



Dairy for life



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CHAIRMAN / CEO REVIEW

Fonterra has increased sales volumes, lifted revenues and controlled operating expenses in the first half of the 2006/07 season. However this sound performance has served only to buffer the co-operative against expected full-year currency impacts.

The season's forecast payout remains at \$4.05 having initially been based on Fonterra having an average conversion rate of 63 cents for the full season. With the currency in the 68 – 70 cent range in the New Year, Fonterra's full season average conversion rate is likely to be 67 cents. This impacts on Fonterra's ability to increase returns to shareholders, despite a strong lift in underlying performance.

It is very unfortunate that this improved performance is being eroded by an over-valued currency, rather than benefiting farmers.

SALES

Strong sales volumes enabled Fonterra Co-operative Group to achieve total operating revenue of \$6.5 billion for the six months to November 30, 2006, \$519 million more than the comparable period last season.

The \$6.5 billion in operating revenue includes total external sales revenue of \$4.5 billion from Fonterra Global Trade and Fonterra Ingredients, \$641 million up on the same time last season on a like for like basis. Fonterra Brands achieved external sales of \$2.0 billion, an increase of \$182 million, with higher sales volumes the main contributor to this improvement.

COSTS

Fonterra's total cost of goods sold, including payout to suppliers, increased in the first half of the season by \$482 million to \$5.4 billion. The increase reflects the higher volumes of products sold ex New Zealand and other origins, as well as increased freight and manufacturing costs as a result of higher production.

Operating expenses decreased by \$11 million to \$879 million. The decrease reflects savings from the costs drive, but these decreases were offset by restructuring costs and the additional planned investment in advertising and promotional spend to support our brands.

CASH FLOW/DEBT

Strong early season sales following record volumes achieved in the final quarter of last season, and a focus on working capital reduction, benefited Fonterra's operating cash flows, which were \$627 million positive compared to an outflow of \$63 million for the half year to November 30, 2005.

Net interest bearing debt is unchanged from May 31, 2006 as the strong operating cash flow of \$627 million was used to fund the capital structure transition payments, funding of investments and ongoing fixed asset expenditure. Investments made by Fonterra to grow the business include the strategic acquisition of 43% of San Lu in June 2006 and payment for the investment in the DMV Fonterra Excipients joint venture with Campina.

Fonterra's net interest bearing debt at November 30, 2006 was \$5.6 billion versus \$4.7 billion as at November 30, 2005 and \$5.6 billion at May 31, 2006.

CHAIRMAN / CEO REVIEW – CONTINUED

While Fonterra's debt levels in the six months under review remained unchanged, the ratio has increased as a result of the capital structure transition. This reduced the value of shareholders' equity after \$255 million in equity was returned to shareholders. On a like for like basis, excluding the transition, the debt to debt plus equity ratio would have been 51.3%.

The debt to debt plus equity ratio at November 30, 2006 was 53.9%. On a basis consistent with prior periods this was 51.3% compared to 52.1% at May 31, 2006 and 49.9% at November 30, 2005.

The debt to debt plus equity position remains outside the Board's preferred target range of 45-50%, but with the capital structure transition and additional investment being the main influence and the continuing focus on working capital, we are comfortable with the overall position.

PRODUCTION

While the first half of the season saw wet, cold weather affecting grass growth and production in some regions, total milk solids production for the first six months of the year was up 2.1% at 578 million kg/MS. The bulk of the gain came from the Central and Lower South Island. Full-year production is expected to be about 1.2 billion kg/MS, depending on prevailing production conditions. If achieved, this will represent a modest gain of about 1% over the 2005/06 season's record total production.

VALUE ADD INTERIM PAYOUT

In line with the changes made to payout forecasting in September, Fonterra's payout is now based on a milk price component and a value add component, with shareholders receiving an interim value add payment in February. Directors have declared an interim value add component payment of 23 cents per kg/MS.

The forecast milk price component of payout has been reaffirmed at \$3.60 per kg/MS and the final forecast value add component is also unchanged at 45 cents per kg/MS. This is despite the significant pressure being placed on Fonterra's value add businesses and their margins from increasing commodity prices and a strong dollar.

The interim value add payment of 23 cents will be made for production from June 1, 2006 to December 31, 2006. The final value add payment, currently forecast at 45 cents, will be made in August. The net effect, if the value add forecast is achieved, will be a total payment of 45 cents on full year production.

SURPLUS

We ended the first half of the season with \$2 billion available for payout – \$138 million less than the comparable period, a result which reflects the lower prices prevailing in the first half of the year.

Consistent with previous years, the half year accounts are prepared on the basis that 100% of the net surplus, excluding minority interests, earned by Fonterra in the first half of the season will be paid out to suppliers. The Board has not resolved final retentions and will do so at the end of the season.

EQUITY

Following shareholder approval last financial year, Fonterra moved to a new capital structure on June 1, 2006. Peak notes were redeemed and replaced with a capacity adjustment applied to payout and supply redemption rights were redeemed and replaced with excess shares. A transitional share standard was introduced, to apply until October 2006, requiring shareholders to hold more than one share for every kilogram of milksolids supplied. During the transition, these shares were valued at \$5.80.

The transition was completed in October 2006, with \$255 million in capital returned to shareholders. With the transition's completion, Fonterra's share standard was consolidated back to one share per kilogram of milk solids supplied. This resulted in shareholders holding fewer shares, with each share at the higher post consolidation value of \$6.56.

Following the transition, the carrying value of shareholders' equity in Fonterra excluding minority interests was \$4.6 billion compared to \$4.8 billion (after cessations) prior to the change, with the lower value reflecting the equity returned to shareholders.

INVESTMENTS

Having invested aggressively to grow our business, our priority in the first six months of the season has been to ensure that these investments perform well for our shareholders, making a positive contribution to our performance, particularly in value add.

These investments, which include our 43% shareholding in San Lu, our Arla joint venture in the UK, our 50% investment in DPA, and our DMV Fonterra Excipients joint venture with Campina have made a positive contribution to our value add returns with Fonterra receiving \$22 million in associate company earnings, \$9 million more than the same period last year. In addition Fonterra receives royalties from associate companies which further contribute to value-add earnings.

DEMAND OUTLOOK

The steady increases being achieved in commodity prices since the half year reflect an increasingly tight supply situation in the global market. With Australian production volumes affected by drought, strong internal demand in the US, dry conditions reducing American surpluses and lower exports from the EU driven by reduced subsidies, supply has been constrained, supporting better global pricing.

Despite higher prices, demand is remaining relatively stable for the time being, with buyers aware of the constraints on supply. The counterbalance to the positive market outlook is the strong dollar which continues to be of concern and shows little sign of weakening in the immediate future. Its strength will directly influence payout as we convert US dollar earnings into New Zealand currency.

FAIR VALUE SHARE

In December, the Board adopted the interim Fair Value for Fonterra shares for the coming season. It remains unchanged from the May 2006 final determination of \$6.56, after the independent valuer, Duff & Phelps, assessed the interim range for the coming season at \$6.40 to \$7.43, with a midpoint of \$6.91.

CHAIRMAN / CEO REVIEW – CONTINUED

The Board's decision not to adopt the mid-point follows the valuer's advice that it is undertaking a review of the treatment of taxation in the valuation process. This will be completed by May in time for the final determination.

As this is a highly technical matter the Board felt it prudent to maintain the status quo for the interim valuation. The final valuation for the season ahead will be made in May 2007.

CAPITAL STRUCTURE

2007 will be a pivotal year for Fonterra as we work towards making further progress in ensuring our capital structure is the best for the co-operative and for our shareholders. In March 2007, we will be continuing the discussions initiated with farmers in December and our aim is to engage as many shareholders as possible in this important process.

It is early days yet, but this is not the first time capital structure has been on the table and we expect wide and informed engagement from shareholders who see this as an important issue. While shareholders concerns are varied, there are some shared opinions on the main issues to be tackled.

Most of our shareholders are concerned about redemptions, given the growing competition for milk and the various schemes emerging that make it easier to sell shares. Many are concerned that increasing amounts of their investment in dairy are locked up in shares. They would like more choice when it comes to their financial portfolio.

Capital for growth is another big issue. Our future security depends on Fonterra pursuing a strategy that strengthens the company by growing earnings. There are many international opportunities to achieve this growth.

However growth requires additional capital. To date, milk growth has provided this capital and we've had the proceeds of divestments to reinvest. However, raising capital required to fund profitable investments will increasingly become an issue in the future.

Unless we evolve our capital structure, we will likely miss out on profitable growth opportunities, and miss the opportunity to deliver on Fonterra's potential as the premier global supplier of dairy products. This was not the vision the industry had for Fonterra when farmers voted to create the co-operative.

As we work through potential changes to our capital structure, it is vital to stress that there will always be areas that are simply not negotiable. These include farmers maintaining control of the co-operative and maintaining key principles such as accepting all shareholders' milk.

Nonetheless, we are looking at bold and substantial change, which provides the co-operative with more growth opportunities while preserving its integrity. This change will be neither rushed nor rash. The main objective, in everyone's best interests, is to ensure we have the right solution for Fonterra's long term future so that our growth continues to benefit our shareholders and the New Zealand economy.



HENRY VAN DER HEYDEN
Chairman



ANDREW FERRIER
Chief Executive Officer

Consolidated Interim Statement of Financial Performance

FONTERRA CO-OPERATIVE GROUP LIMITED FOR THE SIX MONTHS ENDED 30 NOVEMBER 2006

	NOTES	UNAUDITED \$M		AUDITED \$M
		6 MONTHS TO 30 NOV 06	6 MONTHS TO 30 NOV 05	12 MONTHS TO 31 MAY 06
Operating revenue	2	6,546	6,027	13,001
Payout to suppliers	1	(2,045)	(2,183)	(4,959)
Inventory movements		(503)	148	55
Other costs of goods sold		(2,869)	(2,900)	(5,907)
Total costs of goods sold		(5,417)	(4,935)	(10,811)
Operating expenses		(879)	(890)	(1,774)
Interest paid	2	(207)	(177)	(364)
Other expenses		(1,086)	(1,067)	(2,138)
Operating surplus before taxation		43	25	52
Taxation expense		(32)	(23)	(40)
Net surplus		11	2	12
Net surplus comprises:				
Parent interests		-	-	-
Minority interests		11	2	12
Net surplus		11	2	12

Fonterra Co-operative Group Limited

The Directors hereby approve the financial statements for the six month period ended 30 November 2006. For and on behalf of the Board of Directors, who authorised the issue of these financial statements on 24 January 2007.



HENRY VAN DER HEYDEN
Chairman



GRAEME HAWKINS
Director

Consolidated Interim Statement of Movements in Equity

FONTERRA CO-OPERATIVE GROUP LIMITED FOR THE SIX MONTHS ENDED 30 NOVEMBER 2006

	UNAUDITED \$M		AUDITED \$M
	6 MONTHS TO 30 NOV 06	6 MONTHS TO 30 NOV 05	12 MONTHS TO 31 MAY 06
Net surplus	11	2	12
Foreign currency translation reserve movement	(6)	24	111
Other movements in retained earnings	–	5	5
Total recognised revenues and expenses	5	31	128
Contributions from owners:			
Issue of co-operative shares	1,281	33	473
Issue of peak notes	–	5	42
Issue of supply redemption rights	–	–	119
Total contributions from owners	1,281	38	634
Distribution to owners:			
Surrender of co-operative shares	(237)	(113)	(238)
Surrender of peak notes	(1,149)	(28)	(30)
Surrender of supply redemption rights	(285)	(8)	(172)
Total distribution to owners	(1,671)	(149)	(440)
Contributions from and distributions to minority interests	–	(79)	(88)
Net movements in equity in the period	(385)	(159)	234
Equity at the beginning of the period	5,145	4,911	4,911
Equity at the end of the period	4,760	4,752	5,145

Consolidated Interim Statement of Financial Position

FONTERRA CO-OPERATIVE GROUP LIMITED AS AT 30 NOVEMBER 2006

	UNAUDITED \$M		AUDITED \$M
	AS AT 30 NOV 06	AS AT 30 NOV 05	AS AT 31 MAY 06
ASSETS			
Current assets			
Cash balances	143	159	137
Receivables and prepayments	2,387	2,050	2,558
Inventories	2,797	3,393	3,300
Other current assets	149	61	93
	5,476	5,663	6,088
Non-current assets			
Property plant & equipment	4,386	4,341	4,366
Investments	671	350	484
Intangible assets	2,084	1,954	2,101
Deferred taxation	12	2	7
Other non-current assets	63	12	34
	7,216	6,659	6,992
Total assets	12,692	12,322	13,080
LIABILITIES			
Current liabilities			
Current borrowings	2,470	2,069	1,908
Payables and accruals	1,001	1,117	1,194
Owing to suppliers	851	1,005	692
Capital notes	–	–	576
Other current liabilities	164	212	176
	4,486	4,403	4,546
Non-current liabilities			
Term borrowings	3,205	2,245	3,263
Capital notes	36	572	23
Other non-current liabilities	205	350	103
	3,446	3,167	3,389
Total liabilities	7,932	7,570	7,935
EQUITY			
Co-operative shares	4,613	3,254	3,569
Peak notes	–	1,114	1,149
Supply redemption rights	–	330	285
Reserves	14	(63)	14
Minority interests	133	117	128
	4,760	4,752	5,145
Total liabilities and equity	12,692	12,322	13,080

Consolidated Interim Statement of Cash Flows

FONTERRA CO-OPERATIVE GROUP LIMITED FOR THE SIX MONTHS ENDED 30 NOVEMBER 2006

	UNAUDITED \$M		AUDITED \$M
	6 MONTHS TO 30 NOV 06	6 MONTHS TO 30 NOV 05	12 MONTHS TO 31 MAY 06
Cash flows from operating activities			
Cash inflows	6,697	5,841	12,255
Cash outflows	(6,070)	(5,904)	(12,487)
Net cash flow from operating activities	627	(63)	(232)
Cash flows from investing activities			
Cash inflows	161	402	433
Cash outflows	(603)	(653)	(1,146)
Net cash flow from investing activities	(442)	(251)	(713)
Cash flows from financing activities			
Cash inflows	3,360	2,825	5,817
Cash outflows	(3,452)	(2,468)	(4,905)
Net cash flow from financing activities	(92)	357	912
Net increase / (decrease) in cash held	93	43	(33)
Opening cash balance	22	37	37
Effect of exchange rate changes on cash flows	–	–	18
Closing cash balances	115	80	22
Cash balances	143	159	137
Bank overdrafts (included in current borrowings)	(28)	(79)	(115)
Closing cash balances	115	80	22
Reconciliation of net surplus to net cash flows from operating activities			
Net surplus	11	2	12
Adjustment for non-cash items			
Depreciation / amortisation	257	242	495
Other non-cash items	(26)	(75)	(123)
Movements in working capital	571	284	(435)
Items classified as investing and financing activities	(186)	(516)	(181)
Net cash flows from operating activities	627	(63)	(232)

Notes to the Interim Financial Statements

FONTERRA CO-OPERATIVE GROUP LIMITED FOR THE SIX MONTHS ENDED 30 NOVEMBER 2006

1. Basis of Presentation and Statement of Accounting Policies

(a) Basis of Presentation and Statement of Accounting Policies

Fonterra is a co-operative company domiciled in New Zealand, registered under the Companies Act 1993, the Co-operative Companies Act 1996 and the Dairy Industry Restructuring Act 2001. The reporting currency used in the preparation of these interim financial statements is New Zealand dollars.

The interim financial statements have been prepared in accordance with FRS-24: Interim Financial Statements and should be read in conjunction with the annual report for the year ended 31 May 2006.

The accounting policies used are consistent with those used to prepare the financial statements contained in the annual report of Fonterra Co-operative Group Limited for the year ended 31 May 2006 and the half year report for the six months ended 30 November 2005. There have been no changes in accounting policies during the interim period.

For the purposes of these financial statements it is assumed that 100% of the Net Surplus attributable to Parent Interests earned in the six months to 30 November 2006 will be paid out as payments to suppliers. At year end the payout to suppliers is based on the amount declared by the Directors.

Payout to Suppliers is the total available for payout to supplier shareholders for the milk they supply to the Group. Premiums for specialty milks, such as winter milk and colostrum are included within other cost of goods sold.

Where a change in the presentational format of the financial statements has been made during the period, comparative figures have been restated accordingly.

(b) Adoption of New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS")

The New Zealand Accounting Standards Review Board ("ASRB") requires the adoption of NZ IFRS for application to reporting periods beginning on or after 1 January 2007, with early adoption permitted for reporting periods beginning on or after 1 January 2005.

Fonterra has elected to apply NZ IFRS for the year ending 31 May 2008. A discussion on how Fonterra is managing the transition to NZ IFRS is set out below.

In preparation for the adoption of NZ IFRS, Fonterra has formed a project team and sought independent external advice. The project team is led by senior finance personnel and reports on a regular basis to the Audit, Finance and Risk Committee, a sub-committee of the Board.

An assessment has been performed to determine the differences between the current key accounting policies of Fonterra and current NZ IFRS with material differences set out below. It should not be regarded as a complete list of changes in accounting policies that will result from the transition to NZ IFRS, as NZ IFRS and related interpretations may change between the issue date of these financial statements and the Group's first balance date reported under NZ IFRS being 31 May 2008. The regulatory bodies that promulgate IFRS and NZ IFRS have some significant ongoing projects that could affect the differences set out below and the impact of these variances may be material.

Notes to the Interim Financial Statements continued

FONTERRA CO-OPERATIVE GROUP LIMITED FOR THE SIX MONTHS ENDED 30 NOVEMBER 2006

The purpose of the following disclosure is to highlight major impacts the Group expects as a result of transitioning to NZ IFRS. The expected material adjustments arising from differences between the current key accounting policies of Fonterra and NZ IFRS identified to date are outlined in the paragraphs below. Where a reliable estimate of the impact is possible it has been quantified. Where decisions have not yet been made pending amendments to International Financial Reporting Standards that are currently expected, no impact is considered to be reliably estimable. All adjustments noted below will be recognised through an adjustment to opening retained earnings or another component of equity as appropriate.

Reporting of Equity: NZ IAS 32: Financial Instruments: Presentation; NZ IFRS 7 Financial Instruments: Disclosures and NZ IAS 39: Financial Instruments: Recognition and Measurement ("NZ IAS 39") require, inter alia, Fonterra's shares to be classified as liabilities and carried at fair value with changes in fair value recognised in the statement of financial performance. Application of these standards in this manner would clearly produce an anomalous result in the presentation of the Group's statements of financial position and financial performance and accordingly the matter has been referred to the International Financial Reporting Interpretations Committee, which in turn referred it to the International Accounting Standards Board ("IASB"). Members of the IASB have noted that current NZ IFRS produces an unsatisfactory result in circumstances such as Fonterra's. The IASB has issued an exposure draft, which if approved will mean that Fonterra will be able to continue to treat its co-operative shares as equity and without re-measurement to fair value. Assuming that this exposure draft will ultimately be incorporated in the applicable NZ IFRS standard at the date of conversion, no adjustment would be required.

Financial Instruments and Hedge Accounting: NZ IAS 39 requires all derivative instruments to be recorded at fair value in the statement of financial position with the related changes in fair value being recognised in income unless the instruments qualify for hedge accounting and the strict NZ IAS 39 hedging criteria are met. Fonterra currently uses foreign exchange contracts (options and forwards) to hedge forecast foreign cash flows, and foreign exchange swaps as well as cross currency and interest rate swaps to hedge borrowings. Fonterra intends to adopt hedge accounting for these instruments wherever practicable. Where such instruments qualify as cash flow hedges the effective portion of changes in fair value of those instruments will be recorded directly in equity until the hedged transaction occurs. Where such instruments qualify as fair value hedges, changes in the fair value of the instruments along with changes in the fair value of the debt will be recorded in the statement of financial performance. If the instruments do not qualify for hedge accounting, the entire change in the fair value of the instrument will be recorded in the statement of financial performance. The estimated impact of adoption is the recognition of all derivative instruments at their fair value by adjusting total derivative instrument values by \$62 million debit (31 May 2006: \$84 million credit) and the restatement of debt instruments in hedge relationships (representing debt instruments totalling \$2,665 million of the total borrowing (31 May 2006: \$2,840 million)) to their fair values by decreasing the currently recorded value by \$3 million (31 May 2006: \$9 million decrease). These adjustments will initially be reflected in the cash flow hedge reserve (CFHR), foreign currency translation reserve (FCTR) and an opening balance adjustment to retained earnings. Subsequent changes in fair values will be reflected in movements through the CFHR, FCTR and through the statement of financial performance. For the period ending 30 November 2006 the impact on the reported result would have been a \$19 million credit. Debt instruments not in hedge relationships will continue to be carried at amortised cost.

Notes to the Interim Financial Statements continued

FONTERRA CO-OPERATIVE GROUP LIMITED FOR THE SIX MONTHS ENDED 30 NOVEMBER 2006

Income Tax: NZ IAS 12: Income Taxes, requires an entity to calculate deferred tax using a balance sheet approach by comparing the tax bases of assets and liabilities to their carrying values in the statement of financial position. Differences between the two values are temporary differences on which deferred tax must be recognised (with some limited exceptions). This is different to current New Zealand accounting standards and is expected to result in a deferred tax liability larger than that currently recorded in the statement of financial position of the Group (primarily as a result of the recognition of deferred tax on brands and the revaluation of certain tangible assets on formation). Guidance to be issued over the ensuing six months is expected to clarify the application of the current standard – particularly with respect to the calculation of deferred tax on brands. Accordingly, Fonterra is not yet able to finalise the opening balance sheet adjustment arising from the application of this standard.

Business Combinations: NZ IFRS 3: Business Combinations is required to be followed for all business combinations entered into from the date of the opening balance sheet at 1 June 2006. Under this standard all business combinations must be recognised using purchase accounting and goodwill will no longer be amortised (instead goodwill will be subject to an annual impairment test within the constraints of NZ IAS 36: Impairment of Assets). Because of the available exemptions under NZ IFRS 1: First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards, Fonterra will have the option not to restate past business combinations in accordance with these new requirements. Fonterra has yet to decide whether it will restate past business combinations.

Foreign Currency Translation Reserve: NZ IAS 21: The Effects of Changes in Foreign Exchange Rates, requires certain exchange differences arising on translation of a foreign operation to be disclosed as a separate component of equity, in the foreign currency translation reserve. On disposal of a foreign operation the related balance in the cumulative translation reserve is transferred to the statement of financial performance. An available exemption under NZ IFRS 1 is to deem the cumulative translation reserve to be zero at the date of transition, and not account for any cumulative differences that arose before the date of transition on subsequent disposal. Fonterra has elected to take this exemption and will therefore reset the foreign currency translation reserve to zero by transferring the balance to opening retained earnings. At 30 November 2006, no further transfer would have arisen and the impact would be from the opening balance adjustment of \$156 million debit. This has no net impact on opening equity.

As Fonterra progresses toward 31 May 2008, the Group will continue to provide users of the financial statements with updated information about the likely impacts of NZ IFRS on the Group's earnings, cash flows and financial position.

2. Operating Surplus

	UNAUDITED \$M		AUDITED \$M
	6 MONTHS TO 30 NOV 06	6 MONTHS TO 30 NOV 05	12 MONTHS TO 31 MAY 06
Included in operating revenue:			
Interest received	13	5	14
Share of net surplus of associates	22	13	28
Included in interest paid:			
Interest on finance leases	(6)	(6)	(14)
Interest on borrowings	(201)	(171)	(350)

Notes to the Interim Financial Statements continued

FONTERRA CO-OPERATIVE GROUP LIMITED FOR THE SIX MONTHS ENDED 30 NOVEMBER 2006

3. Contingent Liabilities

In the normal course of its business Fonterra and its subsidiaries 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 financial statements that require provision or disclosure.

4. Financial Instruments

The Group holds foreign exchange forward and option contracts to manage its foreign exchange risk, arising in relation to future sales, receivables, foreign denominated debt and translation risk associated with the Group's net investment in foreign subsidiaries. As at 30 November 2006 the Group has recorded in the financial statements:

- a gain of \$155 million on foreign exchange contracts (30 November 2005: \$73 million gain, 31 May 2006: \$14 million loss); and
- a deferred option premium of \$33 million in other current and non-current assets (30 November 2005: \$104 million, 31 May 2006: \$57 million).

The fair value of all foreign exchange instruments both recognised and unrecognised in the financial statements covering future sales, receivables, foreign denominated debt and translation risk associated with the Group's net investment in foreign subsidiaries gives rise to a gain of \$254 million (30 November 2005: \$155 million gain, 31 May 2006: \$16 million loss).

There has been no material change in the nature of the Group's interest rate swaps and cross-currency interest rate swap arrangements from that reported in the financial statements for the year ended 31 May 2006. The face value of these instruments at 30 November 2006 is \$9,627 million (30 November 2005: \$7,091 million, 31 May 2006: \$9,261 million).

5. Non Cash Investing/Financing Transactions

There are no non cash financing and investing transactions for the Group for the six months ended 30 November 2006.

On 31 August 2005 Fonterra entered into an agreement with Rank Group Limited to sell its investment in Mainland Products Limited and purchase assets from New Zealand Dairy Foods Limited, a subsidiary of Rank Group Limited. A net cash payment of \$338 million was made to Rank Group Limited, being the difference between the assets purchased and sold. Intangibles have increased by \$478 million, including brands such as Fresh' n' Fruity and Anchor, as a result of this transaction.

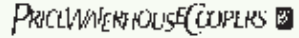
On 1 September 2005 Bonlac Foods Limited ('BFL'), a partially owned subsidiary of Fonterra, completed a selective share cancellation of the remaining shares held by the minority shareholder, Bonlac Supply Company, issuing them with unsecured capital notes. As a result of this transaction Fonterra now owns 100% of BFL.

6. Subsequent Events

There have been no material events subsequent to 30 November 2006 that require disclosure in these Interim Financial Statements.

Independent Accountants' Report

FONTERRA CO-OPERATIVE GROUP LIMITED



To the shareholders of Fonterra Co-operative Group Limited

We have reviewed the interim financial statements on pages 5 to 12. The interim financial statements provide information about the past financial performance and cash flows of the Group for the six month period ended 30 November 2006 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 9 to 11.

Directors' responsibilities

The Group's Directors are responsible for the preparation and presentation of the interim financial statements that present fairly the financial position of the Group as at 30 November 2006 and its financial performance and cash flows for the six month period ended on that date.

Independent Accountants' responsibilities

We are responsible for reviewing the interim financial statements presented by the Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the interim financial statements do not present fairly the matters to which they relate.

Basis of opinion

A review is limited primarily to enquiries of Group personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the interim financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the interim financial statements of the Group for the six months ended 30 November 2006 in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand.

We carry out other assignments on behalf of the Group in the areas of taxation compliance, financial assurance and international accounting standard advisory 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. The firm has no other relationship with, or in interest in the Group.

Review opinion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements do not:

- comply with the requirements of FRS-24: Interim Financial Statements
- present fairly the financial position of the Group as at 30 November 2006 and its financial performance and cash flows for the six month period ended on that date.

Our review was completed on 24 January 2007 and our review opinion is expressed as at that date.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', written over a horizontal line.

Chartered Accountants
Auckland



Dairy for life