



FONTERRA
INTERIM REPORT 2008/09

« COVER: ED4 – FONTERRA EDENDALE, SOUTHLAND

More than 620 million litres of milk will flow through Fonterra's new ED4, the world's largest milk powder drier, in the 2009/10 financial year. Running at full capacity, the plant can make 27 tonnes of milk powder an hour or more than 150,000 tonnes in a season.

Construction is well underway, with the plant on track to take its first milk ahead of the coming season's peak in the Spring of 2009. Following the completion of internal wall and flooring surfaces, the focus is now on installing evaporators, major drier components and pipe-work, ahead of commissioning in September.

The \$212 million development in Southland is part of Fonterra's ongoing capital investment in its manufacturing capability in New Zealand, with this new drier needed to meet projected strong milk growth in the South Island. ED4, one of the world's most efficient dairy processing plants, will take the Edendale site's peak processing capacity to over 15 million litres per day.



CONTENTS

CHAIRMAN / CEO REVIEW	1
FINANCIAL INFORMATION	7
NOTES TO THE INTERIM FINANCIAL STATEMENTS	13

Chairman / CEO Review

INTRODUCTION

Stronger contributions from our regional consumer businesses and a lower New Zealand dollar saw Fonterra post an improved half-year revenue performance, despite the unprecedented turmoil caused by the global economic meltdown and its impact on dairy markets.

In the six months to January 31, 2009, our revenue totalled \$8.0 billion, 9.6 per cent higher than the \$7.3 billion achieved for the six months to November 30, 2007. Although last year's change in annual balance date (from May 31 to July 31) means the two half-year periods are not directly comparable because of seasonality factors, the result is satisfactory given the tumultuous environment we have faced across our business. Adjusting for timing factors and including exchange hedging, total revenues would have been down by 7.6 per cent, reflecting the lower international dairy commodity prices.

In just a few months we have witnessed a complete reversal of conditions in global dairy markets from the previous boom. While global supply has continued to increase, the previous high prices and the economic downturn have caused a sharp reduction in demand from dairy ingredients customers. As a consequence,

prices have fallen substantially from their peak and customers have limited their purchases in the short-term because of market volatility and uncertainty in their own businesses. We have also seen the unwelcome re-emergence of government intervention in dairy markets, which will unfortunately prolong the time it takes for supply and demand to re-balance and for dairy prices to recover to more normal market levels.

With these dramatic shifts occurring as we entered the peak period of the New Zealand production season, significant challenges have been placed on Fonterra's business. Although no one could have predicted the scale and speed of the economic downturn, we did anticipate that market conditions would worsen during 2008 and prepared the business accordingly. Since late 2007, we have taken a more conservative approach to liquidity management to ensure we have sufficient cash on hand to meet our payout and working capital requirements. We have also maintained tight discipline over operating expenses and more recently imposed a freeze on non-essential capital expenditure.

INCOME STATEMENT

Fonterra completed the first half of the 2008/09 financial year with \$4.6 billion available for payout

to suppliers, slightly up on the \$4.5 billion at November 30, 2007. This primarily reflects the seasonal effect of including the higher production months of December and January in the latest half-year, offset by the impact of a lower forecast Milk Price.

On a like-for-like basis, production for the season to January 31, 2009 was 2 per cent higher than at January 31 last season, although there were marked variations from region to region. Much of this increase is due to production coming on stream from South Island dry farm conversions, with total South Island production up 6.7 per cent. In the North Island, production was flat year on year, with the Central North Island declining 1.9 per cent due to the residual effects of last summer's drought.

Our operating expenses have increased compared with the half-year to November 30, 2007. This rise was caused by higher costs associated with the inclusion of two more high production months (December and January) in the latest half-year results due to the change in balance date, as well as the impact of the lower currency when costs associated with overseas activities are translated into New Zealand dollars. Adjusting for these timing and currency factors, like-for-like operating costs actually reduced by around 2 per cent compared with a year earlier.

Net finance costs of \$368 million for the half-year are substantially higher than the \$161 million recorded in the corresponding period due to an increase in unrealised interest rate swap costs. On a cash basis, however, net interest payments in the latest half year actually reduced from \$179 million to \$142 million.

As a co-operative, the price Fonterra pays suppliers for milk is not calculated until financial year end. Since the Milk Price represents the major component of payout to suppliers – which in turn represents Fonterra's largest business cost – small fluctuations in the Milk Price can have a significant impact on profitability. To avoid sending any inappropriate signals about year-end profitability, Fonterra's practice is to assume in the interim financial statements that 100 per cent of the profit attributable to shareholder suppliers will be paid out as payout to suppliers. As a consequence, the profit/loss line in the interim income statement is rather meaningless as under this practice the half-year profit (before any adjustments for minority interests) will always be nil.

Having said that, our consumer businesses, in particular, are trading well in the current environment and we expect the full-year results to be ahead of last year.

OVERVIEW OF STRATEGIC BUSINESS UNITS

Commodities & Ingredients, which includes core New Zealand sourcing and manufacturing, global supply and trading, and the ingredients operations in North America, Europe and North Asia, achieved external revenue of just under \$5 billion, \$85 million ahead of the six months to November 30, 2007. Although prices were down on the previous half-year, the decline in the New Zealand dollar helped offset the price decline. Sales volumes for the period were marginally higher, due to the inclusion of the traditionally higher sales months of December and January in the latest half-year results.

In Australia/New Zealand, external revenue increased \$159 million to \$1.5 billion. Most of the increase came from higher volumes across the consumer business, largely from organic growth in retail sales of cheese, milk and spreads, along with sales revenue from the newly-acquired Nestlé yoghurt and dairy dessert business.

In Asia/Africa, Middle East, external revenue jumped \$420 million to \$1.2 billion. Although volumes in some markets have softened, this segment also covers ingredient sales into China, where demand was strong especially for imported whole milk powder due to quality concerns over local product following the melamine

contamination and increasingly competitive international prices compared with local milk prices.

In most parts of Asia/AME, we have managed to maintain premium pricing for brands such as Anlene™ and Annum™, despite the impact of the recession on consumer spending. In constant currency terms, revenue was up 33 per cent. Revenue was further boosted due to the impact of the lower New Zealand dollar against key Asian currencies.

As was foreshadowed at the annual meeting in November, we have written off the remainder of our investment in the Chinese company San Lu. In the half-year result, this has resulted in an impairment charge of \$62 million against the value of equity accounted investments.

In Latin America, external revenue increased \$37 million to \$358 million. Sales volumes were 2 per cent higher than the corresponding period mainly through higher volumes in yoghurt, mature cheese and water categories. Latam revenue was also boosted by a decline in the New Zealand dollar against the Chilean peso.

BALANCE SHEET

Our interim balance sheet as at January 31, 2009 reflects the impact (both positive and negative) of the lower New Zealand dollar as well as

the highly seasonal nature of our business. Seasonal and timing factors also mean comparisons with the November 30, 2007 position need to be made with caution.

The value of our inventories has risen to \$5.1 billion from \$4.0 billion at November 30, 2007. This increase is to be expected given current market conditions and the change to our balance date, which means two extra months of high production are included in the half-year.

Our total net interest bearing debt (before debt hedging) at January 31, 2009 was \$7.4 billion, an increase of \$1.5 billion from the position at July 31, 2008. The increase primarily reflects: the cost of carrying higher inventories over the season's peak; the higher-than-usual advance rate percentage we have been paying this season, which resulted in more than \$700 million extra in payout to farmers over and above our normal payment schedule; and the devaluation of the New Zealand dollar which resulted in foreign currency debt increasing when converted to New Zealand dollars. Although we have hedges on the foreign currency debt, these hedges are recognised in the accounts as an asset and not as an offset against net interest bearing debt. Including these debt hedges, the net interest bearing debt as at January 31, 2009 would be \$6.8 billion.

We have also been successful in lengthening the maturity of our debt, giving greater certainty to our borrowing position. As at January 31, 2009, the weighted average length of our borrowings was 4.1 years – an increase from 3.3 years at July 31, 2008. We have been deliberately paying off short-term debt and replacing it with longer-term debt, placing us in a stronger position to face uncertain times in financial markets. Our ability to raise longer-term debt in today's difficult climate is a pleasing sign of market confidence in Fonterra's prospects. Our debt maturity should benefit further in the second half from the recent highly successful 6 year retail bond issue, which closed in early March. We went to the market seeking \$300 million but ended up accepting \$800 million following strong demand from investors.

Our debt gearing (in terms of net interest bearing debt to net interest bearing debt + equity) at January 31, 2009 was 61.5 per cent, up from 57.4 per cent at July 31, 2008 because of the factors mentioned earlier. When adjusted for the debt hedging in place, the gearing at January 31, 2009 was 59.6 per cent (compared with 57.6 per cent at July 31, 2008).

Gearing will reduce in the second half as seasonal inventories fall, and we are implementing a number of additional initiatives

to reduce gearing further, including the sale of selected non-strategic assets and the deferral of non-essential capital expenditure. These actions will strengthen our balance sheet and are particularly important in these very uncertain economic times.

We will continue to invest in essential projects that improve the performance, quality and efficiency of our operations. During the latest six-month period, capital expenditure was \$275 million, compared with \$272 million in the six months to November 30, 2007. Major spend items in the latest period related to projects committed in prior periods to build capacity, such as Drier 4 at Edendale, Southland (ED4) and new vats to cater for production coming on stream from South Island dry farm conversions.

The decision to require all shareholders in the Co-operative to be fully-shared in line with their milk production at the end of the 2008/09 season will have a direct financial impact on about 4,500 of our farmers. It will bring around \$400 million of fresh equity into the Co-operative at the end of this financial year, and means farmers who are fully-shared are not disadvantaged by Fonterra farmers who do not hold enough shares. This, together with equity from new conversions and growing suppliers, is forecast to offset equity losses from suppliers

surrendering excess shares or leaving the Co-operative. The current forecast for our net equity position at the end of 2008/09 is slightly positive.

We have also announced a change to the timing for payment of the Value Return component of this season's payout. Normally, this is paid in two tranches – April and October – but the April 2009 payment will be deferred and at this stage, we are looking at a single payment in October 2009 once the annual payout is finalised. We recognise that this measure, combined with the requirement to share-up, will put further pressure on farmers' individual cash flows over the coming months, but these are necessary, prudent steps to protect the Co-operative's financial position.

Fonterra hedges foreign exchange exposures to reduce volatility and improve certainty of returns for farmers. Our policy is to hedge 100 per cent of trade receivables and payables, and up to 100 per cent of forecast cash receipts from sales for a period of up to 18 months. Although the recent currency decline has increased returns in New Zealand dollars, we have a number of hedges in place on future sales at rates higher than the current spot rate. The unrealised financial impact of these hedges is included in the cash flow hedge reserve on the balance sheet. As we continue

to make sales these hedges will progressively unwind and farmers can expect more benefit from a lower currency in future reporting periods.

OUTLOOK

Although we expect market conditions in the short-term will remain challenging and volatile, there have been promising signs recently of demand returning to global dairy markets. For instance, the March trading event for our internet sales platform, *globalDairyTrade*, saw the average price for whole milk powder rise 16.6 per cent from the previous low in February. We expect prices to continue to move around in this transition period as supply and demand rebalance.

In late January, your Board announced a revised payout forecast for the current season of \$5.10 per kilogram of milksolids (kgMS). While immediate market conditions remain uncertain, barring any catastrophic market events we remain confident of achieving the \$5.10 per kgMS forecast. Although the current forecast is well down on last year's record payout of \$7.90 per kgMS, this would still represent the third highest payout ever for Fonterra suppliers.

These are difficult times for everyone in the global business environment and Fonterra is no exception. We have taken, and we will continue to take, the

tough decisions necessary to manage the business prudently in the current climate. We are confident we will weather the storm.

At the same time, we are pressing ahead with our strategies to strengthen Fonterra as a world-class, global-scale dairy ingredients business. Our current business profile gives us a solid foundation from which to build towards this vision. As current market conditions stabilise, we will be in a position to capitalise on the expected long-term growth in demand for quality dairy products in emerging and established economies around the world.



Henry van der Heyden
CHAIRMAN



Andrew Ferrier
CEO

Financial Information

CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 JANUARY 2009

	Notes	6 months to 31 Jan 2009 Unaudited \$ million	6 months to 30 Nov 2007 Unaudited \$ million	14 months to 31 Jul 2008 Audited \$ million
Revenue		8,035	7,334	19,512
Cost of goods sold	2	(6,958)	(6,427)	(16,820)
Gross profit		1,077	907	2,692
Other operating income		56	31	108
Selling and marketing expenses		(266)	(220)	(507)
Distribution expenses		(223)	(192)	(502)
Administrative expenses		(312)	(321)	(840)
Other operating expenses		(150)	(105)	(362)
Net foreign exchange gains/(losses)		147	(10)	9
Operating profit before net finance costs, equity accounted income and tax		329	90	598
Finance income		57	25	76
Finance costs		(425)	(186)	(443)
Net finance costs		(368)	(161)	(367)
Share of profit of equity accounted investees		69	72	158
Impairment of equity accounted investees	5	(62)	(3)	(142)
Profit/(loss) before tax		(32)	(2)	247
Tax credit		31	28	47
Profit/(loss) from continuing operations		(1)	26	294
Profit from discontinued operations (net of tax)		-	-	-
Profit/(loss) for the period (before Value Return)¹		(1)	26	294
Profit/(loss) for the period (before Value Return)¹ is attributable to:				
Shareholder suppliers		-	-	244
Minority interests		(1)	26	50
Profit/(loss) for the period (before Value Return)¹		(1)	26	294

¹ Due to the seasonal nature of Fonterra's business, the final Milk Price can only be calculated at the end of the financial year. For the purpose of these financial statements it is assumed that 100% of profit attributable to shareholder suppliers for the six months to 31 January 2009 will be paid out as payout to shareholder suppliers and is recorded within cost of goods sold. At year end the payout to shareholder suppliers is based on the amount declared by the Directors.

The Directors hereby approve the financial statements for the six month period ended 31 January 2009. For and on behalf of the Board of Directors, who authorised the issue of these financial statements on 24 March 2009.



Henry van der Heyden



David Jackson

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

CONSOLIDATED INTERIM STATEMENT OF TOTAL RECOGNISED INCOME AND EXPENSE

FOR THE SIX MONTHS ENDED 31 JANUARY 2009

	Notes	6 months to 31 Jan 2009 Unaudited \$ million	6 months to 30 Nov 2007 Unaudited \$ million	14 months to 31 Jul 2008 Audited \$ million
Cash flow hedges:				
– net fair value gains/(losses)		(1,665)	402	354
– transferred and reported in revenue		764	(199)	(717)
– transferred to goodwill		–	–	24
– tax on cash flow hedge transactions		164	(61)	102
Net investment hedges:				
– net fair value gains/(losses)		(230)	2	(178)
– tax on net fair value gains/(losses)		41	–	54
Foreign currency translation attributable to shareholder suppliers				
		335	(18)	162
Foreign currency translation reserve transferred to profit/(loss)				
		20	–	(1)
Foreign currency translation attributable to minority interests				
		19	(4)	12
Share of equity accounted investees reserve movements				
		(4)	–	(1)
Income and expense recognised directly in equity				
	7	(556)	122	(189)
Profit/(loss) for the period (before Value Return)				
	7	(1)	26	294
Total recognised income and expense for the period				
		(557)	148	105
Attributable to:				
Shareholder suppliers		(575)	126	43
Minority interests		18	22	62
Total recognised income and expense for the period				
		(557)	148	105

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

CONSOLIDATED INTERIM BALANCE SHEET**AS AT 31 JANUARY 2009**

		As at 31 Jan 2009 Unaudited \$ million	As at 30 Nov 2007 Unaudited \$ million	As at 31 Jul 2008 Audited \$ million
	Notes			
ASSETS				
Current assets				
Cash and cash equivalents		751	974	681
Trade and other receivables		2,581	2,452	2,216
Inventories		5,095	4,037	3,288
Taxation receivable		51	49	31
Derivative financial instruments		538	520	183
Other current assets		54	92	58
Total current assets		9,070	8,124	6,457
Non-current assets				
Property, plant and equipment	4	4,446	4,291	4,292
Equity accounted investments		629	666	592
Intangible assets		2,847	2,491	2,680
Deferred tax asset		183	39	139
Derivative financial instruments		596	329	103
Other non-current assets		189	164	176
Total non-current assets		8,890	7,980	7,982
Total assets		17,960	16,104	14,439
LIABILITIES				
Current liabilities				
Bank overdraft		79	17	67
Borrowings	8	1,890	2,391	2,016
Trade and other payables		1,324	1,168	1,271
Owing to suppliers		1,806	2,726	1,069
Taxation payable		42	60	55
Derivative financial instruments		2,103	115	348
Provisions		129	102	233
Other current liabilities		14	8	12
Total current liabilities		7,387	6,587	5,071

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

CONSOLIDATED INTERIM BALANCE SHEET (CONTINUED)**AS AT 31 JANUARY 2009**

	Notes	As at 31 Jan 2009 Unaudited \$ million	As at 30 Nov 2007 Unaudited \$ million	As at 31 Jul 2008 Audited \$ million
Non-current liabilities				
Borrowings	8	6,209	3,580	4,502
Capital notes	8	35	35	35
Derivative financial instruments		386	258	155
Provisions		77	45	64
Deferred tax liability		41	547	288
Other non-current liabilities		35	56	55
Total non-current liabilities		6,783	4,521	5,099
Total liabilities		14,170	11,108	10,170
EQUITY				
Co-operative shares	7	4,392	4,769	4,297
Retained earnings	7	14	(166)	18
Foreign currency translation reserve	7	165	(54)	(1)
Cash flow hedge reserve	7	(825)	291	(88)
Total equity attributable to shareholder suppliers		3,746	4,840	4,226
Minority interests	7	44	156	43
Total equity		3,790	4,996	4,269
Total liabilities and equity		17,960	16,104	14,439

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

CONSOLIDATED INTERIM CASH FLOW STATEMENTFOR THE SIX MONTHS ENDED **31 JANUARY 2009**

	6 months to 31 Jan 2009 Unaudited \$ million	6 months to 30 Nov 2007 Unaudited \$ million	14 months to 31 Jul 2008 Audited \$ million
Cash flows from operating activities			
Cash inflows	8,922	7,001	19,667
Cash outflows	(8,811)	(6,183)	(18,357)
Net cash flows from operating activities	111	818	1,310
Cash flows from investing activities			
Cash inflows	95	19	123
Cash outflows	(554)	(286)	(918)
Net cash flows from investing activities	(459)	(267)	(795)
Cash flows from financing activities			
Cash inflows	2,458	3,471	7,531
Cash outflows	(2,117)	(3,180)	(7,556)
Net cash flows from financing activities	341	291	(25)
Net increase in cash and cash equivalents	(7)	842	490
Cash and cash equivalents at the beginning of the period	614	115	115
Effect of exchange rate changes on cash balances	65	-	9
Cash and cash equivalents at the end of the period	672	957	614
Reconciliation of closing cash balances to the balance sheet			
Cash and cash equivalents	751	974	681
Bank overdraft	(79)	(17)	(67)
Closing cash balances	672	957	614
Reconciliation of profit/(loss) for the period to net cash flows from operating activities			
Profit/(loss) for the period	(1)	26	294
Adjustment for non-cash items			
Depreciation/amortisation	234	231	546
Other non-cash items	(291)	(97)	(374)
Movements in working capital	(113)	141	511
Items classified as investing and financing activities	282	517	333
Net cash flows from operating activities	111	818	1,310

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 JANUARY 2009

1. BASIS OF PRESENTATION AND STATEMENT OF ACCOUNTING POLICIES

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 purpose of the Financial Reporting Act 1993.

These consolidated interim financial statements of Fonterra, as at and for the six months ended 31 January 2009, comprise Fonterra and its subsidiaries (together referred to as the "Group") and the Group's equity accounted investees.

These consolidated interim financial statements comply with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") and have been prepared in accordance with New Zealand Equivalent to International Accounting Standard ("NZ IAS") 34: Interim Financial Reporting. These consolidated interim financial statements also comply with International Accounting Standard ("IAS") 34: Interim Financial Reporting. These statements should be read in conjunction with the Financial Statements for the 14 months ended 31 July 2008.

The accounting policies used are consistent with those used to prepare the financial statements for the 14 months ended 31 July 2008 and the Interim report for the six months ended 30 November 2007. There have been no changes in accounting policy during the interim period.

Due to the seasonal nature of Fonterra's business, the final Milk Price can only be calculated at the end of the financial year. For the purpose of these financial statements it is assumed that 100% of profit attributable to shareholder suppliers for the six months to 31 January 2009 will be paid out as payout to shareholder suppliers. At year end the payout to shareholder suppliers is based on the amount declared by the Directors.

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

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)FOR THE SIX MONTHS ENDED **31 JANUARY 2009****2. COST OF GOODS SOLD**

\$ million	6 months to 31 Jan 2009 Unaudited	6 months to 30 Nov 2007 Unaudited	14 months to 31 Jul 2008 Audited
Opening inventory	3,288	2,783	2,783
Payout to shareholder suppliers	4,640	4,540	9,011
Other purchases	4,125	3,141	8,314
Closing inventory	(5,095)	(4,037)	(3,288)
Total cost of goods sold	6,958	6,427	16,820

3. SEGMENT REPORTING

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 Commodities & Ingredients segment includes the manufacturing business in New Zealand together with the integrated offshore supply chain, manufacturing operations and specialty ingredients business. Commodities & Ingredients generates its revenue primarily from ingredient milk products. All other reportable segments generate their revenue primarily from consumer products and exclude any part of the Group's operations that is included within Commodities & Ingredients.

Transactions between segments are based on estimated market prices.

Reportable Segment	Description
Commodities & Ingredients	Includes New Zealand Milk Supply, New Zealand Manufacturing, Sales and Operations Planning, Global Trade, Global Supply Chain, Fonterra Ingredients and Specialty Ingredients operations in North Asia, North America and Europe (including equity accounted investments), and Corporate.
ANZ	Represents operations in New Zealand (other than those included in Commodities & Ingredients) and Australia (including Milk Supply and Manufacturing).
Asia/AME	Represents operations and equity accounted investments in Asia (excluding North Asia), Africa and the Middle East.
Latam	Represents operations and equity accounted investments in South America.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)FOR THE SIX MONTHS ENDED **31 JANUARY 2009****3. SEGMENT REPORTING (CONTINUED)**

\$ million	Commodities & Ingredients	ANZ	Asia/ AME	Latam	Eliminations	Total Group
Segment revenue and assets						
For the six months ended and as at 31 January 2009 (unaudited)						
External revenue	4,965	1,504	1,208	358	–	8,035
Inter-segment revenue	923	461	40	37	(1,461)	–
Total revenue	5,888	1,965	1,248	395	(1,461)	8,035
Total assets	12,121	3,876	1,629	1,020	(686)	17,960
For the six months ended and as at 30 November 2007 (unaudited)						
External revenue	4,880	1,345	788	321	–	7,334
Inter-segment revenue	767	236	24	23	(1,050)	–
Total revenue	5,647	1,581	812	344	(1,050)	7,334
Total assets	11,217	3,610	1,382	674	(779)	16,104
For the 14 months ended and as at 31 July 2008 (audited)						
External revenue	13,517	3,302	1,904	789	–	19,512
Inter-segment revenue	2,009	696	84	53	(2,842)	–
Total revenue	15,526	3,998	1,988	842	(2,842)	19,512
Total assets	9,061	3,737	1,374	892	(625)	14,439

To complete segmental profit analysis for the Group, it is necessary to calculate Milk Price. Due to the seasonal nature of Fonterra's business, the final Milk Price can only be calculated at the end of the financial year. Accordingly, segmental profit analysis is not prepared for the Interim reporting periods, and is only presented for the 14 months ended 31 July 2008.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)FOR THE SIX MONTHS ENDED **31 JANUARY 2009****3. SEGMENT REPORTING (CONTINUED)**

\$ million	Commodities & Ingredients	ANZ	Asia/ AME	Latam	Eliminations	Total Group
Segment profit						
For the 14 months ended						
31 July 2008 (audited)						
Segment operating profit before depreciation, amortisation and non-recurring items	824	266	96	119	(36)	1,269
Depreciation	(362)	(75)	(8)	(20)	–	(465)
Amortisation	(78)	(1)	(1)	(1)	–	(81)
Share of royalty income	2	1	–	17	–	20
Non-recurring items	(156)	12	(1)	–	–	(145)
Segment profit before finance costs, equity accounted income and tax	230	203	86	115	(36)	598
Share of profit of equity accounted investees	137	–	7	14	–	158
Impairment of equity accounted investees	–	–	(142)	–	–	(142)
Segment profit before finance costs and tax	367	203	(49)	129	(36)	614
Unallocated finance income						76
Unallocated finance costs						(443)
Unallocated tax income						47
Profit for the period (before Value Return)						294

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)FOR THE SIX MONTHS ENDED **31 JANUARY 2009****4. PROPERTY, PLANT AND EQUIPMENT**

\$ million	6 months to 31 Jan 2009 Unaudited	6 months to 30 Nov 2007 Unaudited	14 months to 31 Jul 2008 Audited
Acquisitions	275	272	574
Disposals	(23)	(11)	(93)
Capital commitments	324	78	180

5. IMPAIRMENT OF EQUITY ACCOUNTED INVESTEEES

\$ million	6 months to 31 Jan 2009 Unaudited	6 months to 30 Nov 2007 Unaudited	14 months to 31 Jul 2008 Audited
Impairment of equity accounted investees	(62)	(3)	(142)

In August 2008, Fonterra became aware that certain milk products manufactured in China had been contaminated. This included products sold by Shijiazhuang San Lu Group Company Limited ("San Lu"), a company in which Fonterra has a 43% interest. As a result of issues associated with the contamination, Fonterra recognised an impairment charge, for the 14 months ended 31 July 2008, of \$139 million against the carrying value of the investment in San Lu.

The remaining investment in San Lu of \$62 million has been written down to nil in the six month period ended 31 January 2009.

6. BUSINESS COMBINATIONS

There have been no material business combinations during the six months to 31 January 2009.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)FOR THE SIX MONTHS ENDED **31 JANUARY 2009****7. CAPITAL AND RESERVES**

\$ million	ATTRIBUTABLE TO EQUITY	
	Co-operative shares	Retained earnings
Balance at 1 August 2008	4,297	18
Profit/(loss) for the period (before Value Return)	-	-
Income and expense recognised directly in equity	-	(4)
Co-operative shares issued	111	-
Co-operative shares surrendered	(16)	-
Dividend paid to minority interests	-	-
Balance at 31 January 2009 (unaudited)	4,392	14
Balance at 1 June 2007	4,897	(166)
Profit for the period (before Value Return)	-	-
Income and expense recognised directly in equity	-	-
Co-operative shares issued	120	-
Co-operative shares surrendered	(248)	-
Dividend paid to minority interests	-	-
Contribution from minority interests	-	-
Balance at 30 November 2007 (unaudited)	4,769	(166)
Balance at 1 June 2007	4,897	(166)
Profit for the period (before Value Return)	-	244
Income and expense recognised directly in equity	-	(1)
Value Return paid to shareholder suppliers	-	(87)
Tax credit arising on Value Return paid to shareholder suppliers	-	28
Co-operative shares issued	754	-
Co-operative shares surrendered	(1,354)	-
Dividend paid to minority interests	-	-
Buyout of minority interests	-	-
Contribution from minority interests	-	-
Balance at 31 July 2008 (audited)	4,297	18

HOLDERS OF THE COMPANY				
Foreign currency translation reserve	Cash flow hedge reserve	Total	Minority interests	Total equity
(1)	(88)	4,226	43	4,269
-	-	-	(1)	(1)
166	(737)	(575)	19	(556)
-	-	111	-	111
-	-	(16)	-	(16)
-	-	-	(17)	(17)
165	(825)	3,746	44	3,790
(38)	149	4,842	136	4,978
-	-	-	26	26
(16)	142	126	(4)	122
-	-	120	-	120
-	-	(248)	-	(248)
-	-	-	(5)	(5)
-	-	-	3	3
(54)	291	4,840	156	4,996
(38)	149	4,842	136	4,978
-	-	244	50	294
37	(237)	(201)	12	(189)
-	-	(87)	-	(87)
-	-	28	-	28
-	-	754	-	754
-	-	(1,354)	-	(1,354)
-	-	-	(11)	(11)
-	-	-	(147)	(147)
-	-	-	3	3
(1)	(88)	4,226	43	4,269

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)FOR THE SIX MONTHS ENDED **31 JANUARY 2009****8. LOANS AND BORROWINGS**

\$ million	6 months to 31 Jan 2009 Unaudited	6 months to 30 Nov 2007 Unaudited	14 months to 31 Jul 2008 Audited
Balance at beginning of period	6,553	5,160	5,160
New issues			
Loans drawn	898	58	627
New finance leases	22	–	–
Commercial paper issued	729	2,061	4,958
Medium term notes issued	668	–	445
	2,317	2,119	6,030
Repayments			
Bank lending	(17)	(525)	(916)
Finance leasing	(23)	(17)	(126)
Commercial paper matured	(1,776)	(804)	(4,129)
Medium term notes matured	(57)	(3)	(10)
	(1,873)	(1,349)	(5,181)
Other movements			
Amortisation of debt	37	15	105
Changes in fair value	168	41	34
Changes due to foreign exchange	932	20	405
	1,137	76	544
Balance at end of period	8,134	6,006	6,553
Represented by:			
Current borrowings	1,890	2,391	2,016
Non-current borrowings	6,209	3,580	4,502
Capital notes	35	35	35
	8,134	6,006	6,553

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)FOR THE SIX MONTHS ENDED **31 JANUARY 2009****8. LOANS AND BORROWINGS (CONTINUED)**

\$ million	6 months to 31 Jan 2009 Unaudited	6 months to 30 Nov 2007 Unaudited	14 months to 31 Jul 2008 Audited
Net interest bearing debt position			
Total borrowings	8,134	6,006	6,553
Cash and cash equivalents	(751)	(974)	(681)
Long term interest bearing advances	(102)	(79)	(79)
Bank overdraft	79	17	67
Net interest bearing debt	7,360	4,970	5,860
Less carrying value of derivatives used to manage foreign exchange movements on debt	(561)	212	70
Net interest bearing debt after deducting derivatives used to manage foreign exchange movements on debt	6,799	5,182	5,930
The following table explains the impact of other movements in loans and borrowings on the income statement:			
Total non-cash movement in loans and borrowings	1,137	76	544
Less amount recognised directly in the foreign currency translation reserve	(281)	8	(141)
Less amount offset by derivatives used to manage foreign exchange movements on debt	(782)	(69)	(298)
Net pre-tax impact on profit or loss	74	15	105

The amount recognised directly in the foreign currency translation reserve relates to translation of subsidiary debt and debt that has been designated as net investment hedges. The amount offset by the derivatives used to manage foreign exchange movements on debt relates to both realised and unrealised derivative contracts held throughout the period. The unrealised portion only remains on balance sheet as at reporting date. Any realised portion will be offset as a repayment of borrowings during the period.

9. SUBSEQUENT EVENTS

On 10 March 2009 Fonterra issued \$800 million of 6 year unsecured fixed rate bonds. There were no other events subsequent to 31 January 2009 that would materially impact these financial statements.



Dairy for life

Fonterra

Private Bag 92032

Auckland 1142

NEW ZEALAND

64 9 374 9000 (phone)

64 9 379 8284 (fax)