–	(16)	(5)	(8)	1	(11)	(9)	(3)
Maturity: 88 months Weighted average interest rate: floating Weighted average NZD:EUR rate: 0.6559									
Fair value hedging	356	19	–	–	19	NA	NA	(19)	6
Maturity: 10-47 months Weighted average interest rate: floating Weighted average NZD:USD rate: 0.7733									
Total		181	(353)	(5)	(205)	(16)	12	(142)	1

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

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

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

4 Recognised in net finance costs and net foreign exchange gains/(losses).

17 FINANCIAL RISK MANAGEMENT CONTINUED

Receivables and payables denominated in foreign currency

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

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

Net foreign exchange gains and losses in the income statement

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

	GROUP $ MILLION	
	31 JULY 2018	31 JULY 2017
Relationships where fair value hedge accounting has been applied		
Net foreign exchange (losses)/gains attributable to:		
– Foreign currency-denominated borrowings	**(200)**	91
– Derivatives	**203**	(94)
Relationships where fair value hedge accounting has not been applied		
Net foreign exchange (losses)/gains attributable to:		
– Foreign currency denominated receivables	**423**	(229)
– Foreign currency denominated payables and borrowings	**(302)**	125
– Derivatives	**(135)**	135
– Other net foreign exchange (losses)/gains	**(1)**	1
Net foreign exchange (losses)/gains	**(12)**	29

b) Interest rate risk

Nature and exposure of interest rate risk to the Group

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

Changes in market interest rates expose the Group to:

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

How the Group manages its exposure to interest rate risk

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

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

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

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

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

Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

17 FINANCIAL RISK MANAGEMENT CONTINUED

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

	GROUP $ MILLION							
	AS AT 31 JULY 2018[1]				YEAR ENDED 31 JULY 2018[2]			
		CARRYING AMOUNT			HEDGE EFFECTIVENESS IN RESERVES		HEDGE EFFECTIVENESS	HEDGE INEFFECTIVENESS
HEDGING INSTRUMENTS USED	NOMINAL AMOUNT[3]	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	CASH FLOW HEDGE (OCI)	CASH FLOW HEDGE RECLASSIFIED TO THE INCOME STATEMENT[4]	FAIR VALUE HEDGE (INCOME STATEMENT) GAIN/(LOSS)[4]	RECOGNISED IN THE INCOME STATEMENT GAIN/(LOSS)[4]
Cash flow hedging								
Interest rate swaps								
Maturity: 1-74 months Weighted average interest rate: 4.22%	3,491	–	(173)	23	(32)	–	NA	17
Fair value hedging								
Interest rate swaps on NZD borrowings								
Maturity: 22-56 months Weighted average interest rate: floating	225	4	–	(6)	NA	NA	3	–
Interest rate swaps on AUD borrowings								
Maturity: 95-112 months Weighted average interest rate: floating	521	–	(15)	(12)	NA	NA	–	–
Total		4	(188)	5	(32)	–	3	17

	GROUP $ MILLION							
	AS AT 31 JULY 2017[1]				YEAR ENDED 31 JULY 2017[2]			
		CARRYING AMOUNT			HEDGE EFFECTIVENESS IN RESERVES		HEDGE EFFECTIVENESS	HEDGE INEFFECTIVENESS
HEDGING INSTRUMENTS USED	NOMINAL AMOUNT[3]	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS	CASH FLOW HEDGE (OCI)	CASH FLOW HEDGE RECLASSIFIED TO THE INCOME STATEMENT[4]	FAIR VALUE HEDGE (INCOME STATEMENT) GAIN/(LOSS)[4]	RECOGNISED IN THE INCOME STATEMENT GAIN/(LOSS)[4]
Cash flow hedging								
Interest rate swaps								
Maturity: 4-86 months Weighted average interest rate: 4.36%	3,935	1	(178)	38	1	41	NA	37
Fair value hedging								
Interest rate swaps on NZD borrowings								
Maturity: 3-68 months Weighted average interest rate: floating	575	4	–	(9)	NA	NA	(5)	(4)
Interest rate swaps on AUD borrowings								
Maturity: 107 months Weighted average interest rate: floating	191	–	(12)	(12)	NA	NA	(10)	–
Total		5	(190)	17	1	41	(15)	33

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

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

3 The nominal amount represents the principal amount of outstanding or forecast borrowings designated in hedge relationships. For those borrowings in fair value hedges, the carrying amount includes the life-to-date fair value hedge adjustment which reduces borrowings by $13 million (2017: $15 million).

4 Recognised in net finance costs.

17 FINANCIAL RISK MANAGEMENT CONTINUED

c) Commodity price risk

Nature and exposure of commodity price risk to the Group

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

How the Group manages its exposure to commodity price risk

Dairy commodity price risk

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

- determining the most appropriate mix of products to manufacture based on the supply curve and global demand for dairy products;
- governing the length and terms of sales contracts so that sales revenue is reflective of current market prices and is, where possible, linked to GlobalDairyTrade (GDT) prices; and
- using dairy commodity derivative contracts to obtain an optimal price for future sales. The markets for dairy commodity derivatives are relatively limited, which reduces the ability to manage earnings volatility. As markets for these derivatives grow the use of dairy commodity derivatives to manage dairy commodity price risk may increase.

Other commodity price risk

The Group manages its exposure to other commodity price risk through the use of derivative contracts to hedge the cost of electricity, diesel and sugar.

Hedge accounting

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

d) Sensitivity analysis of changes in market risks

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

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

	GROUP $ MILLION			
	31 JULY 2018		31 JULY 2017	
	EQUITY	PROFIT	EQUITY	PROFIT
Foreign currency rates				
10% strengthening of the NZD	140	(8)	138	4
10% weakening of the NZD	(153)	2	(115)	8
Interest rates				
100 basis point increase	64	5	68	5
100 basis point decrease	(59)	(18)	(66)	(21)
Dairy commodity prices				
10% increase	–	28	–	15
10% decrease	–	(28)	–	(15)

Interest rate cash flow sensitivity analysis

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

The impact of a change in interest rates on one year contracted cash flows is shown below:

	GROUP $ MILLION	
	31 JULY 2018	31 JULY 2017
100 basis point increase in interest rates	(6)	(3)
100 basis point decrease in interest rates	6	3

17 FINANCIAL RISK MANAGEMENT CONTINUED

e) Impact to reserves in equity

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

Hedge reserves

	GROUP $ MILLION	
	AS AT 31 JULY 2018	AS AT 31 JULY 2017
Opening balance	192	64
Movements attributable to cash flow hedges		
Change in value of effective derivative hedging instruments	(603)	450
Reclassifications to the income statement:		
– As hedged transactions occurred	(4)	(277)
Net change in the cost of hedging reserve	(31)	6
Tax expense/(credit)	179	(51)
Total movement	(459)	128
Closing balance[1]	(267)	192

1 Included in the closing balance of the hedge reserves is $30 million (31 July 2017: $32 million) relating to hedge relationships for which hedge accounting is no longer applied.

Foreign currency translation reserve

	GROUP $ MILLION	
	AS AT 31 JULY 2018	AS AT 31 JULY 2017
Opening balance	(552)	(428)
Movements attributable to net investments in foreign operations and net investment hedges		
Net translation gain/(loss) on:		
– Borrowings and derivative hedging instruments	17	30
– Net investments in foreign operations	164	(143)
Reclassifications to the income statement:		
– Upon disposal of foreign operations	2	(2)
Tax expense/(credit)	5	(9)
Total movement	188	(124)
Closing balance[2]	(364)	(552)

2 Included in the closing balance of the foreign currency translation reserve is $35 million (31 July 2017: $35 million) relating to hedge relationships for which hedge accounting is no longer applied.

f) Credit risk

Nature and exposure of credit risk to the Group

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

The Group has no undue concentrations of credit risk.

How the Group manages its exposure to credit risk

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

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

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

17 FINANCIAL RISK MANAGEMENT CONTINUED

g) Fair value measurement

Valuation techniques for determining fair values

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

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

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

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

Specific valuation techniques used to value financial instruments include:

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

Fair value hierarchy

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

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

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

	GROUP $ MILLION					
	LEVEL 1		LEVEL 2		LEVEL 3	
	AS AT 31 JULY 2018	AS AT 31 JULY 2017	**AS AT 31 JULY 2018**	AS AT 31 JULY 2017	**AS AT 31 JULY 2018**	AS AT 31 JULY 2017
Derivative assets						
– Commodity derivatives	15	30	3	1	–	–
– Foreign exchange derivatives	–	–	45	595	–	–
– Interest rate derivatives[1]	–	–	200	193	–	–
Derivative liabilities						
– Commodity derivatives	(12)	(7)	(2)	(2)	–	–
– Foreign exchange derivatives	–	–	(308)	(24)	–	–
– Interest rate derivatives[1]	–	–	(454)	(557)	–	–
Investments in shares	13	10	16	–	6	9
Livestock	–	–	–	–	288	319
Fair value	16	33	(500)	206	294	328

1 Includes cross-currency interest rate swaps.

17 FINANCIAL RISK MANAGEMENT CONTINUED

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

	GROUP $ MILLION					
			FAIR VALUE			
	CARRYING VALUE		LEVEL 1		LEVEL 2	
	AS AT 31 JULY 2018	AS AT 31 JULY 2017	AS AT 31 JULY 2018	AS AT 31 JULY 2017	AS AT 31 JULY 2018	AS AT 31 JULY 2017
Financial assets						
Long-term advances	154	300	–	–	148	289
Financial liabilities						
Borrowings						
– NZX-listed bonds	(500)	(500)	(513)	(510)	–	–
– Capital notes	(35)	(35)	(34)	(33)	–	–
– Medium-term notes	(4,640)	(4,573)	–	–	(4,883)	(4,829)
– Finance leases	(131)	(137)	–	–	(143)	(155)

h) Offsetting of financial assets and liabilities

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

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

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

	GROUP $ MILLION				
	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION				
	GROSS FINANCIAL ASSETS/ (LIABILITIES)	GROSS FINANCIAL ASSETS/ (LIABILITIES) SET OFF	NET FINANCIAL ASSETS/ (LIABILITIES) PRESENTED	AMOUNTS NOT OFFSET	NET
Derivative financial assets	395	(132)	263	(207)	56
Trade and other receivables (excluding prepayments)	2,449	(94)	2,355	–	2,355
	2,844	(226)	2,618	(207)	2,411
Derivative financial liabilities	(908)	132	(776)	207	(569)
Trade and other payables (excluding employee entitlements)	(2,116)	–	(2,116)	–	(2,116)
Owing to suppliers	(1,673)	94	(1,579)	–	(1,579)
Borrowings	(6,738)	–	(6,738)	–	(6,738)
	(11,435)	226	(11,209)	207	(11,002)
31 July 2018	(8,591)	–	(8,591)	–	(8,591)
Derivative financial assets	963	(144)	819	(411)	408
Trade and other receivables (excluding prepayments)	2,900	(714)	2,186	–	2,186
	3,863	(858)	3,005	(411)	2,594
Derivative financial liabilities	(734)	144	(590)	292	(298)
Trade and other payables (excluding employee entitlements)	(2,340)	499	(1,841)	–	(1,841)
Owing to suppliers	(1,545)	215	(1,330)	–	(1,330)
Borrowings	(6,263)	–	(6,263)	119	(6,144)
	(10,882)	858	(10,024)	411	(9,613)
31 July 2017	(7,019)	–	(7,019)	–	(7,019)

OTHER

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

This section includes the following Notes:

Note 18: Taxation
Note 19: Contingent liabilities, provisions and commitments
Note 20: Related party transactions
Note 21: Subsidiaries
Note 22: Net tangible assets per security

18 TAXATION

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

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

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

Deferred tax is not recognised on the following temporary differences:

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

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

a) Taxation – income statement

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

	GROUP $ MILLION	
	31 JULY 2018	31 JULY 2017
Current tax expense	81	97
Prior period adjustments to current tax	(5)	(25)
Deferred tax movements:		
– Origination and reversal of temporary differences	(34)	(52)
Tax expense	42	20

18 TAXATION CONTINUED

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

	GROUP $ MILLION	
	31 JULY 2018	31 JULY 2017
(Loss)/profit before tax	(154)	765
Prima facie tax expense at 28%	(43)	214
Add/(deduct) tax effect of:		
– Effect of tax rates in foreign jurisdictions	(27)	(33)
– Non-deductible expenses/additional assessable income	168	54
– Non-assessable income/additional deductible expenses	(24)	(30)
– Prior year under provision	(5)	(25)
Tax expense before distributions and deferred tax	69	180
Effective tax rate before distributions and deferred tax[1]	NA	23.5%
Tax effect of distributions to farmer shareholders	(27)	(163)
Tax expense before deferred tax	42	17
Effective tax rate before deferred tax[1]	NA	2.2%
Add/(deduct) tax effect of:		
– Origination and reversal of other temporary differences	(2)	2
– Losses of overseas Group entities not recognised	2	1
Tax expense	42	20
Effective tax rate[1]	NA	2.6%
Imputation credits		
Imputation credits available for use in subsequent reporting periods	20	20
Tax losses		
Gross tax losses available for which no deferred tax asset has been recognised	54	52

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. For the year ended 31 July 2018 the Group has recorded a net loss before tax, as a result the calculation of an effective tax rate is not applicable.

18 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 2018	AS AT 31 JULY 2017
Deferred tax		
Property, plant and equipment	(37)	(3)
Intangible assets	(540)	(519)
Derivative financial instruments	97	(84)
Employee entitlements	75	75
Inventories	30	31
Receivables, payables and provisions	56	58
New Zealand tax losses	554	486
Offshore tax losses	311	289
Other	32	21
Total deferred tax	578	354
Movements for the year		
Opening balance	354	366
Recognised in the income statement	34	52
Recognised directly in other comprehensive income	181	(60)
Foreign currency translation	9	(4)
Closing balance	578	354
Included within the statement of financial position as follows:		
Deferred tax assets	583	363
Deferred tax liabilities	(5)	(9)
Total deferred tax	578	354

New Zealand tax losses

In prior years the New Zealand tax consolidated group generated taxable income and utilised tax losses, however a taxable loss is reported in the current year. The deferred tax asset relating to New Zealand tax losses of $554 million (31 July 2017: $486 million) has been recognised on the basis that taxable income will be generated in the future against which the tax losses can be utilised.

The key assumptions in the assessment of future taxable income are New Zealand earnings, and the tax-deductible dividend. The estimate of New Zealand earnings is based on past performance of the New Zealand tax consolidated group relative to the overall Group. This ratio has been applied to the profit before tax forecast in the Group's three-year business plan. No earnings growth has been included in the assessment after the business plan period. The tax-deductible dividend assumption is based on the Group's dividend policy.

Changes in the key assumptions used impact the expected time horizon for utilisation of the tax losses.

Offshore tax losses

Deferred tax assets relating to tax losses carried forward of $253 million (31 July 2017: $540 million) are recognised by offshore entities that reported a taxable loss in either the current or prior year.

Gross tax losses of $54 million (31 July 2017: $52 million) relating to offshore entities have not been recognised as they may not be utilised.

Deferred tax liabilities

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 2018, these earnings amount to $1,089 million (31 July 2017: $893 million). These could be subject to withholding and other taxes on remittance.

19 CONTINGENT LIABILITIES, PROVISIONS AND COMMITMENTS

Contingent liabilities

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

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

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

In January 2014, Danone formally initiated legal proceedings against Fonterra in the High Court of New Zealand and separate Singapore arbitration proceedings against Fonterra in relation to the WPC80 precautionary recall. The New Zealand High Court proceedings have been stayed pending completion of the Singapore arbitration.

On 1 December 2017, the Singapore arbitration panel issued its award (judgement), finding in favour of Danone and ordered Fonterra to pay €105 million ($183 million) in recall costs to Danone.

In addition to the recall costs, Fonterra was also required to pay Danone €29 million ($49 million) representing interest on the award amount and Danone's costs in connection with the arbitration proceedings. Fonterra paid the award amount in December 2017 and the interest and costs in March 2018.

It is unclear whether Danone will continue to pursue the New Zealand High Court proceedings that were stayed pending the decision in the Singapore arbitration. Due to the uncertainty regarding whether Danone will seek to re-initiate these proceedings, and the nature and scope of these potential proceedings in light of the arbitration findings and award, no amount has been recognised in relation to these proceedings.

There are no additional claims or legal proceedings in respect of this matter that require provision or disclosure in these financial statements.

The Group has no other contingent liabilities as at 31 July 2018 (31 July 2017: 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.

	GROUP $ MILLION			
	EMPLOYEE RELATED PROVISIONS	LEGAL CLAIMS PROVISIONS	OTHER PROVISIONS	TOTAL PROVISIONS
As at 1 August 2017	84	72	32	188
Additional provisions	16	231	13	260
Unused amounts reversed	(9)	(16)	(12)	(37)
Charged to income statement	7	215	1	223
Charged to equity	(2)	–	–	(2)
Utilised during the year	(14)	(242)	(7)	(263)
Transfer to other class of provision	1	11	(12)	–
Foreign currency translation	1	(3)	–	(2)
As at 31 July 2018	77	53	14	144
Included within the statement of financial position as follows:				
Current liabilities				14
Non-current liabilities				130
Total provisions				144

19 CONTINGENT LIABILITIES, PROVISIONS AND COMMITMENTS CONTINUED

	GROUP $ MILLION			
	EMPLOYEE RELATED PROVISIONS	LEGAL CLAIMS PROVISIONS	OTHER PROVISIONS	TOTAL PROVISIONS
As at 1 August 2016	79	80	40	199
Additional provisions	12	–	11	23
Unused amounts reversed	(2)	(7)	(4)	(13)
Charged to income statement	10	(7)	7	10
Utilised during the year	(5)	(1)	(15)	(21)
As at 31 July 2017	84	72	32	188
Included within the statement of financial position as follows:				
Current liabilities				40
Non-current liabilities				148
Total provisions				188

The nature of the provisions are:

- Employee related provisions include defined benefit scheme obligations, other obligations that fall due on termination of employment, and long term employee benefits. The timing and amount of settlement is uncertain as it primarily depends on decisions relating to the employment of relevant employees;
- 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 settlement is uncertain as it depends on the outcome of a number of judicial proceedings; and
- Other provisions relate to product quality claims and other claims arising in the normal course of business. The timing and amount of settlement is uncertain as it depends on the outcome of the commercial negotiations relating to each individual claim.

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 2018	AS AT 31 JULY 2017
Buildings	17	63
Plant, vehicles and equipment	132	172
Software	6	20
Total commitments	155	255

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 2018	AS AT 31 JULY 2017
Less than one year	116	116
One to five years	237	224
Greater than five years	140	170
Total operating lease commitments	493	510

20 RELATED PARTY TRANSACTIONS

Equity accounted investees and key management personnel are related parties of the Group. Key management personnel comprises the Board and the Fonterra Management Team.

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

Key management personnel remuneration

	GROUP $ MILLION	
	31 JULY 2018	31 JULY 2017
Short-term employee benefits	12	11
Long-term employee benefits	7	10
Directors' remuneration	3	3
Total key management personnel remuneration	**22**	**24**

Transactions with related parties during the year

Transactions with related parties are under normal trade terms.

	GROUP $ MILLION	
	31 JULY 2018	31 JULY 2017
Equity accounted investees		
Revenue from the sale of goods[1]	116	90
Sale of services[2]	7	7
Royalty and other income	10	2
Dividends received	56	22
Interest income from financing arrangements	2	–
Purchases of goods[3]	(37)	(5)
Purchases of services[4]	(143)	(158)
Key management personnel		
Purchases of goods[5]	(119)	(121)
Co-operative support loans	4	–
Dividends paid	(6)	(6)

1 Goods sold are primarily commodity products.
2 Services provided include management fees.
3 Goods purchased are primarily commodity products.
4 Services provided are primarily freight services.
5 Purchases from key management personnel primarily relate to milk supplied by farmer shareholder Directors.

20 RELATED PARTY TRANSACTIONS CONTINUED

Outstanding balances with related parties

	GROUP $ MILLION	
	AS AT 31 JULY 2018	AS AT 31 JULY 2017
Equity accounted investees		
Total receivables arising from the sale or purchase of goods or services[1]	52	22
Total receivables arising from financing arrangements[2]	86	61
Total payables arising from the sale or purchase of goods or services	(32)	(21)
Total payables arising from financing arrangements	(1)	(2)
Key management personnel		
Total payables arising from the sale or purchase of goods or services[3]	(21)	(17)
Total receivables arising from Co-operative support loans	2	5

1 There were no material provisions for impairment on the receivables from related parties.
2 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 three years and nine years.
3 Payables to key management personnel relate to amounts owing for milk supplied by farmer shareholder Directors.

Financial guarantees

The Group has provided financial guarantees for several equity accounted investees. The aggregate drawn down amount of equity accounted investees' liabilities for which the Group is jointly and severally liable is nil (31 July 2017: nil).

Transactions with related entities

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

Commitments

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

21 SUBSIDIARIES

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

Non-controlling interests are allocated their share of profit after tax in the 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.

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

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.

21 SUBSIDIARIES CONTINUED

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 2018	AS AT 31 JULY 2017
Fonterra Australia Pty Limited	Australia	100	100
Fonterra Brands (Australia) Pty Limited	Australia	100	100
Dairy Partners Americas Brasil Limitada[1]	Brazil	51	51
Comercial Santa Elena S.A.[1]	Chile	99.9	99.9
Soprole S.A.[1]	Chile	99.9	99.9
Prolesur S.A.[1]	Chile	86.26	86.18
Fonterra Commercial Trading (Shanghai) Company Limited[1]	China	100	100
Fonterra (Yutian) Dairy Farm Co. Limited[1]	China	100	100
Fonterra (Ying) Dairy Company Limited[1]	China	100	100
Fonterra Brands (Hong Kong) Limited	Hong Kong	100	100
Fonterra Brands Indonesia, PT	Indonesia	100	100
Fonterra Brands (Malaysia) Sdn Bhd	Malaysia	100	100
Fonterra (Europe) Coöperatie U.A.	Netherlands	100	100
Fonterra Europe Manufacturing B.V.	Netherlands	100	100
Canpac International Limited	New Zealand	100	100
Fonterra (New Zealand) Limited	New Zealand	100	100
Fonterra Brands (New Zealand) Limited	New Zealand	100	100
Fonterra Brands (Tip Top) Limited	New Zealand	100	100
Fonterra Dairy Solutions Limited	New Zealand	100	100
Fonterra Ingredients Limited	New Zealand	100	100
Fonterra Limited	New Zealand	100	100
RD1 Limited	New Zealand	100	100
Kotahi Logistics LP	New Zealand	91	91
Fonterra Brands (Singapore) Pte Limited	Singapore	100	100
Fonterra Brands Lanka (Private) Limited	Sri Lanka	100	100
Fonterra Middle East FZE	UAE	100	100
Fonterra (USA) Inc.	United States	100	100
Corporación Inlaca CA	Venezuela	60	60

1 Balance date 31 December.

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 2018	AS AT 31 JULY 2017
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 managed investment scheme with an independent trustee. In concluding that the Group controls the Fund and the Custodian, the Directors took into consideration that they form an integral part of the structure and operation of Trading Among Farmers.

22 NET TANGIBLE ASSETS PER SECURITY

	GROUP AS AT 31 JULY 2018	GROUP AS AT 31 JULY 2017
Net tangible assets per security[1]		
$ per listed debt security on issue	5.18	6.86
$ per equity instrument on issue	1.94	2.57
Listed debt securities on issue (million)	603	603
Equity instruments on issue (million)	1,612	1,607

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

Independent Auditor's Report

TO THE SHAREHOLDERS OF FONTERRA CO-OPERATIVE GROUP LIMITED

The financial statements comprise:
- the statement of financial position as at 31 July 2018;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

OUR OPINION

In our opinion, the financial statements of Fonterra Co-operative Group Limited (the Company), including its controlled entities (the Group), present fairly, in all material respects, the financial position of the Group as at 31 July 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

BASIS FOR OPINION

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

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

AUDITOR INDEPENDENCE

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

Bruce Hassall was appointed an Independent Director and Chair of the Audit and Finance Committee (AFC) of the Company on 2 November 2017. Bruce Hassall was Chief Executive Officer of PricewaterhouseCoopers to 30 September 2016 when he retired from the firm. At the time of his appointment, the Board of the Company (the Board) made the decision that Bruce Hassall would not be involved in the appointment of the Group's auditor or the setting of audit fees for three years from the date of his appointment. Scott St John, Independent Director and member of the AFC, would act as Chair of the AFC for these matters and the Chair of the Board will join the AFC for deliberation. In addition, the engagement partner on the audit has direct access to the Chair of the Board to address any actual or perceived auditor independence threats.

Brent Goldsack was appointed a Director of the Company on 2 November 2017. Brent Goldsack retired as a partner of PricewaterhouseCoopers on 22 September 2017. Brent Goldsack was not involved in the provision of any audit services to the Group during his time as a partner of PricewaterhouseCoopers.

Bruce Hassall and Brent Goldsack had no financial relationship with PricewaterhouseCoopers upon their appointment as Directors of the Company.

Our firm carries out assurance services for the Group to assess risks and controls in relation to the Group's food supply chain as well as other assurance and attestation services. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group.

These matters have not impaired our independence as auditor of the Group.

OUR AUDIT APPROACH

Overview

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

Overall Group materiality: $35 million, which represents approximately 5% of the three-year average net profit before tax.

The Group's net profit before tax is subject to volatility due to fluctuations in the Farmgate Milk Price, commodity prices and foreign exchange rates. Using a three-year average net profit before tax provides a more stable basis for establishing our materiality. We used this benchmark because, in our view, it is the benchmark against which the performance of the Group is measured by users.

We have determined that there are three key audit matters:
- Recoverability of the carrying value of goodwill and indefinite life brands for the Consumer and Foodservice businesses in Brazil and New Zealand;
- Investment in Beingmate Baby & Child Food Co., Ltd. (Beingmate); and
- Carrying value of China Farms assets.

MATERIALITY

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

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

AUDIT SCOPE

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. In particular, we focused on areas where significant judgements, estimates and assumptions have been made by the Directors surrounding future events which are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry and strategic markets in which the Group operates. The Group has six reportable segments that reflect the Group's management and reporting structure as viewed by the Company's Management Team. The financial statements are a consolidation of 150 subsidiaries and 16 equity accounted investees, comprising the Group's collection, processing and distribution of New Zealand milk, global sales and marketing of New Zealand and non-New Zealand ingredients products, Fonterra Farm Source stores, Quick Service Restaurant businesses, Global Brands and Nutrition, Co-operative Affairs, Group Services, fast-moving consumer goods, ingredients, foodservice, and farming businesses.

Of the Group's 150 subsidiaries and 16 equity accounted investees we identified 9 subsidiaries that, due to their financially significant contribution as well as strategic importance to the Group's overall results, required a full-scope audit. In addition, we also performed specific audit procedures on certain balances and transactions of other subsidiaries. Audits of each subsidiary are performed at a materiality level calculated with reference to a proportion of Group materiality relative to the financial scale of the business concerned.

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

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

KEY AUDIT MATTERS

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

1. Recoverability of the carrying value of goodwill and indefinite life brands for the Consumer and Foodservice businesses in Brazil and New Zealand

Key audit matter

Indefinite life intangible assets (goodwill and brands) are disclosed within note 15 (pages 26 to 28) of the financial statements.

Management tests for impairment of these assets on an annual basis by performing a value in use assessment using a discounted cash flow model based on forecast future performance. The recoverability of these assets are therefore dependent on achieving sufficient future cash flows.

Forecast cash flows are judgemental and influenced by factors such as regulatory and economic environments. As these assets are spread across a broad range of economic markets, there are a number of different factors and judgements that can influence the impairment assessment.

The preparation of forecast cash flows also requires the application of significant judgement over key assumptions such as revenue growth, productivity savings, other costs impacting earnings, discount rates, and long-term growth rates.

Consumer and Foodservice Brazil:

The economy and the Consumer and Foodservice business in Brazil are slowly recovering from an economic downturn. Our audit focused on the Consumer and Foodservice Brazil cash generating unit (CGU) impairment assessment.

The carrying value of the indefinite lived intangible assets held in the Brazil CGU amounts to $378 million, which represents approximately 14% of the Group's indefinite life intangible assets.

Consumer and Foodservice New Zealand:

Due to significant operational challenges during the past two financial years impacting the current performance and potential future cash flows of this business, our audit focused on the Consumer and Foodservice New Zealand CGU impairment assessment.

The carrying value of the indefinite lived intangible assets held in the New Zealand CGU amounts to $1,004 million, which represents approximately 37% of the Group's indefinite life intangible assets.

How our audit addressed the key audit matter

We performed the following audit procedures in relation to the Brazil and New Zealand CGU impairment assessments:

- held discussions with management and understood the processes undertaken and basis for determining key assumptions in preparing the forecast cash flows;
- evaluated the assumptions and methodologies used; and
- challenged management on key assumptions, including earnings growth, discount rates and long-term growth rates.

In relation to forecast cash flows for those CGUs we performed the following procedures:

- compared these cash flows to the three year Fonterra Board approved business plan and understood the processes undertaken by the Directors to approve the plan;
- understood and assessed growth rates applied to the forecast cash flows beyond the business plan which has a combination of continued growth from strategic initiatives and industry forecasts;
- understood the differences between historical and budgeted performance to assess the accuracy of the budgeting process in previous years and considered the impact on forecast earnings; and
- understood and assessed the commercial prospects of achieving key strategic and operational initiatives and future plans in the Brazil and New Zealand CGUs given that impairment assessments are most sensitive to cash flows from these initiatives, by agreeing these to detailed supporting analyses prepared by management.

In relation to discount rates and long-term growth rates, we assessed the economic and industry forecasts in those markets, and cost of capital and other inputs to comparable organisations globally.

We have developed independent point estimates and derived a range of acceptable outcomes by considering the level of estimation uncertainty inherent in the Brazilian and New Zealand markets respectively to evaluate management's value in use assessment.

We also considered the appropriateness of disclosures in relation to intangible assets.

KEY AUDIT MATTERS CONTINUED

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

Key audit matter

As disclosed in the basis of preparation (page 7) and within note 16 (pages 29 to 30) of the financial statements, the Group holds an 18.8% share in Beingmate, an entity listed on the Shenzhen Stock Exchange. The entity is an equity accounted investee.

Beingmate's share price has continued to trade below both the share price at the time the Group acquired its investment and the base share price used in the impairment assessment at 31 July 2017. As a result an impairment loss of $405 million was recognised in the period (after share of losses of $34 million and foreign currency translation movements of $26 million).

A fair value less cost to sell methodology was used to determine the recoverable amount of the investment and the associated impairment loss which was recognised at 31 January 2018.

The carrying value of the investment in Beingmate at year end is supported by an impairment assessment performed as at 31 July 2018.

How our audit addressed the key audit matter

Our audit procedures in relation to the Group's investment in Beingmate considered the carrying value of the investment at 31 July 2018, in particular, the determination of the base share price and the determination of the premium above the base share price which a market participant might pay to acquire a long-term strategic investment of a similar size to Beingmate (the net premium).

In relation to the net premium, we performed the following audit procedures:

- understood considerations and assumptions applied in deriving the net premium, including benefits from the long-term strategic investment;
- considered the impact of Beingmate's reported losses for the financial year ended 31 December 2017, and the results for the half year ended 30 June 2018 on the net premium; and
- compared the net premium against comparable market acquisition premia where strategic market penetration and synergies were evidenced.

In respect of the base share price, we assessed the appropriateness and sensitivity of using a 30 day volume weighted average share price (VWAP).

We independently developed a range of acceptable outcomes by incorporating estimation uncertainty appropriate for the market. Based on our work, the valuation of Beingmate fell within the range of reasonable outcomes we considered.

We also considered the appropriateness of disclosures in relation to the Group's investment in Beingmate.

3. Carrying value of China Farms assets

Key audit matter

As disclosed within note 13 (page 24) of the financial statements, an impairment assessment was performed on the China Farms assets to support its carrying value.

Management determined the recoverable amount of the China Farms assets by estimating its value in use.

Our audit focused on this area as there is limited headroom and a number of judgements are made in forecasting China milk prices and determining an appropriate discount rate to be applied.

How our audit addressed the key audit matter

We performed the following audit procedures in relation to the China Farms assets impairment assessment:

- held discussions with management and understood the processes undertaken and basis for determining key assumptions in preparing the forecast cash flows; and
- challenged management on key assumptions, including forecast China milk prices and discount rates.

The forecast cash flows are highly sensitive to forecast China milk prices. A marginal decline in forecast China milk prices will result in an impairment. In relation to the forecast cash flows we have:

- compared forecast cash flows to the three year Fonterra Board approved business plan and understood the processes undertaken by the Directors to approve the plan;
- understood the difference between historical and budgeted performance to assess the accuracy of the budgeting process in previous years and considered the impact on forecast earnings; and
- compared management's assumption of forecast China milk prices against the average selling price achieved during the year, as well as to forecast China milk price assumptions observable from other market participants.

We evaluated the discount rate with the assistance of our auditor's valuation expert and compared the inputs to comparable organisations globally.

We developed an independent point estimate and derived a range of acceptable outcomes by considering the level of estimation uncertainty inherent in the Chinese market, with the assistance of our auditor's valuation experts, to evaluate management's value in use assessment.

We also considered the appropriateness of disclosures in relation to the impairment assessment of the China Farms assets.

Independent Auditor's Report CONTINUED

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

This description forms part of our auditor's report.

WHO WE REPORT TO

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
Auckland
12 September 2018

Statutory Information

FOR THE YEAR ENDED 31 JULY 2018

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 2018.

	UNITS ISSUED BY THE FONTERRA SHAREHOLDERS' FUND[1]	CO-OPERATIVE SHARES
Brent Goldsack	–	280,029
Andrew Macfarlane	122,150	813,301
John Monaghan	–	140,179
Nicola Shadbolt	11,000	375,705
Donna Smit	11,819	1,187,862
Ashley Waugh	–	115,812
John Wilson	–	4,577,543

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

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

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

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

All current Elected Directors have relevant interests in Fonterra shares, some 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 22 August 2018 that the Company was, for the year ended 31 July 2018 a co-operative company. The opinion was based upon the fact that:

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

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

REMUNERATION OF DIRECTORS

The total remuneration and value of other benefits received by each Director in the 12-month period from 1 August 2017 to 31 July 2018 are scheduled below:

	BOARD FEES	COMMITTEE CHAIR FEES	TRAVEL ALLOWANCE	TOTAL REMUNERATION ($)
Clinton Dines	172,474			172,474
Ian Farrelly	42,519			42,519
Brent Goldsack	130,994			130,994
Leonie Guiney	42,519			42,519
Bruce Hassall (Chair of the Audit and Finance Committee, part year)	130,994	25,742		156,736
Simon Israel	172,474		110,000	282,474
David Jackson (Chair of the Audit and Finance Committee, part year)	42,519	7,750		50,269
Andrew Macfarlane	130,994			130,994
David MacLeod	42,519			42,519
John Monaghan (Chair of the Co-operative Relations Committee)	172,474	33,989		206,463
Nicola Shadbolt (Chair of the Risk Committee, part year)	172,474	25,239		197,713
Donna Smit	172,474			172,474
Scott St John (Chair of the Milk Price Panel)	172,474	33,989		206,463
Ashley Waugh (Chair of the Risk Committee, part year)	172,474	8,750		181,224
John Wilson (Chairman of the Board of Directors)	423,685			423,685

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

SUBSIDIARY COMPANY DIRECTORS

The following companies were subsidiaries of Fonterra as at 31 July 2018. 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.

Canpac International Limited:
G A Duncan, M R Spiers (R), P D Wynen

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

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), R J Spurway, R G Carlyle

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, S D T Till

Fonterra Brands (New Zealand) Limited:
M R Cronin, L M Clement (R), J C M Fair

Fonterra Brands (Tip Top Investments) Limited:
G A Duncan, K M Turner

Fonterra Brands (Tip Top) Limited:
M R Cronin, L M Clement (R), J C M Fair

Fonterra Commodities Limited:
G A Duncan, B M Turner

Fonterra Dairy Solutions Limited:
G A Duncan, R McNickle

Fonterra Equities Limited:
G A Duncan, S D T Till

Fonterra Farming Ventures Limited:
G A Duncan, J P Minkhorst (R), M W Hurrell

Fonterra Finance Corporation Limited:
G A Duncan, S D T Till

Fonterra Holdings (Americas) Limited:
G A Duncan, R M Kennerley (R), B Mealings

Fonterra Holdings (Brazil) Limited:
G A Duncan, R M Kennerley (R), B Mealings

Fonterra Holdings (Venezuela) Limited:
G A Duncan, R M Kennerley (R), B Mealings

Fonterra Ingredients Limited:
G A Duncan, L J Paravicini

Fonterra Limited:
K A Wickham, R J Spurway

Fonterra PGGRC Limited:
G A Duncan, J P Minkhorst (R), M Piper

Fonterra TM Limited:
G A Duncan, S D T Till

Glencoal Energy Limited:
G A Duncan, M R Spiers (R), P D Wynen

GlobalDairyTrade Holdings Limited:
G A Duncan, L J Paravicini

Kotahi GP Limited:
M E Leslie (R), R J Spurway, R M Kennerley (R), G P Howie (R), D G Boulton, J C M Fair, R G Carlyle, B Mealings

MIH Limited:
G A Duncan, J P Minkhorst (R), M W Hurrell

Milktest GP Limited:
P G Brown, M E Leslie, R G Townshend, T A Winter, P D S Grave, J T Powell (R), R A McPhillips

MyMilk Limited:
M W Hurrell, R M Kennerley (R), B Mealings

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 (R), M W Hurrell

Statutory Information

FOR THE YEAR ENDED 31 JULY 2018

RD1 Limited:
J P Minkhorst (R), K M Turner, M W Hurrell (R), R Allen

SAITL Limited:
B Greaney (R), M E Leslie, T A Winter

Tangshan Dairy Farm (NZ) Limited:
G A Duncan, K A Wickham (R), M R Cronin

Whareroa Co-Generation Limited:
G A Duncan, M R Spiers (R), P D Wynen

Anchor Insurance Pte. Limited [Singapore]:
L J Paravicini (R), S S Herbert, C L Khoon (A)(R), R M Kennerley (R), B Mealings, G A Duncan, H N Toh (A)

Anmum (Malaysia) Sdn. Bhd. [Malaysia]:
J M Porraz (R), J Ling (R), F Spinelli, V Sivaraja, J Oh

Auckland Limited [Barbados]:
M F Maldonado, A Turnbull, L Hartmann, F Spinelli, L J Paravicini

Australasian Food Holdings Pty Limited [Australia]:
G A Duncan, A Maharaj, R Dedoncker

Bonland Cheese Trading Pty Ltd [Australia]:
G A Duncan, A Maharaj, R Dedoncker

Comercial Dos Alamos S.A. [Chile]:
J C Petersen, R Waldspurger, M Kunstmann

Comercial Santa Elena S.A. [Chile]:
H Covarrubias Lalanne (R), J Barria, E Aldunate, W E Flen Silva

Corporación Inlaca C.A [Venezuela]:
M F Maldonado, M M Perez (R), J R Odon (R), F C Ortega, L J Paravicini, J M Pinto

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

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

Dairy Partners Americas Brasil Limitada [Brazil]:
M J L Barros, L P L Rivero, F A Sporques (R), L Medeiros (R), F Goncalves, D S Oliveira (R), R Gurrero Leal, M Favoretto, F Silveira

Dairy Partners Americas Nordeste-Productos Alimenticios Ltda [Brazil]:
M J L Barros, F A Sporques (R), L P L Rivero, L Medeiros (R), F Goncalves, D S Oliveira (R), R Gurrero Leal, M Favoretto, F Silveira

Dairymas (Malaysia) Sdn Bhd [Malaysia]:
J M Porraz (R), J Ling (R), F Spinelli, V Sivaraja, J Oh

Darnum Park Pty Ltd [Australia]:
G A Duncan, R Dedoncker, A Maharaj

Falcon Dairy Holdings Limited [Hong Kong]:
R M Kennerley (R), J F Ginascol, R O Frey, M P Campbell, M W Hurrell

Fast Forward FFW Limited [United Kingdom]:
M P Campbell, H Huistra, M Gallagher, A Waugh, K Baine

Fazenda MIH Ltda [Brazil]:
M P Bueno, G Nascimento

Fonterra (Brasil) Ltda [Brazil]:
M P Bueno, G Nascimento, M J L Barros

Fonterra (Canada), Inc. [Canada]:
G A Duncan, B Kipping, B M Ryan, J P Coote

Fonterra (China) Limited [Hong Kong]:
G A Duncan, C Zhu, M Namboodiri

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

Fonterra (Europe) Coöperatie U.A. [Netherlands]:
G A Duncan, H Huistra, A Wright (R), M Erol

Fonterra (Europe) GmbH [Germany]:
A Wright

Fonterra (France) SAS [France]:
H Huistra

Fonterra (Ing.) Limited [Mauritius]:
G Lee, B M Ryan

Fonterra (Japan) Limited [Japan]:
K Kumagai, H Ono, Y Saito, K Ueta (R), B M Ryan, K A Wickham, A Okuyama

Fonterra (Korea) Limited [Korea]:
G A Duncan, Y Saito, J Murney

Fonterra (Logistics) Ltd [United Kingdom]:
G R Sharma, A Wright (R), M Erol

Fonterra (Mexico) S.A. de C.V. [Mexico]:
G A Duncan, L Barona Mariscal (A), F R Camacho (A), J P Coote, J A Del Rio, E P G R Gil (A)

Fonterra (SEA) Pte. Ltd. [Singapore]:
H Gowans, A Aggarwal

Fonterra (Thailand) Limited [Thailand]:
K Vunthanadit, A Aggarwal

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

Fonterra (Ying) Dairy Farm Company Limited [China]:
R M Kennerley, G A Duncan, H Berghorst

Fonterra (Yutian) Dairy Farm Company Limited [China]:
R M Kennerley, G A Duncan, H Berghorst

Fonterra Argentina S.R.L. [Argentina]:
L P Wiener

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

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 R Cronin, S I Ahmed, A Dasgupta

Fonterra Brands (Australia) Pty Ltd [Australia]:
G A Duncan, R Dedoncker, A Maharaj

Fonterra Brands (Far East) Limited [Hong Kong]:
G A Duncan, M Namboodiri (R), S C Deschamps (R), P D Washer

Fonterra Brands (Guangzhou) Ltd [China]:
K A Wickham, A R R Kasireddy (R), R M Kennerley (R), T T Lye, P A Turner

Fonterra Brands (Guatemala), S.A. [Guatemala]:
A J Cordner, G A Duncan

Fonterra Brands (Hong Kong) Limited [Hong Kong]:
G A Duncan, M Namboodiri (R), S C Deschamps (R), P Washer

Fonterra Brands (Malaysia) Sdn Bhd [Malaysia]:
J M Porraz (R), J Ling (R), F Spinelli, V Sivaraja, J Oh

Fonterra Brands (New Young) Pte. Ltd. [Singapore]:
Y Lin, C Lin, J Ling, S C Deschamps (R), Y Li, A Dasgupta, P D Washer

Fonterra Brands (Singapore) Pte. Ltd [Singapore]:
M R Cronin, A Dasgupta

Fonterra Brands (Thailand) Ltd [Thailand]:
P A Richards, P Oh (R), F Spinelli, S Totana, S Pronanut

Fonterra Brands (Viet Nam) Company Limited [Vietnam]:
A Renard (R), F Spinelli, P Richards

Fonterra Brands Indonesia, PT [Indonesia]:
A Afiffudin (R), M Namjoshi, S R Shashi, D M Infani, J Chow, F Spinelli

Fonterra Brands Lanka (Private) Limited [Sri Lanka]:
J H P Gallage, S Sethi, F Spinelli

Fonterra Brands Manufacturing Indonesia, PT [Indonesia]:
M A Nasution, T A Siswanto, M Namjoshi, S R Shashi, J Chow, F Spinelli

Fonterra Brands Myanmar Co Ltd [Myanmar]:
G A Duncan, P Richards

Fonterra Brands Phils. Inc. [Philippines]:
L T Barin, R A Mendoza, E T Ogsimer (R), S Choo (R), M T Boness, F Spinelli, L De Velez, R Cook

Fonterra Chile SpA
R Sepulveda Seminario, F Spinelli, G A Duncan, J P Egana Bertoglia (A), R Lavados (A), P L Linhares (A)

Fonterra Commercial Trading (Shanghai) Company Limited [China]:
G A Duncan, R Allen, J Ruan, S C R Deschamps (R), C Zhu, P D Washer

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

Fonterra Egypt Limited [Egypt]:
G A Duncan, A Anwar

Fonterra Europe Manufacturing B.V. [Netherlands]:
H Berghorst (R), C E Rowe, D Crabbe

Fonterra Europe Manufacturing Holding B.V. [Netherlands]:
G A Duncan, H Huistra

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

Fonterra Global Business Services Asia Sdn Bhd [Malaysia]:
J Ling (R), J M Porraz (R), V Sivaraja, J Oh

Fonterra India Private Limited [India]:
K M Turner, H D Gowans, S G Matthews

Fonterra Ingredients Australia Pty Ltd [Australia]:
G A Duncan, A Maharaj, R Dedoncker

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

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

Fonterra MIH Holdings Brasil Ltda [Brazil]:
M P Bueno, G Nascimento

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

Fonterra Tangshan Dairy Farm (HK) Limited [Hong Kong]:
R M Kennerley (R), H Berghorst, M W Hurrell

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

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

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

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

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

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

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

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

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

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

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

New Zealand Milk Products (Ethiopia) SC [Ethiopia]:
A Fitzsimmons (R), M Woodward, A B Abubeker, M B Abubeker, F Spinelli, G Amade

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

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

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

Pure Source Dairy Farm Company Limited [Hong Kong]:
R M Kennerley (R), J F Ginascol, Y Chen (R), H Berghorst, M W Hurrell, D LiYan

Sociedad Agrícola y Lechera Praderas Australes S.A. ("Pradesur") [Chile]:
J C Petersen, R Waldspurger, M Kunstmann

Sociedad Procesadora de Leche Del Sur S.A. [Chile]:
E Alcalde Undurraga (A), J Milic Barros, A J R Valente Vias (R), G Varela (R), J M Alcalde Undurraga (A), G Jiménez Barahona (A)(R), J P Matus Pickering (A)(R), S Oddo Gómez (A), C Perez-Cotapos Subercaseaux (A), J P Egana Bertoglia (A)(R), T Walker Prieto, R Lavados McKenzie (A), M W Hurrell, A Tagle, S Diez Arriagada, J C M Fair, G Grez Jordan (A), A Montaner (A), C Herrera Barriga (A)

Solid Fresh Food & Beverage (M) Sdn. Bhd. [Malaysia]:
J M Porraz, J Ling, F Spinelli

Soprole Inversiones SA [Chile]:
J R Valente Vias (R), G Varela Alfonso (R), S Diez Arriagada (A)(R), C Herrera Barriga (A) (R), R Sepúlveda Seminario (A), R Tisi Lanchares (A)(R), L J Paravicini, F Spinelli, P L Linhares (A), R Carneiro, H Covarrubias Lalanne, J P Egana, J P Matus Pickering (A), J C Sanchez (A), J A Parodi (A)

Soprole S.A. [Chile]:
J R Valente Vias (R), G Varela Alfonso (R), C Herrera Barriga (A)(R), R Sepúlveda Seminario (A), R A Tisi Lanchares (A)(R), S Diez Arriagada (A)(R), L J Paravicini, R Carneiro, F Spinelli, P L Linhares (A), J P Matus Pickering, H Covarrubias Lalanne, J P Egana (A), J C Sanchez (A), J A Parodi (A)

Tangshan Fonterra Dairy Farm Ltd [China]:
R M Kennerley (R), G A Duncan, H Berghorst, Q Jiang, M W Hurrell

Unifood Holding B.V. [The Netherlands]:
H Huistra, M Bates, M Ivanov, A Sirotinin

Unifood LLC [Russian Federation]:
H Huistra, M Bates, M Ivanov, A Sirotinin

United Milk Tasmania Pty Limited [Australia]:
G A Duncan, A Maharaj, R Dedoncker

REMUNERATION FRAMEWORK

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

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

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

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

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

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

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

Further detail on Fonterra's remuneration framework can be found in the Corporate Governance section of the Annual Review on page 70.

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FOR THE YEAR ENDED 31 JULY 2018

EMPLOYEE REMUNERATION

The Group operates in a number of countries where remuneration market levels differ widely. During the year ended 31 July 2018, the number of employees, not being Directors of Fonterra, who received remuneration, incentives, and other benefits (including superannuation and allowances etc) exceeding $100,000 was as follows:

REMUNERATION RANGE		NEW ZEALAND[1]	OFFSHORE[2]	CESSATIONS[3]	TOTAL
$100,000	$110,000	1,074	179	45	**1,298**
$110,001	$120,000	888	212	35	**1,135**
$120,001	$130,000	560	248	20	**828**
$130,001	$140,000	279	171	14	**464**
$140,001	$150,000	189	177	17	**383**
$150,001	$160,000	157	96	10	**263**
$160,001	$170,000	137	95	11	**243**
$170,001	$180,000	114	69	8	**191**
$180,001	$190,000	96	58	6	**160**
$190,001	$200,000	74	43	8	**125**
$200,001	$210,000	51	34	5	**90**
$210,001	$220,000	52	25	3	**80**
$220,001	$230,000	38	20	10	**68**
$230,001	$240,000	33	30	4	**67**
$240,001	$250,000	28	19	2	**49**
$250,001	$260,000	25	19	4	**48**
$260,001	$270,000	13	18	3	**34**
$270,001	$280,000	18	13	3	**34**
$280,001	$290,000	23	12	–	**35**
$290,001	$300,000	20	14	2	**36**
$300,001	$310,000	17	19	–	**36**
$310,001	$320,000	12	11	2	**25**
$320,001	$330,000	8	14	–	**22**
$330,001	$340,000	10	15	2	**27**
$340,001	$350,000	5	8	–	**13**
$350,001	$360,000	5	8	–	**13**
$360,001	$370,000	7	3	3	**13**
$370,001	$380,000	6	4	–	**10**
$380,001	$390,000	4	5	2	**11**
$390,001	$400,000	9	6	–	**15**
$400,001	$410,000	6	5	1	**12**
$410,001	$420,000	3	3	1	**7**
$420,001	$430,000	–	8	1	**9**
$430,001	$440,000	3	4	1	**8**
$440,001	$450,000	3	5	–	**8**
$450,001	$460,000	2	4	–	**6**
$460,001	$470,000	4	2	1	**7**
$470,001	$480,000	1	4	–	**5**
$480,001	$490,000	2	1	–	**3**
$490,001	$500,000	3	3	–	**6**
$500,001	$510,000	1	3	–	**4**
$510,001	$520,000	2	2	1	**5**
$520,001	$530,000	2	1	–	**3**
$530,001	$540,000	1	–	–	**1**
$540,001	$550,000	1	1	–	**2**
$550,001	$560,000	1	3	–	**4**
$560,001	$570,000	1	–	–	**1**
$570,001	$580,000	–	1	1	**2**
$580,001	$590,000	2	3	–	**5**
$590,001	$600,000	1	1	–	**2**
$600,001	$610,000	1	1	–	**2**
$610,001	$620,000	1	–	1	**2**
$620,001	$630,000	1	1	–	**2**
$630,001	$640,000	2	–	–	**2**
$640,001	$650,000	1	2	–	**3**
$650,001	$660,000	1	–	–	**1**
$660,001	$670,000	1	1	–	**2**
$670,001	$680,000	–	1	–	**1**
$680,001	$690,000	2	1	–	**3**
$690,001	$700,000	1	–	1	**2**
$700,001	$710,000	1	–	–	**1**
$710,001	$720,000	3	–	–	**3**
$720,001	$730,000	1	1	–	**2**
$730,001	$740,000	1	2	–	**3**
$740,001	$750,000	2	2	–	**4**
$750,001	$760,000	1	–	–	**1**
$760,001	$770,000	1	–	–	**1**
$770,001	$780,000	–	1	–	**1**
$780,001	$790,000	1	3	–	**4**
$790,001	$800,000	1	–	–	**1**
$840,001	$850,000	1	–	–	**1**
$850,001	$860,000	1	–	–	**1**
$860,001	$870,000	1	–	–	**1**
$870,001	$880,000	1	–	–	**1**
$880,001	$890,000	1	–	–	**1**
$910,001	$920,000	1	–	–	**1**
$920,001	$930,000	1	–	–	**1**
$930,001	$940,000	–	1	1	**2**
$970,001	$980,000	–	1	–	**1**
$980,001	$990,000	–	1	–	**1**
$990,001	$1,000,000	–	2	–	**2**
$1,000,001	$1,010,000	1	–	–	**1**
$1,020,001	$1,030,000	1	1	–	**2**
$1,040,001	$1,050,000	–	1	–	**1**
$1,100,001	$1,110,000	1	–	1	**2**
$1,170,001	$1,180,000	1	–	–	**1**
$1,210,001	$1,220,000	1	–	–	**1**
$1,270,001	$1,280,000	–	1	–	**1**
$1,290,001	$1,300,000	1	–	–	**1**
$1,330,001	$1,340,000	–	1	–	**1**
$1,350,001	$1,360,000	–	1	–	**1**
$1,440,001	$1,450,000	1	–	–	**1**
$1,520,001	$1,530,000	–	1	–	**1**
$1,560,001	$1,570,000	–	1	–	**1**
$1,760,001	$1,770,000	–	1	–	**1**
$1,790,001	$1,800,000	1	–	–	**1**
$1,860,001	$1,870,000	1	–	–	**1**
$1,910,001	$1,920,000	–	1	–	**1**
$2,160,001	$2,170,000	1	–	–	**1**
$2,760,001	$2,770,000	1	–	–	**1**
$3,110,001	$3,120,000	1	–	–	**1**
$3,380,001	$3,390,000	1	–	–	**1**
$8,070,001	$8,080,000	1	–	–	**1**
Totals		**4,035**	**1,729**	**230**	**5,994**

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 2017) and termination entitlements including those arising from employment arrangements entered into by legacy companies prior to the formation of Fonterra.

Statistical Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

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.

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

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

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

NZX TRADING HALTS

No trading halts were placed on Fonterra securities by NZX Regulation in the financial year ended 31 July 2018.

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 31 July 2018 there were 1,611,922,916 Fonterra Co-operative shares on issue.

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

ANALYSIS OF SHAREHOLDING

Analysis of Fonterra's shareholding as at 31 July 2018:

FCG Largest Recorded Share Holdings[1]

NAME	NUMBER OF SHARES	% OF SHARES
Fonterra Farmer Custodian Limited	111,423,603	6.91
Ellis-Lea Farms (2000) Limited	1,032,996	0.06
Singletree Dairies 2013 Limited	993,958	0.06
McIntyre Williamson Partners	949,519	0.05
Stewart Partnership Limited	922,500	0.05
Coringa Park Dairies Limited	890,722	0.05
Theland Tahi Farm Group Limited – Pureora North	878,786	0.05
Moffitt Dairy Limited	873,433	0.05
McBain Farms Limited	867,790	0.05
Arlanda Limited	863,479	0.05
Poplar Partnership Limited	843,970	0.05
Southern Pastures (Manako Farm) Limited Partnership	840,055	0.05
South Stream Dairy Limited	835,171	0.05
Theland Tahi Farm Group Limited – Pineview	825,416	0.05
Van'T Klooster Farms Limited – Waihao Valley Farm	817,500	0.05
Auchenbrae Farm Limited	800,000	0.04
Cookstin Dairies Limited	799,600	0.04
Theland Tahi Farm Group Limited – Pureora South	796,458	0.04
Van'T Klooster Farms Limited – Tawai Farm	785,190	0.04
Rangitata Dairies Limited Partnership T/A Rangitata Dairies	758,626	0.04

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

Substantial Product Holders

According to notices given to the Company under the Financial Markets Conduct Act 2013, as at 31 July 2018, 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 31 July 2018 was 1,611,922,916.

SUBSTANTIAL PRODUCT HOLDERS	NUMBER OF VOTING SECURITIES	DATE OF MOST RECENT NOTICE
Fonterra Farmer Custodian Limited	111,816,183	30 July 2018
FSF Management Company Limited	111,735,183	30 July 2018

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.

Statistory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

FCG Fonterra Co-operative Shares

Analysis of Fonterra Co-operative Shares as at 31 July 2018:

FROM–TO	HOLDER COUNT	%	HOLDING QUANTITY	%
1–50,000	1,310	13.16	36,451,498	2.26
50,001–100,000	2,731	27.44	208,651,759	12.94
100,001–200,000	3,487	35.04	490,879,992	30.45
200,001–400,000	1,984	19.94	538,870,378	33.44
400,001 and over	440	4.42	337,069,289	20.91

ANALYSIS OF CAPITAL NOTE AND RETAIL BOND HOLDING

Analysis of Fonterra's Capital Note Holding as at 7 August 2018:

FCGHA Capital Notes

FROM–TO	HOLDER COUNT	%	HOLDING QUANTITY	%
1–1,000	9	1.28	3,974	0.00
1,001–5,000	25	3.55	66,584	0.07
5,001–10,000	236	33.47	1,681,621	1.64
10,001–100,000	403	57.16	11,362,094	11.08
100,001 and over	32	4.54	89,404,981	87.21

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 7 August 2018:

FCG030 $350 million Retail Bond issue

FROM–TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000–9,999	40	6.97	233,000	0.07
10,000–49,999	280	48.78	6,243,000	1.78
50,000–99,999	71	12.37	4,292,000	1.23
100,000–999,999	161	28.05	53,904,000	15.40
1,000,000 and over	22	3.83	285,328,000	81.52

FCG040 $150 million Retail Bond issue

FROM–TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000–9,999	61	9.84	353,000	0.24
10,000–49,999	395	63.71	8,308,000	5.54
50,000–99,999	78	12.58	4,635,000	3.09
100,000–999,999	71	11.45	15,701,000	10.47
1,000,000 and over	15	2.42	121,003,000	80.66

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

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 2017 to 31 July 2018:

Clinton Dines	Non-executive Director of Port of Newcastle and Centaur Resources. Ceased to be a non-executive Director of Aurecon Group.
Brent Goldsack	Director of Waitomo Petroleum Limited, Waitomo Energy Limited, Waitomo Group Limited, Kiwi Fuels Limited, Waitomo Land Limited, Kiwi Transactions Limited, and National Fieldays Society Limited. Director and shareholder of Canterbury Grasslands Limited. Shareholder of Kakepuku Farms Limited Partnership and Longfields Investments Limited. Indirect shareholder of DairyGold Limited, Goldcar Dairy Holdings Limited, Ballance Agri-Nutrients Limited and Livestock Improvement Corporation. Indirect Partner in CoLab Dairy Partners General Partnership. Financial interests jointly with associated persons in Ngarua Dairy Limited and Kakepuku Farms Limited Partnership. General Manager of Kiwitahi Pastoral and One Bird Partnership.
Bruce Hassall	Chairman of The Farmers Trading Company Limited, Prolife Foods Limited, BNZ Insurance Services Limited and BNZ Life Insurance Limited. Director of Bank of New Zealand, Fletcher Building Limited and Fletcher Building Industries Limited. Director and shareholder of Marivan Holdings Limited. Shareholder of Mangatarata Stations (Number 3) Limited, RPF Investments Limited and Sumpter Baughen Chartered Accountants. Trustee of Kristiansund Investments Trust. Member of the University of Auckland Business School Advisory Board. Advised of appointment to Chairman of Fletcher Building Limited and Fletcher Building Industries Limited, effective 1 September 2018. Ceased to be Chairman of BNZ Insurance Services Limited and BNZ Life Insurance Limited, effective 2 August 2018.
Andrew Macfarlane	Director of AgResearch, Ngai Tahu Farming Limited, Riverbank Farm (Ashburton) Limited, Broadfields Farm (Ash) Limited, MRB Securities Limited, ANZCO Foods Limited, ANZCO Farmer Nominee Limited, Deer Improvement Limited and Kintore Farms Limited. Relevant interest in the Deebury Partnership and its associated entities. Director and shareholder of Pencarrow Farm Limited, Windwhistle Pastoral Limited, M.R.B Trustees Limited and Macfarlane Rural Business Limited. Councillor at Lincoln University. Ceased to be a Director of AgResearch.
John Monaghan	Ceased to be a Director and shareholder of Monloy Farm.
Donna Smit	Ceased to be a Trustee of the Taratahi Agricultural Training Centre (Wairarapa) Trust Board.
Scott St John	Director of Mercury NZ Limited.
Ashley Waugh	Ceased to be Chairman of Moa Group Limited.
John Wilson	Director of Arranmore Developments Limited, Ballintoy Developments Limited, Castlederg Limited, Castle Finance Limited, Castle Investments Limited, Clendon Properties Limited, Donegal Farm Limited, Emerald Downs Limited, Hammond & McIntyre Limited, Hugh Green Energy Limited, Hugh Green Properties Limited, Hugh Green Limited, Hugh Green Contractors Limited, Hugh Green Residential Limited, Kerrykeel Farm Limited, Kilmacrennan Livestock Limited, Livestock Mart Auctions Limited, Mangatangi River Rock Limited, Montclare Holdings Limited, Okura Estates Limited, Raphoe Farms Limited, Rowberry Holdings Limited, St Michaels Farm Limited, Arranmore Properties Limited, Convoy Residential Limited, Derryveagh Developments Limited, Drumkeen Country Estate Limited, Ducansa Holdings Limited, Gateway Auckland Limited, Glenfin Holdings Limited, Liscooley Estates Limited, Moira Farm Limited, Mongorry Farms Limited, Pomona Holdings Limited, Raphoe Holdings Limited, Castlefinn Developments Limited, Greerton Holdings Limited, Donegal Residential Limited. Ceased to be Director of Scott Milktech Limited, MilkTech Limited, Edge Landscaping Limited. Ceased to be a Director of Turner and Growers Limited (effective August 2018). Ceased to be a limited Partner of Lochan Mor LP.

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.

Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2018

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
Andrew Macfarlane (on appointment 2 November 2017)	813,301
Brent Goldsack (on appointment 2 November 2017)	276,936

Directors disclosed the following holdings of Units during the year:

	RELEVANT INTERESTS IN UNITS
Andrew Macfarlane (on appointment 2 November 2017)	120,000

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
Donna Smit	–	283,925[1]	–	October 2017
Donna Smit	89,742[2]	89,742[2]	–	28 November 2017
John Wilson	63,832[2]	63,832[2]	–	10 November 2017
John Wilson	11,624[2]	11,624[2]	–	15 November 2017
John Wilson	53,843	–	338,772	16 November 2017
Nicola Shadbolt	9,000	–	57,510	30 January 2018
Brent Goldsack	3,093	–	19,021	12 February 2018
Donna Smit	14,198	–	81,354	27 April 2018

1 Shares disposed of as a result of ceased interests.

2 Transfers between related entities.

Unit transactions

DIRECTOR	NUMBER OF SECURITIES ACQUIRED	NUMBER OF SECURITIES DISPOSED	CONSIDERATION $	DATE
Nicola Shadbolt	11,000	–	63,250	18 April 2018
Donna Smit	2,502	–	14,286	27 April 2018

Retail Bond transactions

There were no transactions by Directors (or their associated persons) in Retail Bonds reported during the period from 1 August 2017 to 31 July 2018. 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 2017 to 31 July 2018. 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 2 November 2017, 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	$430,000 p.a.
Directors	$175,000 p.a.
Discretionary additional payments to the Chair of permanent Board Committees (except if the Chair is the Fonterra Chairman)	$35,000 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 2018 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.