Fonterra
Dairy for life

FONTERRA INTERIM REPORT 2011

FONTERRA CO-OPERATIVE GROUP LIMITED

THE NATURAL SOURCE OF DAIRY NUTRITION FOR EVERYBODY, EVERYWHERE, EVERY DAY

CONTENTS

HALF YEAR HIGHLIGHTS

Revenue of $9.4 billion, 21 per cent higher than the corresponding period in 2009/10, primarily reflecting the impact of higher international dairy prices which were partly offset by a slight decline in sales volumes.

Net Profit After Tax of $293 million (21 cents per share[1]). This is the first time Fonterra has reported an interim profit following the introduction of the monthly Milk Price for determining the cost of New Zealand sourced milk.

Full Year Forecast Payout range of $7.90-$8.00 (before retentions) and $7.75-$7.80 (cash: Milk Price plus dividend)[2]. This would represent returns to our farmer shareholders comparable or better than our 2007/08 record payout.

Interim Dividend of 8 cents per share will be paid to shareholders on 20 April 2011, out of a full year target total dividend of 25-30 cents per share.

Gearing ratio (economic debt to debt plus equity, which takes account of the carrying value of debt hedges) was 48.5 per cent at 31 January 2011, a substantial improvement from 54.3 per cent a year earlier. The key contributors to this were increased equity contributions from shareholders, increased retentions as a result of adoption of the Group's dividend policy, and reporting an interim profit for the first time.

[1] Attributable to Co-operative shareholders.

[2] Average returns for a farmer who is 100 per cent shared up.

CHAIRMAN/CEO REVIEW

"2010/11 is shaping up as one of Fonterra's best years ever in terms of returns to our farmers."

INTRODUCTION

Strong international dairy markets mean 2010/11 is shaping up as one of Fonterra's best years ever in terms of returns to our farmers.

In February 2011, we announced a 60 cents increase in our forecast Payout range for the 2010/11 season taking it to $7.90-$8.00 (before retentions) and $7.75-$7.80 (cash: Milk Price plus dividend).[1]

The forecast Milk Price for 2010/11 of $7.50 per kilogram of milksolids (kgMS) is now 90 cents higher than the season's opening forecast and $1.40 ahead of the 2009/10 season. This significant increase is welcome news for our farmers, many who have businesses that remain under pressure after several challenging years and a current season marked by some difficult weather conditions. It is also good news for the New Zealand economy, underlining the importance of dairying to New Zealand's economic wellbeing.

We are seeing a change in supply and demand for food internationally, which has helped push dairy prices to their current levels. While it is always difficult to predict market trends in the medium to longer term, prices are expected to remain strong in the short term at least. We are currently benefitting from a combination of demand growth from China and other Asian markets, and tighter international supply due to adverse weather conditions in many parts of the world. To date, these higher prices have more than offset the negative effects of an appreciating New Zealand dollar against the US dollar, in which most international dairy sales are denominated.

Global prices for many 'hard' and 'soft' commodities, including dairy, have increased significantly recently. We must be mindful of the impact that dairy prices can have on demand in some markets, as well as on supply growth around the world. As prices continue to climb, the possibility of a downward correction increases and farmers should be prepared for a potential global price drop.

As Fonterra's profits are primarily driven by the ability to make and sell a range of dairy products at a margin above the cost of milk collected from farmers, the rising Milk Price has put pressure on operating earnings. This margin squeeze is particularly significant in our ingredients businesses where the cost of raw milk represents a substantial proportion of total operating costs. Thanks to our strategy of building leading brand positions in key categories, our consumer businesses are better placed to withstand price increases – but they are not immune.

For the first time, we are reporting a profit for the half year, following a change to the way we determine the cost of raw milk supplied in New Zealand.[2]

We have made further progress strengthening our financial position through increased share subscriptions by our farmer shareholders and retentions from earnings, which in turn have reduced our borrowing requirements.

INCOME STATEMENT

In the six months to 31 January 2011, our revenue totalled $9.4 billion, 21 per cent higher than the $7.7 billion achieved in the corresponding period in 2009/10. The

[1] Average returns for a farmer who is 100 per cent shared up.

[2] In the second half of the 2010 financial year, we adopted the monthly Milk Price for determining the cost of raw milk supplied in New Zealand for financial reporting purposes. In previous half years, we have used a Milk Price in our consolidated interim financial statements that results in a nil profit attributable to shareholders, on the basis that the final Milk Price could only be confirmed at the end of the financial year.

revenue increase primarily reflects the impact of higher international dairy prices compared with the previous period. We began the half year with the trade weighted index of average selling prices on our *global*DairyTrade™ platform 28 per cent higher than 12 months earlier and prices remained buoyant throughout the period. Higher selling prices more than offset a slight decline in sales volumes within our ingredients businesses. Our hedging policy partially shielded the business from the full brunt of an appreciating currency.

The cost of goods sold was $7.9 billion, mostly reflecting the increased cost of milk sourced both in New Zealand[3] and overseas. Milksolids produced in New Zealand for the season to 31 January 2011 were marginally ahead of the same period last season, reflecting difficult climatic conditions across much of the country. There was a very wet start to the season in the North Island, while much of the South Island experienced extremely cold conditions in early spring which suppressed production. The North Island subsequently dried out and regions from Taupo north were declared drought zones by the end of 2010. Good rain over recent months has improved the situation and assuming normal rainfall in the March-May period, overall production across the entire 2010/11 season is expected to be broadly in line with, or slightly ahead of, last season.

Our operating expenses increased 2.5 per cent or $25 million compared with the prior period. Higher administrative expenses were the main contributor. These included staff remuneration increases after the lifting of a salary freeze imposed in response to the Global Financial Crisis, along with one-off costs associated with relocating our European headquarters from Hamburg to Amsterdam. Selling and marketing expenses were slightly down due to decreased advertising and promotional activity within the Australia/New Zealand (ANZ) consumer businesses, offset by a modest increase within the Latin America (Latam) business related to new product launches and ongoing brand positioning.

Other operating income of $49 million was down from the prior period's $222 million, which included $170 million of one-off transaction gains.

Net finance costs increased 12 per cent or $20 million. The higher finance costs were mostly related to derivatives used to manage the Group's exposure to interest rate risk. Net interest expenses were $8 million lower, with lower levels of borrowings mostly offset by higher floating interest rates compared with the 2010 half year.

Fonterra's net profit after tax for the six months to 31 January 2011 was $293 million, with 21 cents per share attributable to Co-operative shareholders. As we are reporting a half year profit for the first time, there is no prior half year comparison.

BUSINESS OVERVIEW

Commodities & Ingredients

The Commodities & Ingredients (C&I) segment comprises Fonterra Trade & Operations (FTO) and Global Ingredients & Foodservices (GIF). FTO includes the core New Zealand processing activities and most global sales of standard dairy ingredients, while GIF is increasingly focused on higher value specialty ingredients and innovative dairy solutions.

We are currently benefitting from a combination of demand growth from China and other Asian markets, and tighter international supply.

[3] The cost of milk purchased in New Zealand is based on a monthly Milk Price determined in accordance with the principles of the Milk Price manual.

By May 2011 all 480 of Fonterra's milk tankers will be covered in 'high vis' graphics that are visible to other road users at night for up to 300 metres.

C&I external revenue for the half year was $1.2 billion (24 per cent) higher at $6.3 billion, with higher selling prices for dairy products, partly offset by a decrease in sales volumes. C&I external sales volumes were 2.6 per cent lower compared with the prior half year. A contributing factor was lower opening inventory levels after higher sales in the final quarter of the previous financial year. This gave C&I less inventory on hand from the prior year to sell, compared with the previous half year.

Normalised segment earnings before net finance costs and tax were $194 million. As in the previous year, a rising Milk Price has placed pressure on our ability to make and sell a range of dairy products at a satisfactory margin above the cost of milk collected from farmers. To address this challenge we are adjusting our product mix to produce more higher value commodities which are in demand. This adjustment is only limited by our asset base capability and by commitments and contracts in place with long term customers. We are also reducing the volume of product subject to fixed price customer contracts. Although these contracts can give us greater business certainty in times of weak demand and market volatility, they limit our ability to benefit fully in the short term from rising market prices.

In GIF, we continue to invest in our premium ingredients and foodservices businesses. Having commercialised premium ingredients such as CHEDDAR*plus*™, and DeluxeProtein™ for yoghurts, we are building lasting customer partnerships in North America to grow earnings from these unique products. Transitioning our European office from Hamburg to Amsterdam, puts Fonterra on the cutting edge of dairy research and development in Europe, so we can best meet our customer needs and drive more value-added business. In the foodservices area, we are taking innovations from New Zealand to the rest of the world.

In December, we received resource consent for a new factory at Darfield in central Canterbury, just five months after lodging the consent application. Development work is proceeding and we expect to start construction in mid 2011, with factory operations targeted for August 2012. At a cost of around $200 million, Darfield will be Fonterra's eighth manufacturing site in the South Island and our first greenfield development since 1995. Following the earthquake of 4 September 2010 centred near Darfield, we conducted a further risk review of the proposed factory. We are proceeding, with minimal adjustment required to our original plans.

We further progressed our global sourcing of milk to improve service to our international customers, and to build a presence in key growth markets. In October 2010, we signed an agreement with the government of Yutian County to develop a second farm in northern China. The Yutian farm, with around 3,000 cows initially, will complement our existing farm at nearby Hangu, Tangshan, which has now grown to over 7,000 cows. A few weeks later, we signed a memorandum of understanding with the Indian Farmers Fertiliser Co-operative and India's Global Dairy Health to conduct a feasibility study on a pilot farm in India that would aim to emulate our Tangshan farm, as the first step towards a vision of establishing large-scale, world-class dairy farms in India.

Australia/New Zealand

ANZ revenue in the half year was up $266 million (18 per cent) to $1.8 billion, mainly because higher commodity prices flowed through to consumer pricing – although $42 million of the

increase was due to a higher Australian dollar against the New Zealand dollar.

Normalised segment earnings before net finance costs and tax were $153 million. This demonstrates that our ANZ businesses have continued to perform well despite sustained competition across many categories.

In October 2010, we announced an agreement to sell the Brownes regional dairy business in Western Australia to DairyWest. This will allow Fonterra to focus on national leadership in our priority categories of cheese, spreads, yoghurts and dairy desserts in Australia. The sale was completed on 21 March 2011.

In February 2011, Fonterra Brands New Zealand (FBNZ) announced a freeze on the price of liquid milk sold to retailers in New Zealand for the rest of 2011. The freeze means FBNZ will absorb the impact of any further increases in commodity prices, on top of around $10 million of increased costs already absorbed over recent months.

While high dairy prices are good for exports and the New Zealand economy, New Zealanders are feeling the effects of this in their food budgets. We felt that this price freeze could help prevent a decline in milk consumption in New Zealand.

We recognise milk is an important part of the diet in New Zealand and we want to ensure that future generations of New Zealanders grow up enjoying it every day. A glass of milk will give a child around a third of their daily protein and calcium intake and up to two thirds of certain vitamin requirements, which is more nutrition for a much lower price than most fruit, vegetables and meat.

This price freeze is in addition to our KickStart Breakfast programme in conjunction with Sanitarium which provides breakfast for over 15,000 students at 445[4] low decile schools, twice a week.

Asia/Africa, Middle East

Asia/Africa, Middle East (Asia/AME) revenue for the half year increased $96 million (13 per cent) to $832 million. This was almost entirely due to price increases across all categories.

Normalised segment earnings before net finance costs and tax were $93 million. Although volumes year to date remain in line with the previous half year, we are monitoring closely the impact of rising prices on consumer volume demand.

The Asia/AME region recovered strongly during calendar 2010 from the economic crisis of 2008/09, with many markets recording GDP growth rates of 5-10 per cent. Across the region, rising disposable incomes, stronger economies and increasing nutritional awareness created a favourable climate for Fonterra's consumer business to strengthen its leadership positions in bone nutrition and maternal nutrition. Asia/AME's continued focus on higher value brands and a strong nutritional focus in South East Asia has given the brands portfolio greater resilience, enabling it to continue to grow profits, despite the considerable costs of near-record milk prices.

Latin America

Revenue in Latam reflects our Soprole business in Chile. Latam revenue for the half year increased $48 million (14 per cent) to $403 million. While more than half this increase was price related, overall volumes increased slightly due to growth in the yoghurts, desserts, milk, cheese and butter categories.

"We recognise milk is an important part of the diet in New Zealand and we want to ensure that future generations of New Zealanders grow up enjoying it every day."

[4] As at term 1, 2011.

Trading Among Farmers would remove redemption risk and stop money washing in and out of Fonterra every season.

Revenue was also slightly higher due to favourable exchange rate movements in the Latam region against the New Zealand dollar.

Normalised segment earnings before net finance costs and tax, which includes Fonterra's share of it's Dairy Partners America (DPA) joint venture earnings, were $64 million. As Fonterra equity accounts for its DPA joint venture, no DPA revenue is included in Latam's revenue.

In November, we announced a proposal to extend our DPA partnership with Nestlé into Chile, by forming a 50:50 joint venture between parts of Fonterra's Chilean business Soprole and Nestlé Chile's local dairy businesses. The proposal is subject to approval by the Chilean competition authority and based on the time taken for consideration of similar previous applications, the transaction is unlikely to be completed before the 2012 financial year.

STATEMENT OF FINANCIAL POSITION

Our consolidated interim financial statements reflect our recent efforts to strengthen our financial position through increased share subscriptions by farmer shareholders, retentions from earnings, and the recognition of a profit at the half year for the first time. This has been supported by our continued strong working capital management.

At 31 January 2011, Fonterra's total equity stood at $5.9 billion, an increase of $837 million from 12 months earlier and $224 million from 31 July 2010. During the latest half year, net share issues generated a capital inflow of $111 million, with 25,047,000 shares issued and just 488,000 shares surrendered.

Total net interest bearing debt at 31 January 2011 was $4.9 billion, down $720 million from 12 months earlier.

Fonterra's gearing ratio (economic debt to debt plus equity, which takes account of the carrying value of debt hedges) was 48.5 per cent at 31 January 2011, a substantial improvement from 54.3 per cent a year earlier. Although the gearing ratio at 31 July 2010 was lower at 44.9 per cent, the seasonal nature of our business means the more meaningful comparison is with the position at the previous half year.

Total assets at 31 January 2011 were $17.3 billion, up $1.0 billion from 12 months earlier. This primarily reflects a $971 million increase in inventories, mostly due to a higher Milk Price used to value inventory, and to a lesser extent to a modest increase in inventory volumes compared with 31 January 2010.

CASH FLOWS

Operating cash flows were slightly negative for the half year, which reflects the seasonal lag between peak production and sales, with a net outflow of $189 million, $60 million more than the previous corresponding period. This increased outflow was influenced by a higher advance rate paid to farmers (reflecting the higher Milk Price), a higher final milk payment for last season, higher net tax paid offshore, and higher purchases of globally sourced inventory. These higher cash payments were partially offset by more cash received from customers, reflecting higher revenue than in the first half of the previous financial year.

Cash flows from investing activities were negative $257 million for the half year, compared with positive $16 million in the prior half year. The difference is mostly because the prior half year included cash inflows from the sale of certain Group assets.

CAPITAL STRUCTURE EVOLUTION

In June 2010, our farmer shareholders voted overwhelmingly in favour of changes to the Co-operative's constitution to allow steps to be taken to implement share trading among farmers at a future date.

Trading Among Farmers would remove redemption risk and stop money washing in and out of Fonterra every season. Farmers would buy and sell shares from one another on a new Fonterra Shareholders' Market, rather than subscribing for or redeeming shares via the Co-operative.

Farmers would also be able to free up share capital by placing some of their shares with a new Fonterra Shareholders' Fund. This Fund would pay farmers for shares placed with it, and would use the rights to dividends and capital gains associated with those shares to back units in the Fund. These units would be issued to investors, giving them an investment linked to Fonterra's financial performance while ensuring Fonterra remains farmer controlled and owned.

Since June 2010, we have been working with advisors on the design of Trading Among Farmers in line with concepts outlined prior to the farmer vote.
The process of developing a robust, secure and transparent system for Trading Among Farmers is complex. We will take the time necessary to ensure all the pre-conditions for a launch are satisfied. Beyond that, our farmer shareholders need to know the processes will be easy to understand and continue to reflect our wholly farmer-owned Co-operative principles.

Implementation of Trading Among Farmers is also dependent on changes to Government legislation, including the Dairy Industry Restructuring Act (DIRA).

In early February 2011, the Government released a Discussion Paper on potential DIRA changes for industry consultation. We are engaging with Government in the consultation process.

There are currently three possible launch dates for Trading Among Farmers aligned with Fonterra's half and full year results reporting: October-December 2011, April-May 2012 and October-December 2012.

INDUSTRY ISSUES

The importance of dairying to New Zealand's ongoing prosperity was reinforced by an economic report published in December 2010. It concluded a $1 rise in Fonterra's Payout makes every New Zealander nearly $300 better off and that around 50 cents of every dollar earned by farmers goes back into the economy. Commissioned by Fonterra and DairyNZ, the report by the New Zealand Institute of Economic Research (NZIER) also highlighted how dairy exports help reduce New Zealand's current account deficit, taking pressure off domestic interest rates. Although most New Zealanders have long recognised dairy as a key export industry, the report quantified for the first time the tangible benefits to both rural and urban communities.

We commissioned another NZIER report that calculated the current Raw Milk Regulations under DIRA are costing the New Zealand economy up to $450 million annually. The regulations require Fonterra to supply up to 600 million litres of milk in total to independent processors each year. A number of these processors are competing with Fonterra in overseas markets. Rather than supporting domestic competition which was the intention of DIRA, much of the milk being taken is being used to produce commodity milk powder or bulk cheese for export without any appreciable benefit to New Zealand.

"A $1 rise in Fonterra's Payout makes every New Zealander nearly $300 better off."

Our Crawford St cool store was officially opened in September last year. Around 200,000 tonnes of butter and cheese are expected to be shipped per year from the Hamilton site. The site's integrated rail hub will also take more than 50,000 truck movements off local roads.

The Government has undertaken to conduct a review of the criteria around the eligibility for raw milk supply. Fonterra welcomes this, and is of the strong view that independent processors with their own established supply should be excluded from access to raw milk under the regulations.

Demand for sustainable, secure natural food sources continues to grow as the world's nutritional requirements increase due to population growth and increasing affluence. We are strengthening our commitment to embed sustainability into everything we do. As the largest international trader of dairy products and as the biggest business operating in New Zealand, we must take the lead in this area, while remaining commercially competitive. Our customers, consumers and the community are also asking more of us.

We have made good progress in our sustainability strategy over recent years with initiatives like the Clean Streams Accord, but the bar is continually being raised and there is more work to be done. Effective 1 October 2010, sustainability became the responsibility of a new Supplier and External Relations function, led by Kelvin Wickham reporting directly to the CEO. Kelvin is overseeing a sustainability programme for the whole of Fonterra, focused on climate change/ greenhouse gas management, water quality and supply, nutritional value of products, and animal welfare and biodiversity. This senior appointment ensures these issues will receive appropriate management focus.

SUPPORTING OUR COMMUNITIES

Overshadowing the half year result has been the devastating effects of the earthquake that struck Christchurch on 22 February 2011, less than six months after another serious earthquake in the same region on 4 September 2010.

We immediately showed our support for the people of Christchurch with a multi-faceted response across the wider Fonterra family. Fonterra, our staff and farmer shareholders collectively donated in excess of $4 million to earthquake relief funds, on top of a $1 million donation last September.

With water supplies cut, we immediately began shipping in tanker-loads from our factories to sites around the Christchurch urban area. We also delivered UHT milk and bottled water to relief centres. Staff from our emergency response teams at factories throughout New Zealand went to Christchurch to assist in the search and rescue effort. Many of our farmers also offered heavy equipment to the cause and opened their homes to displaced families.

While the September earthquake caused significant disruption at many farms across Canterbury, our farmers largely came through the February earthquake unscathed. There was no major damage to Fonterra sites and we were able to collect and process milk as normal.

In Australia, we also supported communities in Victoria and Queensland following the major floods experienced across both states in January 2011 by making contributions to disaster relief funds. In Queensland, we also produced a special run of 150,000 litres of UHT milk for Foodbank in Brisbane and in Victoria, we provided a comprehensive support package for flood-affected farmers.

Following the earthquake and tsunami in Japan in March 2011, we are working with our Japanese partner on an appropriate community response.

Fortunately no Fonterra employees were harmed in any of these recent events.

CEO TRANSITION PLAN

On 1 March 2011, Andrew Ferrier announced he intended to step down as CEO by the end of 2011. Andrew indicated to the Board some time ago his desire to move on and as a result we are well prepared for a smooth transition to a new CEO. The Board will be considering internal and external candidates; the assessment and development of internal candidates commenced nearly two years ago and an international search was put in place at the end of 2010. Andrew is committed to continuing in his role until we have found the right person.

Andrew has devoted the past eight years to building Fonterra into a highly successful co-operative delivering great results for our farmer shareholders and New Zealand. He has single-mindedly moulded our nearly 16,000 people into a world class team, working to a clear strategy and with a real sense of purpose. Fonterra has never been in better shape, and that is a credit to his leadership.

OUTLOOK

The forecast Payout range of $7.90-$8.00 (before retentions) for 2010/11 includes a forecast Milk Price of $7.50 per kgMS and a Distributable Profit range of 40-50 cents per share for the 2011 financial year. Fonterra is targeting to pay a dividend of 25-30 cents per share out of Distributable Profit. As a consequence, Fonterra now forecasts that a 100 per cent share backed farmer will receive, on a cash basis, a total of $7.75-$7.80.

This year's Payout may surpass Fonterra's previous record in 2007/08 of $7.90 (before retentions) and $7.66 (cash comprising, at that time, of Milk Price plus Value Return).

We have held the forecast Distributable Profit range for 2011 at $550-$690 million, which equates to 40-50 cents per share (at this stage of the financial year, Fonterra treats forecast Distributable Profit as equating to Net Profit After Tax).

The events in February and March in Christchurch and Japan will be reflected in the second half of the financial year. At this stage we are in the process of quantifying the impact on our business, which will be primarily in the area of inventory losses. To some extent we expect these losses will be covered by insurance.

The Fonterra Board has announced a target dividend range of 25-30 cents per share, compared with 27 cents paid for 2010. The actual dividend to be paid for 2011 remains at the discretion of the Board.

The Board and management remain focused on improving profitability across Fonterra's business operations through ongoing efficiency initiatives, optimisation of our product mix, and strategic investment in profitable long term growth opportunities. With this focus, we aim to deliver the best possible sustainable returns to our farmer shareholders.

SIR HENRY VAN DER HEYDEN
Chairman

ANDREW FERRIER
CEO

CONSOLIDATED INTERIM INCOME STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2011

$ MILLION	NOTES	6 MONTHS TO 31 JAN 2011 UNAUDITED	6 MONTHS TO 31 JAN 2010 UNAUDITED	12 MONTHS TO 31 JUL 2010 AUDITED
Revenue from sale of goods		**9,356**	7,738	16,726
Cost of goods sold	1	**(7,915)**	(6,778)	(13,975)
Gross profit		**1,441**	960	2,751
Selling and marketing expenses		**(287)**	(294)	(590)
Distribution expenses		**(241)**	(237)	(474)
Administrative expenses		**(341)**	(318)	(632)
Other operating expenses		**(162)**	(157)	(303)
Operating expenses		**(1,031)**	(1,006)	(1,999)
Other operating income		**49**	222	277
Net foreign exchange losses		**(7)**	(2)	(7)
Share of profit of equity accounted investees	7	**40**	41	56
Earnings before net finance costs and tax	2	**492**	215	1,078
Finance income		**16**	10	21
Finance costs		**(208)**	(182)	(334)
Net finance costs		**(192)**	(172)	(313)
Profit before tax		**300**	43	765
Tax expense		**(7)**	(36)	(80)
Profit for the period		**293**	7	685
Profit for the period is attributable to:				
Shareholders of the Parent		**286**	–	669
Non-controlling interests		**7**	7	16
Profit for the period		**293**	7	685

In the second half of the year ended 31 July 2010 the Group adopted the monthly Milk Price for determining the cost of raw milk supplied in New Zealand, which enabled the reporting of a profit for the six months ended 31 January 2011. Refer to the Summary Statement of Significant Accounting Policies for further information.

For the six months ended 31 January 2010, a Milk Price which resulted in a nil profit attributable to Shareholders was used.

The Directors hereby approve and authorise for issue the consolidated interim financial statements for the six months ended 31 January 2011 presented on pages 10 to 24. For and on behalf of the Board:

SIR HENRY VAN DER HEYDEN
Chairman
23 March 2011

DAVID JACKSON
Director
23 March 2011

The accompanying notes form part of these consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 31 JANUARY 2011

$ MILLION	6 MONTHS TO 31 JAN 2011 UNAUDITED	6 MONTHS TO 31 JAN 2010 UNAUDITED	12 MONTHS TO 31 JUL 2010 AUDITED
Profit for the period	**293**	7	685
Cash flow hedges:			
– Net fair value gains	**522**	338	584
– Transferred and reported in revenue from sale of goods	**(389)**	(432)	(631)
– Tax (expense)/credit on cash flow hedges	**(37)**	28	18
Net investment hedges:			
– Net fair value gains	**2**	52	65
– Tax expense on net investment hedges	**(1)**	(16)	(19)
Foreign currency translation losses attributable to Shareholders	**(20)**	(106)	(150)
Foreign currency translation reserve transferred to the income statement	**–**	21	19
Foreign currency translation losses attributable to non-controlling interests	**–**	(2)	(2)
Share of equity accounted investees' movement in reserves	**8**	–	–
Other comprehensive income/(expense) recognised directly in equity	**85**	(117)	(116)
Total comprehensive income/(expense) for the period	**378**	(110)	569
Attributable to:			
Shareholders of the Parent	**371**	(115)	555
Non-controlling interests	**7**	5	14
Total comprehensive income/(expense) for the period	**378**	(110)	569

The accompanying notes form part of these consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2011

$ MILLION	NOTES	AS AT 31 JAN 2011 UNAUDITED	AS AT 31 JAN 2010 UNAUDITED	AS AT 31 JUL 2010 AUDITED
ASSETS				
Current assets				
Cash and cash equivalents		**831**	738	559
Trade and other receivables		**2,358**	2,318	2,088
Inventories		**5,207**	4,236	2,870
Tax receivable		**37**	22	18
Derivative financial instruments		**665**	518	488
Assets held for sale		**213**	–	–
Other current assets		**84**	65	64
Total current assets		**9,395**	7,897	6,087
Non-current assets				
Property, plant and equipment		**4,294**	4,385	4,356
Equity accounted investments	7	**467**	487	458
Intangible assets		**2,678**	2,756	2,756
Deferred tax assets		**112**	90	100
Derivative financial instruments		**154**	481	214
Other non-current assets		**196**	152	198
Total non-current assets		**7,901**	8,351	8,082
Total assets		**17,296**	16,248	14,169
LIABILITIES				
Current liabilities				
Bank overdraft		**29**	25	25
Borrowings	9	**1,153**	1,567	902
Trade and other payables		**1,264**	1,245	1,251
Owing to suppliers		**2,966**	2,014	1,138
Tax payable		**26**	36	33
Derivative financial instruments		**120**	133	113
Provisions		**79**	96	92
Liabilities associated with assets held for sale		**34**	–	–
Other current liabilities		**13**	9	4
Total current liabilities		**5,684**	5,125	3,558
Non-current liabilities				
Borrowings	9	**4,701**	4,882	4,022
Derivative financial instruments		**591**	807	496
Provisions		**108**	121	110
Deferred tax liability		**299**	235	293
Other non-current liabilities		**22**	24	23
Total non-current liabilities		**5,721**	6,069	4,944
Total liabilities		**11,405**	11,194	8,502
Net assets		**5,891**	5,054	5,667
EQUITY				
Co-operative shares		**5,127**	4,970	5,016
Retained earnings		**586**	(15)	547
Foreign currency translation reserve		**(92)**	(37)	(73)
Cash flow hedge reserve		**237**	104	141
Total equity attributable to Shareholders		**5,858**	5,022	5,631
Non-controlling interests		**33**	32	36
Total equity		**5,891**	5,054	5,667

The accompanying notes form part of these consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 31 JANUARY 2011

	ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT						
$ MILLION	CO-OPERATIVE SHARES	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION RESERVE	CASH FLOW HEDGE RESERVE	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
As at 1 August 2010	**5,016**	**547**	**(73)**	**141**	**5,631**	**36**	**5,667**
Profit for the period	**–**	**286**	**–**	**–**	**286**	**7**	**293**
Other comprehensive income/(expense) for the period	**–**	**8**	**(19)**	**96**	**85**	**–**	**85**
Total comprehensive income/(expense) for the period	**–**	**294**	**(19)**	**96**	**371**	**7**	**378**
Transactions with Shareholders in their capacity as Shareholders:							
Dividend paid to Shareholders	**–**	**(255)**	**–**	**–**	**(255)**	**–**	**(255)**
Co-operative shares issued	**113**	**–**	**–**	**–**	**113**	**–**	**113**
Co-operative shares surrendered	**(2)**	**–**	**–**	**–**	**(2)**	**–**	**(2)**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(10)**	**(10)**
As at 31 January 2011 (unaudited)	**5,127**	**586**	**(92)**	**237**	**5,858**	**33**	**5,891**
As at 1 August 2009	4,557	26	12	170	4,765	40	4,805
Profit for the period	–	–	–	–	–	7	7
Other comprehensive expense for the period	–	–	(49)	(66)	(115)	(2)	(117)
Total comprehensive (expense)/income for the period	–	–	(49)	(66)	(115)	5	(110)
Transactions with Shareholders in their capacity as Shareholders:							
Co-operative shares issued	422	–	–	–	422	–	422
Co-operative shares surrendered	(9)	–	–	–	(9)	–	(9)
Purchase of non-controlling interest	–	(41)	–	–	(41)	(7)	(48)
Dividend paid to non-controlling interests	–	–	–	–	–	(6)	(6)
As at 31 January 2010 (unaudited)	4,970	(15)	(37)	104	5,022	32	5,054
As at 1 August 2009	4,557	26	12	170	4,765	40	4,805
Profit for the year	–	669	–	–	669	16	685
Other comprehensive expense for the year	–	–	(85)	(29)	(114)	(2)	(116)
Total comprehensive income/(expense) for the year	–	669	(85)	(29)	555	14	569
Transactions with Shareholders in their capacity as Shareholders:							
Dividends paid to Shareholders	–	(107)	–	–	(107)	–	(107)
Co-operative shares issued	617	–	–	–	617	–	617
Co-operative shares surrendered	(158)	–	–	–	(158)	–	(158)
Purchase of non-controlling interest	–	(41)	–	–	(41)	(6)	(47)
Dividend paid to non-controlling interests	–	–	–	–	–	(12)	(12)
As at 31 July 2010 (audited)	5,016	547	(73)	141	5,631	36	5,667

The accompanying notes form part of these consolidated interim financial statements.

CONSOLIDATED INTERIM CASH FLOW STATEMENTS FOR THE SIX MONTHS ENDED 31 JANUARY 2011

$ MILLION	NOTE	6 MONTHS TO 31 JAN 2011 UNAUDITED	6 MONTHS TO 31 JAN 2010 UNAUDITED	12 MONTHS TO 31 JUL 2010 AUDITED
Cash flows from operating activities				
Cash was provided from:				
– Receipts from customers		**9,042**	7,398	16,549
– Other cash inflows		**29**	18	87
Cash was applied to:				
– Payments to creditors and employees		**(3,919)**	(3,428)	(6,784)
– Payments for milk purchased		**(5,284)**	(4,098)	(8,322)
– Other cash outflows		**(57)**	(19)	(51)
Net cash flows from operating activities		**(189)**	(129)	1,479
Cash flows from investing activities				
Cash was provided from:				
– Cash inflows		**28**	259	294
Cash was applied to:				
– Cash outflows		**(285)**	(243)	(648)
Net cash flows from investing activities		**(257)**	16	(354)
Cash flows from financing activities				
Cash was provided from:				
– Proceeds from borrowings	9	**2,368**	1,820	2,960
– Proceeds from issue of Co-operative shares		**109**	175	590
– Other cash inflows		**21**	12	54
Cash was applied to:				
– Repayment of borrowings	9	**(1,297)**	(970)	(3,549)
– Surrender of Co-operative shares		**(2)**	(2)	(158)
– Dividends paid to Shareholders		**(255)**	–	(107)
– Value Return paid to Shareholder Suppliers		**–**	(591)	(591)
– Other cash outflows		**(220)**	(142)	(353)
Net cash flows from financing activities		**724**	302	(1,154)
Net increase/(decrease) in cash and cash equivalents		**278**	189	(29)
Cash and cash equivalents at the beginning of the period		**534**	542	542
Effect of exchange rate changes on cash balances		**(10)**	(18)	21
Cash and cash equivalents at the end of the period		**802**	713	534
Reconciliation of closing cash balances to the statement of financial position:				
Cash and cash equivalents		**831**	738	559
Bank overdraft		**(29)**	(25)	(25)
Closing cash balances		**802**	713	534
Reconciliation of profit for the period to net cash flows from operating activities				
Profit for the period		**293**	7	685
Adjustment for non-cash items				
Depreciation and amortisation		**243**	244	484
Other non-cash items		**(55)**	(227)	(196)
Movements in working capital		**(995)**	(979)	(260)
Movements in derivative financial instruments		**(170)**	12	22
Items classified as investing and financing activities		**495**	814	744
Net cash flows from operating activities		**(189)**	(129)	1,479

There were no material non-cash transactions during the six months ended 31 January 2011, six months ended 31 January 2010 or the year ended 31 July 2010.

The accompanying notes form part of these consolidated interim financial statements.

a) General Information

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

These consolidated interim financial statements of Fonterra, as at and for the six months ended 31 January 2011, comprise Fonterra and its subsidiaries (together referred to as the Group) and the Group's equity accounted investees.

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

b) Basis of Preparation

These consolidated interim financial statements comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and have been prepared in accordance with the New Zealand Equivalents to International Accounting Standard (NZ IAS) 34: Interim Financial Reporting. These consolidated interim financial statements also comply with International Accounting Standard 34: Interim Financial Reporting. These statements should be read in conjunction with the consolidated financial statements for the year ended 31 July 2010. The accounting policies used are consistent with those used to prepare the consolidated financial statements for the year ended 31 July 2010.

In the second half of the year ended 31 July 2010 the Group adopted the monthly Milk Price for determining the cost of raw milk supplied in New Zealand, which enabled the reporting of a profit for the six months ended 31 January 2011.

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

c) Comparative Figures

Previously, for interim reporting, a Milk Price which resulted in a nil profit attributable to Shareholders was used, as the final Milk Price for the season could only be confirmed at the end of the financial year. As noted above, the Group has adopted the monthly Milk Price for determining the cost of raw milk supplied in New Zealand. This change in accounting estimate enables an interim profit attributable to Shareholders to be reported, and therefore had an impact in the current period of $286 million. It is not possible to estimate the impact of this change on future periods.

At the time of presentation of the consolidated interim financial statements for the six months ended 31 January 2010, Fonterra did not recognise a tax benefit on the interim dividend relating to that period. The ability to obtain a tax credit on dividends in the period to which they relate arose out of a change in legislation which was neither enacted nor substantively enacted at 31 January 2010.

During the second half of the year ended 31 July 2010, Fonterra changed its accounting policy in respect of the recognition of the tax effect of distributions to shareholders, as explained in the consolidated financial statements for the year ended 31 July 2010. This change had no impact on the 31 January 2010 comparative figures presented in these consolidated interim financial statements.

Where a change in the presentational format of the financial statements has been made during the period, comparative figures have been restated accordingly, except for Note 3 Segment Reporting where it is not practical to do so, other than as described in that note. Where material, additional disclosure has been provided in the notes to these consolidated interim financial statements.

d) New Accounting Policies and New Zealand Equivalents to International Financial Reporting Standards

New standards and amendments to existing standards which could be expected to have an impact on the Group's financial statements, which were available for early adoption but have not been adopted are stated below:

New Zealand Equivalents to International Financial Reporting Standard (NZ IFRS) 9: Financial Instruments: Classification and Measurement is the multi-phase NZ IAS 39 replacement project. The standard now specifies how an entity should classify and measure financial assets and financial liabilities. For financial assets, NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value. It also adopts a single impairment method. Mandatory adoption of NZ IFRS 9 is required for periods commencing on or after 1 January 2013, therefore the Group will adopt the standard no later than the period commencing 1 August 2013. At this time it is not possible to estimate the impact of adoption.

1 COST OF GOODS SOLD

$ MILLION	6 MONTHS TO 31 JAN 2011 UNAUDITED	6 MONTHS TO 31 JAN 2010 UNAUDITED	12 MONTHS TO 31 JUL 2010 AUDITED
Opening inventory	**2,870**	2,656	2,656
Cost of Milk:			
– New Zealand sourced	**6,561**	5,282	7,938
– Non-New Zealand sourced	**682**	530	1,029
Other purchases	**3,009**	2,546	5,222
Closing inventory	**(5,207)**	(4,236)	(2,870)
Total cost of goods sold	**7,915**	6,778	13,975

Cost of New Zealand sourced milk includes milk supplied by Shareholders, Supplier Premiums paid, and milk purchased from contract suppliers during the financial period. Prior periods have been restated to be on a consistent basis. This has no impact on the total cost of goods sold. Non-New Zealand sourced milk, previously disclosed as other purchases, has been included in Cost of Milk.

In the second half of the year ended 31 July 2010 the Group adopted the monthly Milk Price for determining the cost of raw milk supplied in New Zealand, which enabled the reporting of a profit for the six months ended 31 January 2011. Refer to the Summary Statement of Significant Accounting Policies for further information.

For the six months ended 31 January 2010, for New Zealand sourced milk, a Milk Price which resulted in a nil profit attributable to Shareholders was used.

2 EARNINGS BEFORE NET FINANCE COSTS AND TAX

$ MILLION	6 MONTHS TO 31 JAN 2011 UNAUDITED	6 MONTHS TO 31 JAN 2010 UNAUDITED	12 MONTHS TO 31 JUL 2010 AUDITED
The following items have been included in arriving at earnings before net finance costs and tax:			
Operating lease expense	**32**	27	54
Restructuring and rationalisation costs	**8**	–	9
Research and development costs	**46**	44	98
Net loss/(gain) on disposal of investments	**2**	(127)	(127)
Net loss on disposal of property, plant and equipment	**–**	3	3
Receipt for amendments to equity accounted investee arrangements	**–**	43	41
Donations	**1**	–	1
Total employee benefits expense	**779**	725	1,460
Included in employee benefits expense are:			
– Contributions to defined contribution plans	**25**	21	42

3 SEGMENT REPORTING

The Group operates predominantly in the international dairy industry.

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

The reportable segments presented reflect the Group's management and reporting structure as viewed by the Fonterra Executive Committee, who are the chief operating decision makers.

Transactions between segments are based on estimated market prices.

The comparative figures for segment revenue for the six months ended 31 January 2010 have been restated to reflect the segments as currently reported to the chief operating decision makers.

The comparative figures for the year ended 31 July 2010 have been restated to be on a comparable basis to the six months ended 31 January 2011.

REPORTABLE SEGMENT	DESCRIPTION
Commodities & Ingredients	Includes New Zealand Milk Supply, New Zealand Manufacturing, Global Portfolio Optimisation, Global Trade (including the China Ingredients business), Global Supply Chain, Fonterra Ingredients and Specialty Ingredients operations in North Asia, North America and Europe (including equity accounted investments), and Corporate.
ANZ	Represents Fast Moving Consumer Goods (FMCG) operations in New Zealand (including export to the Pacific Islands) and all FMCG and Ingredients operations in Australia (including Milk Supply and Manufacturing).
Asia/AME	Represents FMCG operations and equity accounted investments in Asia (excluding North Asia), Africa and the Middle East.
Latam	Represents FMCG operations in Chile and equity accounted investments in South America.

3 SEGMENT REPORTING (CONTINUED)

$ MILLION	COMMODITIES & INGREDIENTS	ANZ	ASIA/AME	LATAM	ELIMINATIONS	TOTAL GROUP
Segment income statement						
Six months ended 31 January 2011 (unaudited)						
External revenue	**6,344**	**1,777**	**832**	**403**	**–**	**9,356**
Inter-segment revenue	**873**	**373**	**–**	**3**	**(1,249)**	**–**
Revenue from sale of goods	**7,217**	**2,150**	**832**	**406**	**(1,249)**	**9,356**
Cost of goods sold	**(6,669)**	**(1,682)**	**(545)**	**(273)**	**1,254**	**(7,915)**
Segment gross profit	**548**	**468**	**287**	**133**	**5**	**1,441**
Selling and marketing expenses	**(40)**	**(81)**	**(122)**	**(44)**	**–**	**(287)**
Distribution expenses	**(73)**	**(126)**	**(16)**	**(26)**	**–**	**(241)**
Administrative expenses	**(196)**	**(89)**	**(40)**	**(22)**	**6**	**(341)**
Other operating expenses	**(92)**	**(50)**	**(13)**	**(9)**	**2**	**(162)**
Segment operating expenses	**(401)**	**(346)**	**(191)**	**(101)**	**8**	**(1,031)**
Other operating income	**43**	**3**	**1**	**10**	**(8)**	**49**
Net foreign exchange (losses)/gains	**(25)**	**22**	**(4)**	**–**	**–**	**(7)**
Share of profit of equity accounted investees	**21**	**–**	**–**	**19**	**–**	**40**
Segment earnings before net finance costs and tax	**186**	**147**	**93**	**61**	**5**	**492**
Non-recurring items	**8**	**6**	**–**	**3**	**–**	**17**
Normalised segment earnings before net finance costs and tax	**194**	**153**	**93**	**64**	**5**	**509**
Non-recurring items						**(17)**
Finance income						**16**
Finance costs						**(208)**
Tax expense						**(7)**
Profit for the period						**293**
Profit for the period includes the following amounts:						
Depreciation	**(161)**	**(36)**	**(3)**	**(9)**	**–**	**(209)**
Amortisation	**(28)**	**(5)**	**(1)**	**–**	**–**	**(34)**
Royalty income from equity accounted investees	**–**	**–**	**–**	**11**	**–**	**11**
Segment assets						
As at and for the period ended 31 January 2011 (unaudited)						
Total assets	**11,727**	**3,801**	**1,162**	**970**	**(364)**	**17,296**
Equity accounted investments (included in total assets)	**221**	**–**	**–**	**246**	**–**	**467**
Capital expenditure	**209**	**57**	**6**	**10**	**–**	**282**

Assets held for sale and liabilities associated with assets held for sale relate to the ANZ segment.

Segment revenue						
Six months ended 31 January 2010 (unaudited)						
External revenue	5,136	1,511	736	355	–	7,738
Inter-segment revenue	604	240	–	1	(845)	–
Revenue from sale of goods	5,740	1,751	736	356	(845)	7,738
Segment assets						
As at and for the period ended 31 January 2010 (unaudited)						
Total assets	12,403	3,608	1,182	933	(1,878)	16,248
Equity accounted investments (included in total assets)	242	–	–	245	–	487
Capital expenditure	196	24	8	13	–	241

3 SEGMENT REPORTING (CONTINUED)

$ MILLION	COMMODITIES & INGREDIENTS	ANZ	ASIA/AME	LATAM	ELIMINATIONS	TOTAL GROUP
Segment income statement						
Year ended 31 July 2010 (audited)						
External revenue	11,225	3,233	1,537	731	–	16,726
Inter-segment revenue	1,532	570	–	7	(2,109)	–
Revenue from sale of goods	12,757	3,803	1,537	738	(2,109)	16,726
Cost of goods sold	(11,781)	(2,855)	(949)	(499)	2,109	(13,975)
Segment gross profit	976	948	588	239	–	2,751
Selling and marketing expenses	(79)	(158)	(279)	(74)	–	(590)
Distribution expenses	(149)	(244)	(31)	(50)	–	(474)
Administrative expenses	(360)	(162)	(83)	(41)	14	(632)
Other operating expenses	(177)	(95)	(25)	(10)	4	(303)
Segment operating expenses	(765)	(659)	(418)	(175)	18	(1,999)
Other operating income	265	8	2	20	(18)	277
Net foreign exchange (losses)/gains	(3)	2	(6)	–	–	(7)
Share of profit of equity accounted investees	33	–	–	23	–	56
Segment earnings before net finance costs and tax	506	299	166	107	–	1,078
Non-recurring items	(190)	4	–	12	–	(174)
Normalised segment earnings before net finance costs and tax	316	303	166	119	–	904
Non-recurring items						174
Finance income						21
Finance costs						(334)
Tax expense						(80)
Profit for the year						685
Profit for the year included the following amounts:						
Depreciation	(317)	(74)	(6)	(19)	–	(416)
Amortisation	(57)	(8)	(3)	–	–	(68)
Royalty income from equity accounted investees	3	–	–	20	–	23
Segment assets						
As at and for the year ended 31 July 2010 (audited)						
Total assets	9,007	3,558	1,126	867	(389)	14,169
Equity accounted investments (included in total assets)	231	–	–	227	–	458
Capital expenditure	378	74	13	27	–	492

3 SEGMENT REPORTING (CONTINUED)

$ MILLION	6 MONTHS TO 31 JAN 2011 UNAUDITED	6 MONTHS TO 31 JAN 2010 UNAUDITED	12 MONTHS TO 31 JUL 2010 AUDITED
Entity wide products and services			
Consumer goods	**2,632**	2,383	4,908
Ingredients	**6,724**	5,355	11,818
Revenue from sale of goods	**9,356**	7,738	16,726

$ MILLION	NEW ZEALAND	AUSTRALIA	USA	REST OF WORLD	ELIMINATIONS	TOTAL
Geographical segment revenue						
Six months ended 31 January 2011 (unaudited)						
Total external revenue	**5,287**	**1,295**	**507**	**2,267**	**–**	**9,356**
Inter-segment revenue	**1,902**	**346**	**27**	**8**	**(2,283)**	**–**
Revenue from sale of goods	**7,189**	**1,641**	**534**	**2,275**	**(2,283)**	**9,356**
Six months ended 31 January 2010 (unaudited)						
Total external revenue	4,113	1,071	601	1,953	–	7,738
Inter-segment revenue	1,514	223	14	119	(1,870)	–
Revenue from sale of goods	5,627	1,294	615	2,072	(1,870)	7,738
Year ended 31 July 2010 (audited)						
Total external revenue	9,073	2,333	1,234	4,086	–	16,726
Inter-segment revenue	3,489	531	31	152	(4,203)	–
Revenue from sale of goods	12,562	2,864	1,265	4,238	(4,203)	16,726

Revenue is allocated to geographical segments on the basis of where the sale is legally recorded.

Geographical segment reportable non-current assets						
As at 31 January 2011 (unaudited)	**4,738**	**1,036**	**133**	**1,728**	**–**	**7,635**
As at 31 January 2010 (unaudited)	4,899	1,120	121	1,640	–	7,780
As at 31 July 2010 (audited)	4,790	1,077	136	1,765	–	7,768

$ MILLION	AS AT 31 JAN 2011 UNAUDITED	AS AT 31 JAN 2010 UNAUDITED	AS AT 31 JUL 2010 AUDITED
Reconciliation of geographical segment non-current assets to total non-current assets			
Geographical segment non-current assets	**7,635**	7,780	7,768
Deferred tax asset	**112**	90	100
Derivative financial instruments	**154**	481	214
Total non-current assets	**7,901**	8,351	8,082

4 CONTINGENT LIABILITIES

The Group has no contingent liabilities as at 31 January 2011 (31 January 2010: nil; 31 July 2010: nil).

In the normal course of its business Fonterra, its subsidiaries and equity accounted investees are exposed to claims, legal proceedings and arbitrations that may in some cases result in costs to the Group. The Directors believe that these have been adequately provided for by the Group and there are no additional legal proceedings or arbitrations that are pending at the date of these consolidated interim financial statements that require provision or disclosure.

5 CO-OPERATIVE SHARES

NUMBERS (THOUSANDS)	CO-OPERATIVE SHARES
Balance at 1 August 2010	**1,352,843**
Issued	**25,047**
Surrendered	**(488)**
Balance at 31 January 2011	**1,377,402**
Balance at 1 August 2009	1,251,291
Issued	93,336
Surrendered	(2,121)
Balance at 31 January 2010	1,342,506
Balance at 1 August 2009	1,251,291
Issued	136,415
Surrendered	(34,863)
Balance at 31 July 2010	1,352,843

Co-operative shares

Each shareholder supplying milk to the Company in a season is required to hold one Co-operative share for each kilogram of milksolids obtainable from milk supplied to the Company by that shareholder, excluding milk supplied under contract supply or as unshared supply, in that season. This is known as the share standard. Shareholders supplying under contract must hold at least 1,000 shares.

In addition, suppliers are able to hold further shares up to 20% in excess of the number of Co-operative shares determined in accordance with the share standard for that season.

Rights attaching to the shares include:

- voting rights on a poll or postal ballot of one vote per 1,000 kilograms of milksolids obtainable from milk supplied to the Company by a Farm during the season preceding that in which a poll or postal ballot is taken, less milksolids supplied under contract supply or as unshared supply;
- rights to any dividends declared by the Board; and
- rights to share in any surplus on liquidation of the Company.

Shareholders have approved changes to the Company's Capital structure. Further detail can be found in Note 7 to the financial statements for the year ended 31 July 2010.

Dividends

All shares are eligible to receive a dividend if declared by the Board. On 23 March 2011 the Board declared an interim dividend of 8 cents per share payable on 20 April 2011 to the Shareholders on the share register at 31 March 2011.

On 23 March 2010, the Board declared an interim dividend of 8 cents per share, which was paid on 20 April 2010 to the Shareholders on the share register at 31 March 2010.

On 22 September 2010 the Board of Directors declared a final dividend of 19 cents per share, which was paid on 20 October 2010 to the Shareholders on the share register at 31 May 2010.

6 PROPERTY, PLANT AND EQUIPMENT

$ MILLION	6 MONTHS TO 31 JAN 2011 UNAUDITED	6 MONTHS TO 31 JAN 2010 UNAUDITED	12 MONTHS TO 31 JUL 2010 AUDITED
Acquisitions	**233**	221	442
Disposals	**(8)**	(11)	(23)
Capital commitments	**80**	109	141

7 EQUITY ACCOUNTED INVESTMENTS

$ MILLION	6 MONTHS TO 31 JAN 2011 UNAUDITED	6 MONTHS TO 31 JAN 2010 UNAUDITED	12 MONTHS TO 31 JUL 2010 AUDITED
Opening balance	**458**	506	506
Share of profit after tax	**40**	41	56
Acquired	**3**	–	14
Foreign currency translation	**(15)**	(43)	(63)
Dividends received	**(27)**	(17)	(55)
Share of equity accounted investees' reserve movement	**8**	–	–
Closing balance	**467**	487	458
Amount of goodwill in carrying value of equity accounted investees:			
Opening balance	**218**	241	241
Closing balance	**213**	224	218

The Group has provided financial guarantees to certain equity accounted investees.

In additional to its share of equity accounted investees' profit after tax, the Group earns royalty income from equity accounted investees. For the six months ended 31 January 2011 $11 million was recognised in the income statement within other operating income (31 January 2010: $13 million; 31 July 2010: $23 million). Refer to Note 3 for Segment Reporting.

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

		OWNERSHIP INTERESTS (%)		
SIGNIFICANT EQUITY ACCOUNTED INVESTEES NOT CONSOLIDATED	COUNTRY OF INCORPORATION	AS AT 31 JAN 2011	AS AT 31 JAN 2010	AS AT 31 JUL 2010
Dairy Partners Americas Argentina S.A.[1]	Argentina	**50**	50	50
DPA Manufacturing Holdings Limited[1]	Bermuda	**50**	50	50
Dairy Partners Americas Brasil Limitada[1]	Brazil	**50**	50	50
Ecuajugos S.A.[1]	Ecuador	**50**	50	50
DMV Fonterra Excipients GmbH & Co KG[1]	Germany	**50**	50	50
Dairy Industries (Jamaica) Limited[1]	Jamaica	**50**	50	50
Dairiconcepts, L.P.[1]	USA	**50**	50	50
Dairiconcepts Management, L.L.C.[1]	USA	**50**	50	50
Corporación Inlaca, C.A.[1]	Venezuela	**25**	25	25
RD1 Limited[2]	New Zealand	**50**	50	50

[1] Balance date 31 December (comparative ownership interest % consistent for all periods presented).

[2] Balance date 31 May (comparative ownership interest % consistent for all periods presented).

8 BUSINESS COMBINATIONS

There were no material business combinations during any of the periods presented.

9 BORROWINGS

$ MILLION	AS AT 31 JAN 2011 UNAUDITED	AS AT 31 JAN 2010 UNAUDITED	AS AT 31 JUL 2010 AUDITED
Opening balance	**4,924**	5,794	5,794
New issues			
Bank loans	**1,964**	1,445	2,051
Finance leases	**–**	53	75
Commercial paper	**404**	322	612
Retail bonds	**–**	–	150
Medium term notes	**–**	–	72
	2,368	1,820	2,960
Repayments			
Bank loans	**(916)**	(549)	(2,223)
Finance leases	**(3)**	(2)	(5)
Commercial paper	**(373)**	(384)	(710)
Medium term notes	**(5)**	(35)	(611)
	(1,297)	(970)	(3,549)
Other movements			
Amortisation of debt	**4**	7	13
Changes in fair value	**(50)**	24	82
Changes due to foreign currency translation	**(95)**	(226)	(376)
	(141)	(195)	(281)
Closing balance	**5,854**	6,449	4,924
Included within the statements of financial position as follows:			
Current borrowings	**1,153**	1,567	902
Non-current borrowings	**4,701**	4,882	4,022
	5,854	6,449	4,924

$ MILLION	AS AT 31 JAN 2011 UNAUDITED	AS AT 31 JAN 2010 UNAUDITED	AS AT 31 JUL 2010 AUDITED
Net interest bearing debt position			
Total borrowings	**5,854**	6,449	4,924
Cash and cash equivalents	**(831)**	(738)	(559)
Interest bearing advances included in other non-current assets	**(117)**	(81)	(122)
Bank overdraft	**29**	25	25
Net interest bearing debt	**4,935**	5,655	4,268
Value of derivatives used to manage changes in hedged risks and other foreign exchange movements on debt	**396**	222	226
Economic net interest bearing debt[1]	**5,331**	5,877	4,494

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

9 BORROWINGS (CONTINUED)

	AS AT 31 JAN 2011 UNAUDITED	AS AT 31 JAN 2010 UNAUDITED	AS AT 31 JUL 2010 AUDITED
Net tangible assets per security[1]			
$ per listed debt security on issue	**2.94**	2.55	2.76
$ per Co-operative share on issue	**2.25**	1.71	2.15
Listed debt securities on issue (million)	**1,053**	903	1,053
Co-operative shares on issue (million)	**1,377**	1,343	1,353

[1] Net tangible assets represents total assets less total liabilities less intangible assets (including intangible assets classified as assets held for sale).

10 SUBSEQUENT EVENTS

On 23 March 2011 the Board of Directors declared an interim dividend of 8 cents per share payable on 20 April 2011 to the Shareholders on the share register at 31 March 2011.

On 21 March 2011 Fonterra completed the sale of its Western Australia Dairy business. The assets and liabilities associated with this business were classified as held for sale at 31 January 2011. The Western Australia Dairy business is presented as part of the ANZ segment.

On 22 February 2011 an earthquake struck Christchurch. This resulted in damage to assets owned by Fonterra. These assets were predominantly inventory, as well as property, plant and equipment. It also caused increased costs of operations, and exposes Fonterra to potential loss of profit. The financial impact of the earthquake will be recognised in the second half of this financial year. The estimate of inventory losses, and quantification of other losses, will be finalised as the state of inventory is progressively evaluated, and remediation costs of property, plant and equipment are evaluated. Fonterra currently expects to recover some losses through insurance recoveries, however the timing and amount of any recovery is not yet known.

On 11 March 2011 an earthquake and a tsunami struck Japan. At the date of this report it is not possible to quantify the extent of any losses to Fonterra. Any financial impact of the earthquake will be recognised in the second half of this financial year.

There were no other material events subsequent to 31 January 2011 that would impact these financial statements.

COVER GRASS SUPPLIED BY KELVIN REEVES,
FONTERRA SUPPLIER # 71238

Insight Creative Limited. Auckland. Wellington. Sydney. FOOP031

FONTERRA CO-OPERATIVE GROUP LIMITED
Private Bag 92032
Auckland 1142
NEW ZEALAND
64 9 374 9000 (phone)
64 9 374 9001 (fax)
Shareholder and Supplier Services
freephone 0800 65 65 68

For global office locations visit Fonterra.com