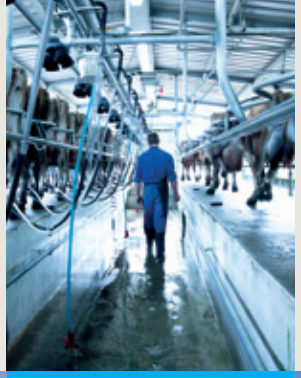
FONTERRA INTERIM REPORT 2012

Dairy for life

FONTERRA CO-OPERATIVE GROUP LIMITED



THE NATURAL SOURCE OF DAIRY NUTRITION FOR...


EVERYBODY,
EVERYWHERE,
EVERY DAY.

HALF YEAR HIGHLIGHTS

REVENUE

$10b ▲7%

GEARING[1]
PERCENTAGE

46.9%

NET PROFIT AFTER TAX

$346m ▲18%

INTERIM DIVIDEND
PER SHARE

12c ▲50%

NORMALISED EARNINGS BEFORE INTEREST AND TAX[2]

$552m ▲8%

EARNINGS PER SHARE

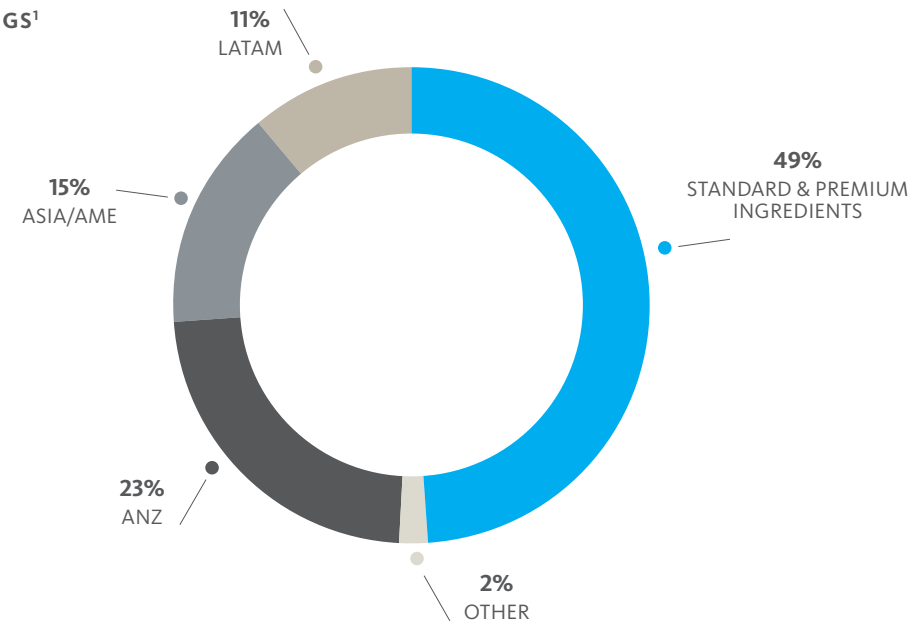
24c ▲14%

CONTENTS

1. Gearing is measured as economic net interest bearing debt over economic net interest bearing debt plus equity (reflecting the effect of debt hedging in place at reporting date). Equity excludes the cash flow hedge reserve.
2. Normalised earnings before interest and tax, adjusted for non-recurring items.

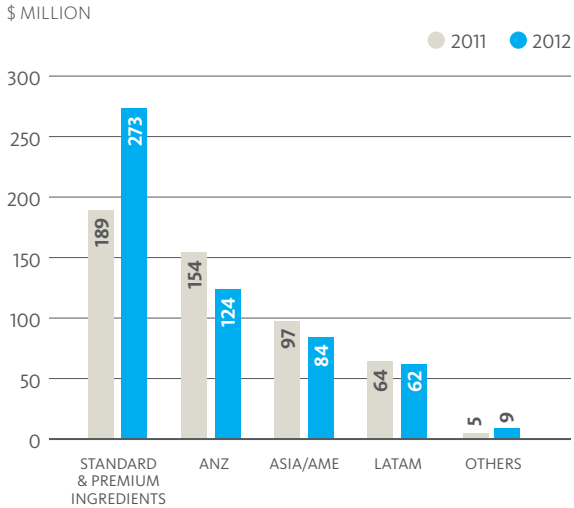
SHARE OF EARNINGS[1]

31 JANUARY 2012



SEGMENT EARNINGS[1]

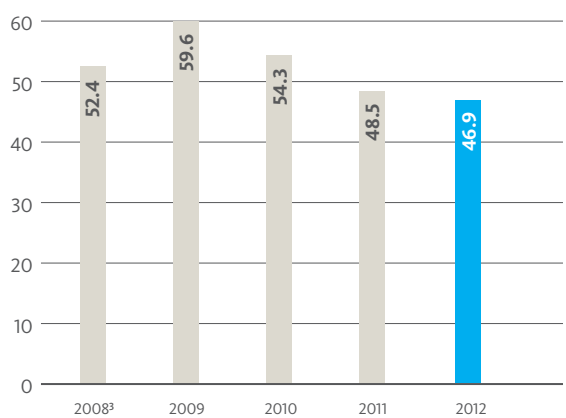
$ MILLION



1. Normalised segment earnings before interest and tax, adjusted for non-recurring items.

GEARING AT 31 JANUARY[2]

PERCENTAGE



2. Gearing is measured as economic net interest bearing debt over economic net interest bearing debt plus equity (reflecting the effect of debt hedging in place at reporting date). Equity excludes the cash flow hedge reserve.
3. As at 30 November 2007.

STRONG PERFORMANCE BOOSTED BY HIGHER VOLUMES.

Fonterra delivered a strong performance in the first half of the year, collecting, processing and shipping record volumes at a time when global markets were in turmoil.

Highlights compared to the same period last year include:

- Total sales volume growth of 5 per cent[1]
- Revenue up 7 per cent
- Net profit after tax up 18 per cent
- Normalised earnings before interest and tax up 8 per cent
- Earnings per share up 14 per cent
- An interim dividend of 12 cents per share, up from 8 cents per share in the same period in 2011.

Good spring and early summer growing conditions across most of the country (with the notable exception of the lower South Island) led to strong growth in New Zealand dairy production and record volumes. Fonterra's milk collections for the season to date were up 10 per cent on the same period in 2011. These record milk collections flowed into record production, with new export volume records achieved in December 2011.

International dairy prices softened after the highs of last year but remained relatively stable throughout the first half of the year. These prices were supported by strong demand for quality dairy ingredients in emerging markets across a number of Asian markets, as well as in Brazil and China, offsetting economic uncertainty in Europe.

The Standard & Premium Ingredients business had a strong first half. We are now seeing the benefits of our focus on managing volatility and improving earnings. We are achieving this by establishing more favourable contractual agreements, gaining closer pricing alignment between our sales book and the spot market, and targeting sales of products that deliver greater value.

FROM LEFT Sir Henry van der Heyden & Theo Spierings

1. Excludes the sales volumes of Western Australia dairy business, which was sold in March 2011.

The sheer volume of milk collected during the peak period stretched our processing capacities and it was great to see our manufacturing and supply chain teams adapt well to this situation.

While extreme weather caused some disruption, the greatest logistics challenge was the Maui gas pipeline outage which halted production for several days at key North Island sites. This unfortunate episode happened at the worst possible time during October's seasonal peak. Although our crisis systems worked well, we had to shut down some of our plants in the upper North Island, and some farmers were forced to spill milk.

GlobalDairyTrade™ (GDT) strengthened its position as the international platform for sales of standard dairy ingredients. During the first half, DairyAmerica joined Fonterra as a seller on GDT, with Arla Foods and Murray Goulburn set to start selling from April 2012. This means GDT will be selling product from all major dairy exporting regions: Europe, America, Australia and New Zealand. GDT sales revenue in the first half was up 1.5 per cent on the prior period.

Performance by the consumer businesses was mixed.

Asia/Africa/Middle East (Asia/AME) remained the strongest performing region, with consumer demand holding up, sales volume growth, and margins maintained. In Asia/AME and Latam, local currency sales increased by 13 per cent and 3 per cent respectively over the prior period, although much of this revenue benefit was eroded by an appreciating New Zealand dollar. The launch in 2010 of our Anlene™ bone health brand to China is exceeding initial targets, with Anlene™ already the market leader in Shanghai and Guangzhou.

Tough trading conditions continued in the Australia-New Zealand consumer business, marked by intense competition in both markets and retailer price wars in Australia. Our goal remains to command the number one position across all key products with selective price promotions and brand investment to drive market share. Consequently, although earnings were down on the same period last year, we outperformed other comparable consumer businesses in the region and maintained strong positions in key product categories.

STRATEGY REFRESH

We now look forward to building enduring value for our Shareholders through a strategy refresh that sets the course for Fonterra's next decade.

Our vision is to be the natural source of dairy nutrition for everybody, everywhere, every day. The vision is underpinned by three clear objectives:

- Grow volumes and value, while improving working capital
- Drive an improved return on capital
- Improve Shareholder value.

The strategy builds on our considerable strengths: access to efficiently produced, high-quality milk; an integrated business model; strong global reach; established customer relationships; strong consumer brand positions in selected markets; and great people.

Looking forward, we have sharpened our focus and made choices around the geographies and product portfolios that will deliver the best growth opportunities, particularly those in the emerging markets of China, Asia and Latin America where we can leverage our strengths from milk sourcing through to branded sales. We will focus on what customers and consumers are looking for in these markets, ensuring our product portfolio delivers on the growing needs for base nutrition (powders, liquids, cheese), specialised nutrition (focused on the very young and the ageing), and out-of-home nutrition (for take-out and eating out).

Our strategy refresh focuses on seven key areas:

1. *Optimise our New Zealand milk business* by improving our asset base, managing risk, maximising sales value, and driving speed and agility along our supply chain.
2. *Build and grow beyond our current consumer positions* in ANZ and AME by leveraging our leadership positions and investing in new growth markets.
3. *Deliver on foodservice potential* by concentrating on the key emerging markets of China, Asia and Latin America.
4. *Grow our position in mobility* by strengthening the leadership position of Anlene™ across Asian markets through portfolio expansion, and driving growth in China.
5. *Develop selected leading positions in paediatric and maternal nutrition* by accelerating the growth of our Anmum™ brand across Asia and a focus on ingredients for paediatric nutrition companies in China.
6. *Selectively invest in milk pools* to maintain our global relevance and protect our New Zealand milk business. This will mean maintaining high standards of productivity, sustainability and quality, exploring partnerships for further investment in China farms and establishing pilot farms in other markets to test options for integrating milk supply into our local business.
7. *Align our business and organisation* to ensure that we are highly efficient with the right cost base and aligned to reflect our focus and priorities.

CARING FOR OUR COMMUNITIES

Late last year Fonterra announced the pilot of a Milk for Schools programme. We want young New Zealanders to grow up drinking milk because it is good for them. The pilot to test the model and systems began in Northland during the first term of the 2012 school year, and results will be monitored over the first three terms.

We also want to ensure the Co-operative does all that it can to protect New Zealand's waterways for future generations. That is why Fonterra is taking further steps to protect water quality in dairying regions by including a new clause in its terms and conditions of supply that will mean the Co-operative's 10,500 suppliers will be required to ensure that stock are permanently excluded from all Clean Streams Accord waterways on their farms. Farmers have 18 months from the beginning of next season to become compliant with Fonterra's new condition of supply.

Fonterra is committed to doing its bit to look after our environment. Ensuring stock stay out of lakes, rivers and streams is fundamental to maintaining water quality and this clause sets a clear Fonterra standard for all of our farmers.

Our health and safety focus has been on managing our critical risks, such as serious injury or death. This work has been supported by an ongoing focus on reducing all injuries. Our Total Recordable Injury Frequency Rate (TRIFR) has continued to fall from 14.3 per million hours worked for the 12 months to 31 July 2011 to 14.0 for the 12 months to 31 January 2012.

BOARD AND MANAGEMENT

At the November 2011 Annual Meeting, Sir Henry van der Heyden announced that he intends to stand down as Chairman at the next Annual Meeting in 2012.

Sir Henry stood for another term as Chairman to ensure stability through the transition to a new Chief Executive. By November 2012, Theo Spierings will have been in the Chief Executive role for more than a year, making it an appropriate time for Sir Henry to step down after 10 years as Chairman. A process to identify Fonterra's next Chairman is currently being run by the Board.

In November, we announced that Sir Ralph Norris will become an appointed Director in May 2012. Sir Ralph is an outstanding New Zealander with a superb international track record at the highest levels of business. He will succeed John Ballard, who initially intended to retire at the November 2011 Annual Meeting but has agreed to stay on until Sir Ralph has honoured his prior commitments and joins the Board.

New Director David MacLeod was voted onto the Board in the Fonterra Elections in November 2011.

David, aged 43, lives near Hawera in South Taranaki and is a Director of PKW Farms Ltd, one of Fonterra's largest Shareholders. He is the current Chairman of the Taranaki Regional Council and a National Council member of Local Government New Zealand.

OUTLOOK

Looking ahead to the second half, the detailed implementation work being undertaken as Trading Among Farmers (TAF) progresses towards the target launch date in November 2012 will gain real momentum. TAF is critical to our strategy because it will deliver the permanent capital we need to capture future growth opportunities.

We will also continue engaging with the Government on proposed changes to Raw Milk Regulations. We welcome the move that will see independent processors with their own supply lose eligibility to regulated milk. We have proposed some practical changes to the Regulations that will support the Government's efforts to promote effective competition at the farmgate, and ensure that sufficient regulated milk is available for start-ups that genuinely need it, as well as for domestic players.

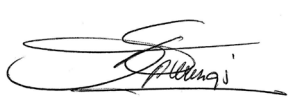
While the trends indicate stronger global production continuing into 2012, international milk powder demand appears robust which should help offset the impact of this milk supply growth. Nevertheless, dairy commodity prices are likely to remain under some pressure through to mid-2012. We recently announced a forecast Fonterra Farmgate Milk Price of $6.35 per kilogram of milk solids (kgMS), down from $6.50, and held our net profit after tax guidance of 40 to 50 cents per share.

The strong half year result speaks to the commitment and expertise of our people who have delivered despite tough trading conditions, record milk flows and significant operating challenges.

In February 2012 the Board approved a change to the Co-operative's dividend policy so that a greater proportion of dividends can be paid out at the half year. The decision moves the Co-operative into line with other major companies and also takes account of Fonterra's strong balance sheet.

An interim dividend of 12 cents will be paid on 20 April 2012.

Sir Henry van der Heyden
CHAIRMAN



Theo Spierings
CHIEF EXECUTIVE

OUR BUSINESS

Fonterra is the world's largest diversified milk processing company and one of the world's top producers of dairy nutrition for export, including milk powders, cheese and butter. We have substantial interests in consumer branded businesses across Asia, Latin America, Australia and our home market of New Zealand.

Fonterra has built strong partnerships with other leading global dairy companies through supply-chain integration and innovation. Our products are sold globally in more than 100 countries with sales and marketing being managed through our principal hubs of Auckland, Tokyo, Santiago, Singapore, Shanghai, Melbourne, Dubai, Mexico City, Chicago and Amsterdam.

All our operations are aligned with either the processing of dairy nutrition or sales of branded products to consumers.

OUR GROUP PERFORMANCE

Despite the challenges in the global economy, Fonterra delivered a strong first half performance versus the comparable period of 2011:

- Net profit after tax increased by 18.1 per cent to $346 million
- Normalised earnings before interest and tax increased by 8.4 per cent to $552 million (after adjusting for non-recurring items)
- Gearing ratio (based on economic net interest bearing debt to economic net interest bearing debt plus equity) improved by 1.6 percentage points to 46.9 per cent.

Key drivers behind the better performance were higher price achievement of the sales book in Standard & Premium Ingredients and the growth in total sales volume of 5 per cent[1], reflecting growing global demand for both our dairy ingredients and branded consumer products. This improvement was offset in part by a fall in the profitability of our Australia and New Zealand operations which continued to be impacted by challenging trading conditions. The stronger New Zealand dollar also had a negative influence on the earnings of some of our Asian and Latin America consumer operations.

Total Group operating expenses increased by 8.2 per cent primarily as a result of higher sales and marketing costs, and increased administrative and other operating expenses. The higher sales and marketing expense was mainly due to greater spend in our consumer businesses in Asia as a result of new product support and market expansion, which helped underpin strong sales and volume growth in our ASEAN/China growth markets.

Administrative and other operating expenses increased due to the full consolidation of RD1 as well as a number of key projects across the business.

The net finance cost of $153 million was $39 million lower than for the comparative period. Financing costs reduced due to favourable changes in the fair value of debt hedges, combined with an improvement in Fonterra's cost of borrowing.

As a result of the above factors, net profit after tax was up 18.1 per cent to $346 million. Earnings per share for the first half increased to 24 cents per share, which was 3 cents per share higher than for the same period last year.

The net operating cash outflow, which reflects the seasonal lag between peak production and sales, was higher than for the previous comparative period. The higher cash outflow of $442 million was influenced by a larger increase in working capital (mainly as a consequence of the record milk production during the first half) and a higher final milk payment for last season.

The Board declared an interim dividend of 12 cents per share, which is 4 cents per share higher than for the previous comparable period. The interim dividend is payable on 20 April 2012 to the Shareholders on the share register at 31 March 2012. This higher interim dividend follows the Board's decision to change Fonterra's dividend policy so that 40 to 50 per cent of dividends are paid at the half year.

1. Excludes the sales volumes of the Western Australia dairy business, which was sold in March 2011.

OUR OPERATIONS

The remainder of this section discusses the performance of the Group's key business units.

Fonterra's largest operation is Standard & Premium Ingredients, which collects, processes, sells and distributes a range of ingredients made from milk. It is a leading supply partner to many of the world's largest food companies and has significant expertise in research and development enabling the delivery of innovative dairy solutions to our global customers.

Fonterra has three business units that focus primarily on consumer products – Australia and New Zealand (ANZ), Asia/Africa and the Middle East (Asia/AME), and Latin America (Latam). These operations primarily distribute, market and sell ready-to-use branded dairy products throughout these regions.

When analysing the performance of Fonterra's operations it is important to understand that these businesses are interdependent and, therefore, are managed with the objective of maximising performance for the Group.

STANDARD & PREMIUM INGREDIENTS

The Standard & Premium Ingredients business segment produces a range of dairy nutrition products that are tailored to the needs of our customers including many of the global food manufacturers.

The majority of milk sourced by Standard & Premium Ingredients comes from New Zealand dairy farmers who receive the Farmgate Milk Price for their milk supply. The Farmgate Milk Price is calculated according to the Farmgate Milk Price Manual. It is derived from the aggregate amount remaining after deducting reasonable costs (including a capital charge on fixed assets) from the revenue Fonterra would have earned if all the milk collected was converted into five reference commodity products.

The reference products are Whole Milk Powder (WMP), Skim Milk Powder (SMP) and their by-products, which are Butter Milk Powder (BMP), Butter, and Anhydrous Milk Fat (AMF). The calculation primarily uses product prices from GlobalDairyTrade™, the multi-user auction platform for internationally traded dairy commodity products.

Standard & Premium Ingredients manufactures the entire range of reference commodity products included in the Farmgate Milk Price as well as a wider variety of protein, cheese and cream-based products. The wider range gives Standard & Premium Ingredients increased flexibility to optimise their sales book and production schedule to manufacture a mix of products with the aim of achieving earnings above those achieved by the five reference products alone.

	SIX MONTHS TO 31 JAN 2012 UNAUDITED $M	SIX MONTHS TO 31 JAN 2011 UNAUDITED[3] $M	CHANGE %
Volume (thousand metric tonnes)[1]	**1,234**	**1,151**	**7.2**
NZ sourced	6,184	5,433	13.8
Other	913	925	(1.3)
Inter-segment revenue	868	873	(0.6)
Revenue	**7,965**	**7,231**	**10.2**
Cost of New Zealand Milk	(6,394)	(6,561)	2.5
Other costs of goods sold	(888)	(122)	(627.9)
Cost of goods sold	**(7,282)**	**(6,683)**	**(9.0)**
GROSS PROFIT	**683**	**548**	**24.6**
NORMALISED EBIT[2]	**273**	**189**	**44.4**
NORMALISED EBITDA[2]	**463**	**378**	**22.5**

1. External sales volumes.
2. Represents normalised segment earnings adjusted for non-recurring items. Normalised EBITDA represents earnings before interest, tax, depreciation and amortisation, adjusted for non-recurring items.
3. 2011 has been restated to reflect changes to the organisation of the business units as explained in note 3 to the Interim Financial Statements.

Standard & Premium Ingredients' revenue of $8 billion was up 10.2 per cent when compared to the first half of last year. The higher revenue benefited from a combination of stronger sales volume, up 7.2 per cent to 1.2 million metric tonnes, and a 10.0 per cent increase in average United States dollar prices achieved across all dairy categories. The benefit of higher volumes and prices was offset in part by adverse foreign exchange movements due to the strengthening of the New Zealand dollar against the United States dollar.

The higher average sales prices helped improve the gross margin and made a significant contribution to the growth in earnings. A combination of factors supported this, but the two key drivers were:

- Emerging market restocking of low levels of dairy ingredients. After two seasons of low peaks in dairy volumes, global stocks of dairy ingredients were low at the start of the first half. Despite the significant increase in Standard & Premium Ingredients' production, the restocking of these depleted global stock levels provided good pricing support during the first half.
- Higher price achievement due to continued strong demand for customer-specific products. This enabled Standard & Premium Ingredients to secure higher margins across a broad mix of sales.

At a normalised EBIT level, Standard & Premium Ingredients delivered a strong performance, up 44.4 per cent to $273 million, when compared to that for the previous period.

The profitability was underpinned by ongoing initiatives to improve earnings and reduce volatility. To date, these have included:

- Swapping of long-term customer contracts to those with shorter tenure indexed to GlobalDairyTrade™. Moving forward, this will progressively shift Fonterra's sales book closer to the spot market thereby reducing earnings volatility.
- Effective optimisation of our sales book to match the most profitable streams, which had a positive influence on profitability during the first half.
- Focused expansion of the Foodservice business, which is aimed at the rapidly growing 'out-of-home eating' market. This business had a strong result with increased sales volumes helping support earnings growth. Standard & Premium Ingredients also exited unprofitable contracts with some Quick Service Restaurants and developed closer relationships with existing customers.
- Leveraging the strong demand for infant nutritional products globally. This resulted in strong volume growth in semi and fully-finished products, and specialised ingredients that are supplied to the infant formula manufacturers.
- Productivity improvement and cost savings through removing inefficiency at key points of the global supply chain and manufacturing processes. These productivity gains have helped offset the cost of inflation on a per-unit basis.

Partially offsetting the positive impacts on profitability was higher cost of goods sold. The increase was primarily due to the higher cost of inventory purchased at last year's higher milk price, which was sold in the first half of this financial year.

The business was also negatively impacted by several extreme weather disruptions and a significant gas outage, which shut down a number of plants in the North Island in the middle of the seasonal peak milk production period. The cost of these force majeure events was included in the Farmgate Milk Price in accordance with the Farmgate Milk Price Manual.

In July 2011, Fonterra acquired the controlling interest in RD1 which is now fully consolidated into Standard & Premium Ingredients' financial results. The consolidation of RD1 was the most significant driver behind the increase in Standard & Premium Ingredients' operating costs. The other key driver of the increase was higher storage and distribution costs due to the expenses associated with the record milk collection in New Zealand during the first half.

AUSTRALIA/NEW ZEALAND

Australia and New Zealand (ANZ) represents the consumer operations in New Zealand and the consumer and manufacturing businesses in Australia. ANZ has one of the largest dairy consumer brands businesses in Australia and New Zealand with market-leading positions in target product categories.

The Australia and New Zealand retail environment remains competitive and challenging for most fast-moving consumer goods (FMCG) companies. In addition, the dairy sector in Australia has been hit particularly hard with an ongoing supermarket battle for market share, squeezing margins for its major suppliers. In New Zealand, trading conditions remain soft with the domestic dairy market flat to declining and competition continuing to intensify.

Against this backdrop, the ANZ business delivered a lower normalised EBIT of $124 million, which compares favourably to the performance of other comparable consumer businesses in the region.

When analysing the performance of ANZ, it is important to note that the comparatives include Fonterra's Western Australia dairy business which was sold in March 2011. This business contributed $7 million to ANZ's normalised EBIT, $123 million to sales revenue and 70,000 metric tonnes to sales volume for the six months ended 31 January 2011. Excluding the Western Australia dairy business from the comparative period, sales volumes were 3.8 per cent higher, revenue increased by 1.9 per cent and normalised EBIT was down by 15.9 per cent.

ANZ's initiatives to either improve or exit under performing product categories over the past few years underpinned profitability in the first half. In addition, a strong focus on promotional pricing and brand investment successfully strengthened our market share.

ANZ benefited from a number of successful product launches as a result of ongoing product innovation. These included the launch of a new flavoured milk brand, Mammoth, into the New South Wales market, the introduction of new probiotic and diet yoghurt brands, which appeal to a health-conscious audience, and the launch of Mammoth dips.

	SIX MONTHS TO 31 JAN 2012 UNAUDITED $M	SIX MONTHS TO 31 JAN 2011 UNAUDITED[5] $M	CHANGE %
Volume (thousand metric tonnes)[1]	**413**	**468**	**(11.8)**
Revenue[2]	1,996	2,081	(4.1)
Normalised EBIT[3]	124	154	(19.5)
Normalised EBITDA[3]	162	195	(16.9)
Sales & marketing as percentage of revenue[4]	4%	5%	

1. External sales volumes.
2. Includes inter-segment revenue of $399 million (2011: $373 million).
3. Represents normalised segment earnings adjusted for non-recurring items. Normalised EBITDA represents earnings before interest, tax, depreciation and amortisation, adjusted for non-recurring items.
4. Calculated as percentage of total external segment revenue.
5. 2011 has been restated to reflect changes to the organisation of the business units as explained in note 3 to the Interim Financial Statements.

ANZ's dairy ingredients business in Australia collects about 20 per cent of the milk produced annually in Australia for manufacturing into consumer branded products and dairy ingredients for the export market. This business experienced a decline in profitability due mainly to higher input costs. Further to this, competition for milk supply within Australia has intensified and ANZ continues to implement initiatives to strengthen relationships with Australian farmers and increase milk collections.

Although the tough trading environment is expected to persist for the remainder of the financial year, the consumer brands businesses continue to compete vigorously and generate strong earnings and free cash flow. The market forces have necessitated a thorough review of this business with an increased focus on growing market share and driving increased consumption to deliver new customers for our products. ANZ continues to focus on cash and working capital improvements, with initiatives in place to strengthen all key measures in these areas.

ASIA/AFRICA, MIDDLE EAST

Asia/Africa, Middle East (Asia/AME) comprises the branded consumer operations in Asia, Africa, China and the Middle East. Over the past five years the Asia/AME business has focused on profitable high-growth dairy categories that meet consumer needs.

With a home market of more than two billion people, the Asia/AME consumer business has significant growth potential and the investment to increase market shares in new high-growth geographies and product categories will continue. The business has a strong focus on the medium to long term, with a view to building enduring value for Shareholders.

During the first half, Asia/AME achieved strong growth in both revenue, up 6.8 per cent, and sales volume, which was 3.9 per cent more than that for the previous comparative period.

At a normalised EBIT level, Asia/AME achieved earnings of $84 million, which was 13.4 per cent lower than that for the previous period. The result was negatively affected by the depreciating Asian basket of currencies against the New Zealand dollar. On a constant currency basis, Asia/AME's profitability would have fallen by only 5.4 per cent[1] when compared to the first half of last year, driven primarily by higher input costs.

The first half result includes significantly higher levels of investment in advertising and promotional spend, driven by greater brand penetration targets, new product launches and the continued expansion in China. Earnings were also negatively impacted by disruptions to Asia/AME's supply chain due to the floods in Thailand.

Asia/AME has taken several steps over the past few years towards achieving its significant growth potential and we are already seeing tangible results of that strategy:

- The Anlene™ brand continues to strengthen its market-leading position across the region. Anlene Total™, our Bone and Joint health product, which now includes glucosamine for joint cartilage, was successfully launched in Indonesia in May last year and it continues to show strong growth in the first half.
- Anmum™ continues to perform strongly in its target markets. The elimination of all added sugar from our flagship premium nutritional powder Anmum Essential™ and the reduction of sugar in other 'Growing Up Milk' categories have proved to be very successful innovations, resulting in increased market share in the first half.
- Acceleration of our investment in new growth markets, such as China and Vietnam, continues to deliver strong top-line and volume growth. Anlene™ maintained its momentum with a market leadership position in both Shanghai and Guangzhou and a new launch into Jiangsu province in China during the first half of this year. Anmum Materna™ maintained its momentum in Guangzhou, achieving our highest market share there since its launch in July 2009.
- Through our ongoing efforts to unlock potential within the Foodservices business, our team is continuously exploring ways to rapidly and sustainably expand our business across Asia. Foodservices continued its strong growth in the region and by working more in partnership with our customers, there is potential to take the business even further.

	SIX MONTHS TO 31 JAN 2012 UNAUDITED $M	SIX MONTHS TO 31 JAN 2011 UNAUDITED[4] $M	CHANGE %
Volume (thousand metric tonnes)[1]	**132**	**127**	**3.9**
Revenue	947	887	6.8
Normalised EBIT[2]	84	97	(13.4)
Normalised EBITDA[2]	88	101	(12.9)
Sales & marketing as percentage of revenue[3]	16%	14%	

1. External sales volumes.
2. Represents normalised segment earnings adjusted for non-recurring items. Normalised EBITDA represents earnings before interest, tax, depreciation and amortisation, adjusted for non-recurring items.
3. Calculated as percentage of total external segment revenue.
4. 2011 has been restated to reflect changes to the organisation of the business units as explained in note 3 to the Interim Financial Statements.

1. Constant currency movement calculated by applying prior period foreign exchange rates to current period results.

LATIN AMERICA

Latin America (Latam) comprises the Soprole business in Chile and our investment in the Dairy Partners Americas (DPA) joint venture with Nestlé. DPA operates consumer and processing facilities in a number of countries including Brazil, Ecuador, Venezuela and Argentina. DPA is not consolidated into Fonterra's result and the Group's share of DPA's earnings is treated as profits from equity accounted investees.

Latam's performance has been resilient in a tough environment with normalised earnings of $62 million, down marginally on the previous period. On a constant currency basis the performance was strong, with earnings up 5.9 per cent[1] on the previous period.

	SIX MONTHS TO 31 JAN 2012 UNAUDITED $M	SIX MONTHS TO 31 JAN 2011 UNAUDITED $M	CHANGE %
Volume (thousand metric tonnes)[1,2]	**148**	**157**	**(5.7)**
Revenue[2,3]	385	406	(5.2)
Normalised EBIT[4]	62	64	(3.1)
Normalised EBITDA[4]	73	73	–
Sales & marketing as percentage of revenue[2,5]	11%	11%	

1. External sales volumes.
2. Revenue, volumes and sales & marketing relate to Soprole only as DPA is an equity accounted investee.
3. Includes no inter-segment revenue (2011: $3 million).
4. Represents normalised segment earnings adjusted for non-recurring items. Normalised EBITDA represents earnings before interest, tax, depreciation and amortisation, adjusted for non-recurring items.
5. Calculated as percentage of total external segment revenue.

Soprole, which is the largest operation within Latam, entered the 2012 financial year in a stronger position having rebounded from the devastating Chilean earthquake two years ago. The business had a strong first half in constant currency terms, achieving revenue growth of 2.8 per cent and normalised EBIT growth of 15.3 per cent.

The 5.7 per cent decline in volumes was driven by a strategic decision to switch from liquid milk into other higher-margin categories to improve profitability. The improved performance from Soprole included an increase of almost 12 per cent in the price of milk paid to farmers compared to that for the previous period.

Fonterra's normalised share of profits from DPA was $17 million compared to $19 million last year. DPA's performance was adversely impacted by tough operating conditions in its largest market, Brazil. Trading in Brazil was impacted by higher input costs and intensifying competition in some regions. The reported result includes an $8 million impairment charge relating to DPA's investments in Venezuela.

Subsequent price rises and increased promotional activities are expected to help turn around the performance of DPA in Brazil. DPA is continually enhancing product offerings and brand penetration to realise the significant growth potential of the Brazilian market.

1. Constant currency movement calculated by applying prior period foreign exchange rates to current period results.

DIRECTORS' STATEMENT
FOR THE SIX MONTHS ENDED 31 JANUARY 2012

The Directors of Fonterra Co-operative Group Limited (Fonterra or the Company) are pleased to present to Shareholders the financial statements for Fonterra and its subsidiaries (together the Group) and the Group's interest in its equity accounted investees for the six months ended 31 January 2012.

The Directors are responsible for presenting financial statements for the six months which give a true and fair view of the financial position for the Group and of the financial performance and cash flows for that period.

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

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

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

The Directors hereby approve and authorise for issue the financial statements for the six months ended 31 January 2012 presented on pages 14 to 29. For and on behalf of the Board:

SIR HENRY VAN DER HEYDEN
Chairman
29 March 2012

DAVID JACKSON
Director
29 March 2012

INCOME STATEMENT
FOR THE SIX MONTHS ENDED 31 JANUARY 2012

		GROUP $ MILLION		
		SIX MONTHS TO		YEAR ENDED
	NOTES	**31 JAN 2012 UNAUDITED**	31 JAN 2011 UNAUDITED	31 JUL 2011 AUDITED
Revenue from sale of goods		**10,026**	9,356	19,871
Cost of goods sold	1	**(8,451)**	(7,915)	(16,861)
Gross profit		**1,575**	1,441	3,010
Other operating income		**61**	49	165
Selling and marketing expenses		**(318)**	(287)	(596)
Distribution expenses		**(242)**	(241)	(487)
Administrative expenses		**(374)**	(341)	(700)
Other operating expenses		**(182)**	(162)	(336)
Net foreign exchange losses		**(4)**	(7)	(91)
Operating profit	2	**516**	452	965
Finance income		**18**	16	32
Finance costs		**(171)**	(208)	(438)
Net finance costs		**(153)**	(192)	(406)
Share of profit of equity accounted investees		**14**	40	63
Profit before tax		**377**	300	622
Tax (expense)/credit		**(31)**	(7)	149
Profit for the period		**346**	293	771
Profit for the period is attributable to:				
Shareholders of the Parent		**339**	286	754
Non-controlling interests		**7**	7	17
Profit for the period		**346**	293	771

	GROUP $		
	SIX MONTHS TO		YEAR ENDED
	31 JAN 2012 UNAUDITED	31 JAN 2011 UNAUDITED	31 JUL 2011 AUDITED
Earnings per share			
Basic and diluted earnings per share	**0.24**	0.21	0.55

The accompanying notes form part of these interim financial statements.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 JANUARY 2012

	GROUP $ MILLION		
	SIX MONTHS TO		YEAR ENDED
	31 JAN 2012 UNAUDITED	31 JAN 2011 UNAUDITED	31 JUL 2011 AUDITED
Profit for the period	**346**	293	771
Cash flow hedges:			
– Net fair value (losses)/gains	**(233)**	522	1,384
– Transferred and reported in revenue from sale of goods	**(239)**	(389)	(863)
– Tax credit/(expense) on cash flow hedges	**132**	(37)	(146)
Net investment hedges:			
– Net fair value (losses)/gains on hedging instruments	**(32)**	2	49
– Tax credit/(expense) on net investment hedges	**9**	(1)	(14)
Foreign currency translation gains/(losses) attributable to Shareholders	**29**	(20)	(164)
Foreign currency translation reserve transferred to the income statement	**(2)**	–	(15)
Foreign currency translation losses attributable to non-controlling interests	**–**	–	(4)
Share of equity accounted investees' movement in reserves	**–**	8	7
Other comprehensive (expense)/income recognised directly in equity	**(336)**	85	234
Total comprehensive income for the period	**10**	378	1,005
Attributable to:			
Shareholders of the Parent	**3**	371	992
Non-controlling interests	**7**	7	13
Total comprehensive income for the period	**10**	378	1,005

The accompanying notes form part of these interim financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 JANUARY 2012

		GROUP $ MILLION		
		AS AT		
	NOTES	**31 JAN 2012 UNAUDITED**	31 JAN 2011 UNAUDITED	31 JUL 2011 AUDITED
ASSETS				
Current assets				
Cash and cash equivalents		**684**	831	785
Trade and other receivables		**2,693**	2,358	2,279
Inventories		**5,204**	5,207	3,277
Tax receivable		**34**	37	29
Derivative financial instruments		**477**	665	1,100
Assets held for sale		**–**	213	–
Other current assets		**68**	84	90
Total current assets		**9,160**	9,395	7,560
Non-current assets				
Property, plant and equipment		**4,368**	4,294	4,326
Equity accounted investments		**446**	467	429
Intangible assets		**2,810**	2,678	2,748
Deferred tax assets		**87**	112	116
Derivative financial instruments		**237**	154	154
Other non-current assets		**210**	196	197
Total non-current assets		**8,158**	7,901	7,970
Total assets		**17,318**	17,296	15,530
LIABILITIES				
Current liabilities				
Bank overdraft		**27**	29	23
Borrowings	9	**1,485**	1,153	444
Trade and other payables		**1,419**	1,264	1,350
Owing to suppliers		**2,641**	2,966	1,679
Tax payable		**14**	26	19
Derivative financial instruments		**50**	120	58
Provisions		**61**	79	67
Liabilities associated with assets held for sale		**–**	34	–
Other current liabilities		**35**	13	6
Total current liabilities		**5,732**	5,684	3,646
Non-current liabilities				
Borrowings	9	**4,317**	4,701	4,206
Derivative financial instruments		**676**	591	718
Provisions		**72**	108	106
Deferred tax liability		**146**	299	295
Other non-current liabilities		**20**	22	18
Total non-current liabilities		**5,231**	5,721	5,343
Total liabilities		**10,963**	11,405	8,989
Net assets		**6,355**	5,891	6,541
EQUITY				
Co-operative shares		**5,380**	5,127	5,261
Retained earnings		**979**	586	943
Foreign currency translation reserve		**(213)**	(92)	(217)
Cash flow hedge reserve		**176**	237	516
Total equity attributable to Shareholders of the Parent		**6,322**	5,858	6,503
Non-controlling interests		**33**	33	38
Total equity		**6,355**	5,891	6,541

The accompanying notes form part of these interim financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 JANUARY 2012

	ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT						
GROUP $ MILLION	CO-OPERATIVE SHARES	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION RESERVE	CASH FLOW HEDGE RESERVE	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
As at 1 August 2011	**5,261**	**943**	**(217)**	**516**	**6,503**	**38**	**6,541**
Profit for the period	**–**	**339**	**–**	**–**	**339**	**7**	**346**
Other comprehensive income/(expense) for the period	**–**	**–**	**4**	**(340)**	**(336)**	**–**	**(336)**
Total comprehensive income/(expense) for the period	**–**	**339**	**4**	**(340)**	**3**	**7**	**10**
Transactions with Shareholders in their capacity as Shareholders:							
Dividend paid to Shareholders	**–**	**(303)**	**–**	**–**	**(303)**	**–**	**(303)**
Co-operative shares issued	**120**	**–**	**–**	**–**	**120**	**–**	**120**
Co-operative shares surrendered	**(1)**	**–**	**–**	**–**	**(1)**	**–**	**(1)**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(12)**	**(12)**
As at 31 January 2012 (unaudited)	**5,380**	**979**	**(213)**	**176**	**6,322**	**33**	**6,355**
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 2010	5,016	547	(73)	141	5,631	36	5,667
Profit for the year	–	754	–	–	754	17	771
Other comprehensive income/(expense) for the year	–	7	(144)	375	238	(4)	234
Total comprehensive income/(expense) for the year	–	761	(144)	375	992	13	1,005
Transactions with Shareholders in their capacity as Shareholders:							
Dividends paid to Shareholders of the Parent	–	(365)	–	–	(365)	–	(365)
Co-operative shares issued	404	–	–	–	404	–	404
Co-operative shares surrendered	(159)	–	–	–	(159)	–	(159)
Dividend paid to non-controlling interests	–	–	–	–	–	(11)	(11)
As at 31 July 2011 (audited)	5,261	943	(217)	516	6,503	38	6,541

The accompanying notes form part of these interim financial statements.

CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 31 JANUARY 2012

		GROUP $ MILLION		
		SIX MONTHS TO		YEAR ENDED
	NOTES	**31 JAN 2012 UNAUDITED**	31 JAN 2011 UNAUDITED	31 JUL 2011 AUDITED
Cash flows from operating activities				
Cash was provided from:				
– Receipts from customers		**9,765**	9,042	19,490
– Dividends received		**8**	27	63
– Tax received		**1**	2	5
Cash was applied to:				
– Payments to creditors and employees		**(4,139)**	(3,919)	(7,528)
– Payments for milk purchased		**(6,017)**	(5,284)	(10,780)
– Tax paid		**(60)**	(57)	(66)
Net cash flows from operating activities		**(442)**	(189)	1,184
Cash flows from investing activities				
Cash was provided from:				
– Proceeds from sale of Group entities and other business operations		**–**	1	184
– Other cash inflows		**33**	38	29
Cash was applied to:				
– Acquisition of Group entities and other business operations		**(3)**	(3)	(55)
– Other cash outflows		**(324)**	(293)	(646)
Net cash flows from investing activities		**(294)**	(257)	(488)
Cash flows from financing activities				
Cash was provided from:				
– Proceeds from borrowings	9	**1,317**	2,368	3,648
– Proceeds from issue of Co-operative shares		**128**	109	368
– Other cash inflows		**30**	21	78
Cash was applied to:				
– Repayment of borrowings	9	**(313)**	(1,297)	(3,548)
– Surrender of Co-operative shares		**(1)**	(2)	(160)
– Dividends paid to Shareholders of the Parent		**(303)**	(255)	(365)
– Other cash outflows		**(237)**	(220)	(454)
Net cash flows from financing activities		**621**	724	(433)
Net (decrease)/increase in cash and cash equivalents		**(115)**	278	263
Cash and cash equivalents at the beginning of the period		**762**	534	534
Effect of exchange rate changes on cash balances		**10**	(10)	(35)
Cash and cash equivalents at the end of the period		**657**	802	762
Reconciliation of closing cash balances to the statement of financial position:				
Cash and cash equivalents		**684**	831	785
Bank overdraft		**(27)**	(29)	(23)
Closing cash balances		**657**	802	762
Reconciliation of profit for the period to net cash flows from operating activities				
Profit for the period		**346**	293	771
Adjustment for non-cash items				
Depreciation and amortisation		**243**	243	489
Other non-cash items		**(131)**	(55)	(117)
Movements in working capital		**(1,275)**	(995)	(32)
Movements in derivative financial instruments		**615**	(170)	(667)
Items classified as investing and financing activities		**(240)**	495	740
Net cash flows from operating activities		**(442)**	(189)	1,184

There were no material non-cash transactions during the six months ended 31 January 2012, the six months ended 31 January 2011 or the year ended 31 July 2011.

The accompanying notes form part of these interim financial statements.

CONDENSED STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE SIX MONTHS ENDED 31 JANUARY 2012

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 2012, comprise Fonterra and its subsidiaries (together the Group) and the Group's interest in its 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 New Zealand Equivalent to International Accounting Standard 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 2011.

These consolidated interim financial statements are presented in New Zealand dollars ($), which is the Company's functional currency. All financial information has been rounded to the nearest million, except where otherwise stated.

c) Comparative Figures

Where a change in the presentational format of the financial statements has been made during the period, comparative figures have been restated accordingly. Where material, additional disclosure has been provided in the notes to these consolidated interim financial statements.

d) New Accounting Policies and amended International Financial Reporting Standards

The same accounting policies are followed in these consolidated interim financial statements as were applied in the Group's financial statements for the year ended 31 July 2011.

The Group adopted amendments to various NZ International Financial Reporting Standards (NZ IFRSs) and FRS-44: New Zealand Additional Disclosures during the period. These amendments were introduced by the Financial Reporting Standards Board as part of the joint project with the Australian Accounting Standards Board to harmonise each jurisdiction's accounting standards with source IFRSs. These changes have not had a material impact on the Group's consolidated interim financial statements.

1 COST OF GOODS SOLD

	GROUP $ MILLION		
	SIX MONTHS TO		YEAR ENDED
	31 JAN 2012 UNAUDITED	31 JAN 2011 UNAUDITED	31 JUL 2011 AUDITED
Opening inventory	**3,277**	2,870	2,870
Cost of Milk:			
– New Zealand sourced	**6,394**	6,561	10,235
– Non-New Zealand sourced	**640**	682	1,272
Other purchases	**3,344**	3,009	5,761
Closing inventory	**(5,204)**	(5,207)	(3,277)
Total cost of goods sold	**8,451**	7,915	16,861

2 OPERATING PROFIT

		GROUP $ MILLION		
		SIX MONTHS TO		YEAR ENDED
	NOTES	**31 JAN 2012 UNAUDITED**	31 JAN 2011 UNAUDITED	31 JUL 2011 AUDITED
The following items have been included in arriving at operating profit:				
Operating lease expense		**37**	32	64
Restructuring and rationalisation costs		**3**	8	10
Research and development costs		**45**	46	90
Gain on acquisition of business	8	**–**	–	(23)
Net loss/(gain) on disposal of investments[1]		**2**	2	(26)
Donations[2]		**–**	1	6
Research and development grants received from government		**(3)**	(4)	(6)
Total employee benefits expense		**847**	779	1,549
Included in employee benefits expense are contributions to defined contribution plans		**27**	25	51

1. On 21 March 2011, Fonterra completed the sale of its Western Australia dairy business. The transaction resulted in a pre-tax gain on sale of $26 million, which was recognised in other operating income, as part of the ANZ segment result. It also resulted in a tax credit of $26 million due to the derecognition of the net deferred tax liability associated with the assets and liabilities that were disposed of, which was recognised as a reduction to the tax expense for the year.
2. Group donations paid of $6 million for the year ended 31 July 2011 included $2 million received from employees and shareholders by the Fonterra Communities Assistance Trust (an entity controlled by Fonterra Co-operative Group Limited) and paid by the Fonterra Communities Assistance Trust to charities associated with the Christchurch earthquake.

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 Management Team, which is the Group's chief operating decision maker.

Transactions between segments are based on estimated market prices.

REPORTABLE SEGMENTS	DESCRIPTION
Standard and Premium Ingredients	Represents the collection, processing and distribution of New Zealand milk, global sales and marketing of Standard and Premium Ingredients, international farming, sustainability, external relations, RD1 and group functions.
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). It includes foodservice sales in Australia and New Zealand (except for foodservice sales to Quick Service Restaurants).
Asia/AME	Represents FMCG operations in Asia (excluding North Asia), Africa and the Middle East, and foodservice sales in Asia/AME and China.
Latam	Represents FMCG operations in Chile and equity accounted investments in South America.

There have been two changes to the organisation of business units within reported segments during the six months ended 31 January 2012:

- Foodservice sales to Quick Service Restaurants has been moved from ANZ to Standard and Premium Ingredients;
- China foodservice sales has been moved from Standard and Premium Ingredients to Asia/AME.

Comparatives have been restated to reflect these changes.

3 SEGMENT REPORTING CONTINUED

	GROUP $ MILLION					
	STANDARD AND PREMIUM INGREDIENTS	ANZ	ASIA/AME	LATAM	ELIMINATIONS	TOTAL GROUP
Segment income statement						
Six months ended 31 January 2012 (unaudited)						
External revenue	7,097	1,597	947	385	–	10,026
Inter-segment revenue	868	399	–	–	(1,267)	–
Revenue from sale of goods	7,965	1,996	947	385	(1,267)	10,026
Cost of Milk – New Zealand sourced	(6,394)	–	–	–	–	(6,394)
Other cost of goods sold	(888)	(1,566)	(633)	(246)	1,276	(2,057)
Cost of goods sold	(7,282)	(1,566)	(633)	(246)	1,276	(8,451)
Segment gross profit	683	430	314	139	9	1,575
Selling and marketing expenses	(54)	(70)	(150)	(44)	–	(318)
Distribution expenses	(92)	(103)	(20)	(27)	–	(242)
Administrative expenses	(231)	(86)	(40)	(24)	7	(374)
Other operating expenses	(119)	(43)	(17)	(7)	4	(182)
Segment operating expenses	(496)	(302)	(227)	(102)	11	(1,116)
Other operating income	59	2	3	8	(11)	61
Net foreign exchange gains/(losses)	9	(7)	(6)	–	–	(4)
Share of profit of equity accounted investees	5	–	–	9	–	14
Segment earnings before net finance costs and tax	260	123	84	54	9	530
Non-recurring items	13	1	–	8	–	22
Normalised segment earnings before net finance costs and tax	273	124	84	62	9	552
Non-recurring items						(22)
Finance income						18
Finance costs						(171)
Tax expense						(31)
Profit for the year						346
Profit for the year includes the following amounts:						
Depreciation	(157)	(34)	(3)	(11)	–	(205)
Amortisation	(33)	(4)	(1)	–	–	(38)
Royalty income from equity accounted investees	1	–	–	8	–	9
Non-recurring items consist of the following amounts:						
Impairment losses recorded in equity accounted investees	12	–	–	8	–	20
Other	1	1	–	–	–	2
Total non-recurring items	13	1	–	8	–	22
Segment asset information:						
As at and for the six months ended 31 January 2012						
Equity accounted investments	215	–	–	231	–	446
Capital expenditure	224	74	7	23	–	328

3 SEGMENT REPORTING CONTINUED

	GROUP $ MILLION					
	STANDARD AND PREMIUM INGREDIENTS	ANZ	ASIA/AME	LATAM	ELIMINATIONS	TOTAL GROUP
Segment income statement						
Six months ended 31 January 2011 (unaudited)						
External revenue	6,358	1,708	887	403	–	9,356
Inter-segment revenue	873	373	–	3	(1,249)	–
Revenue from sale of goods	7,231	2,081	887	406	(1,249)	9,356
Cost of Milk – New Zealand sourced	(6,561)	–	–	–	–	(6,561)
Other cost of goods sold	(122)	(1,619)	(594)	(273)	1,254	(1,354)
Cost of goods sold	(6,683)	(1,619)	(594)	(273)	1,254	(7,915)
Segment gross profit	548	462	293	133	5	1,441
Selling and marketing expenses	(40)	(79)	(124)	(44)	–	(287)
Distribution expenses	(76)	(123)	(16)	(26)	–	(241)
Administrative expenses	(198)	(87)	(40)	(22)	6	(341)
Other operating expenses	(92)	(50)	(13)	(9)	2	(162)
Segment operating expenses	(406)	(339)	(193)	(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	181	148	97	61	5	492
Non-recurring items	8	6	–	3	–	17
Normalised segment earnings before net finance costs and tax	189	154	97	64	5	509
Non-recurring items						(17)
Finance income						16
Finance costs						(208)
Tax expense						(7)
Profit for the year						293
Profit for the year includes the following amounts:						
Depreciation	(161)	(36)	(3)	(9)	–	(209)
Amortisation	(28)	(5)	(1)	–	–	(34)
Royalty income from equity accounted investees	–	–	–	11	–	11
Non-recurring items consist of the following amounts:						
Impact of Christchurch earthquake	–	3	–	–	–	3
Costs associated with sale of Western Australia dairy business	–	3	–	–	–	3
Other	8	–	–	3	–	11
Total non-recurring items	8	6	–	3	–	17
Segment asset information:						
As at and for the six months ended 31 January 2011						
Equity accounted investments	221	–	–	246	–	467
Capital expenditure	209	57	6	10	–	282

3 SEGMENT REPORTING CONTINUED

	GROUP $ MILLION					
	STANDARD AND PREMIUM INGREDIENTS	ANZ	ASIA/AME	LATAM	ELIMINATIONS	TOTAL GROUP
Segment income statement						
Year ended 31 July 2011 (audited)						
External revenue	13,793	3,459	1,793	826	–	19,871
Inter-segment revenue	1,800	781	–	4	(2,585)	–
Revenue from sale of goods	15,593	4,240	1,793	830	(2,585)	19,871
Cost of Milk – New Zealand sourced	(10,235)	–	–	–	–	(10,235)
Other cost of goods sold	(4,146)	(3,342)	(1,182)	(558)	2,602	(6,626)
Cost of goods sold	(14,381)	(3,342)	(1,182)	(558)	2,602	(16,861)
Segment gross profit	1,212	898	611	272	17	3,010
Selling and marketing expenses	(92)	(151)	(268)	(85)	–	(596)
Distribution expenses	(161)	(238)	(35)	(53)	–	(487)
Administrative expenses	(419)	(159)	(89)	(46)	13	(700)
Other operating expenses	(204)	(98)	(25)	(17)	8	(336)
Segment operating expenses	(876)	(646)	(417)	(201)	21	(2,119)
Other operating income	118	39	2	27	(21)	165
Net foreign exchange losses	(75)	(13)	(3)	–	–	(91)
Share of profit of equity accounted investees	40	–	–	23	–	63
Segment earnings before net finance costs and tax	419	278	193	121	17	1,028
Non-recurring items	1	(22)	–	(2)	–	(23)
Normalised segment earnings before net finance costs and tax	420	256	193	119	17	1,005
Non-recurring items						23
Finance income						32
Finance costs						(438)
Tax expense						149
Profit for the year						771
Profit for the year includes the following amounts:						
Depreciation	(316)	(72)	(6)	(20)	–	(414)
Amortisation	(63)	(8)	(3)	(1)	–	(75)
Royalty income from equity accounted investees	–	–	–	21	–	21
Non-recurring items consist of the following amounts:						
Impact of Christchurch earthquakes and Japan earthquake and tsunami	14	4	–	–	–	18
Gain on disposal of Western Australia dairy business	–	(26)	–	–	–	(26)
Gain on acquisition of RD1	(23)	–	–	–	–	(23)
Impact of 2010 Chilean earthquake	–	–	–	(5)	–	(5)
Other	10	–	–	3	–	13
Total non-recurring items	1	(22)	–	(2)	–	(23)
Segment asset information:						
As at and for the year ended 31 July 2011						
Equity accounted investments	216	–	–	213	–	429
Capital expenditure	470	135	17	22	–	644

3 SEGMENT REPORTING CONTINUED

	GROUP $ MILLION		
	SIX MONTHS TO		YEAR ENDED
	31 JAN 2012 UNAUDITED	31 JAN 2011 UNAUDITED	31 JUL 2011 AUDITED
Entity wide products and services:			
Consumer goods	**2,527**	2,632	5,248
Ingredients and other revenue	**7,499**	6,724	14,623
Revenue from sale of goods	**10,026**	9,356	19,871

	GROUP $ MILLION							
	EUROPE	CHINA	REST OF ASIA	AUSTRALIA	NEW ZEALAND	USA	REST OF WORLD	TOTAL
Geographical segment external revenue:								
Six months ended 31 January 2012	**488**	**872**	**2,911**	**1,193**	**1,021**	**857**	**2,684**	**10,026**
Six months ended 31 January 2011	615	803	2,711	1,314	755	709	2,449	9,356
Year ended 31 July 2011	1,269	1,877	5,735	2,664	1,560	1,566	5,200	19,871

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

	GROUP $ MILLION							
	EUROPE	CHINA	REST OF ASIA	AUSTRALIA	NEW ZEALAND	USA	REST OF WORLD	TOTAL
Geographical segment reportable non-current assets:								
As at 31 January 2012	**138**	**93**	**756**	**1,057**	**4,979**	**115**	**696**	**7,834**
As at 31 January 2011	130	54	752	1,036	4,738	133	792	7,635
As at 31 July 2011	122	63	723	1,011	4,901	124	756	7,700

	GROUP $ MILLION		
	SIX MONTHS TO		YEAR ENDED
	31 JAN 2012 UNAUDITED	31 JAN 2011 UNAUDITED	31 JUL 2011 AUDITED
Reconciliation of geographical segment non-current assets to total non-current assets:			
Geographical segment non-current assets	**7,834**	7,635	7,700
Deferred tax asset	**87**	112	116
Derivative financial instruments	**237**	154	154
Total non-current assets	**8,158**	7,901	7,970

4 CONTINGENT LIABILITIES

The Group has no contingent liabilities as at 31 January 2012 (31 January 2011: nil, 31 July 2011: 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 and appropriately disclosed by the Group and that there are no additional legal proceedings or arbitrations that are pending at the date of these interim financial statements that require provision or disclosure.

5 CO-OPERATIVE SHARES

	CO-OPERATIVE SHARES (THOUSANDS)
Balance at 1 August 2011	**1,406,945**
Issued	**26,577**
Surrendered	**(302)**
Balance at 31 January 2012 (unaudited)	**1,433,220**
Balance at 1 August 2010	1,352,843
Issued	25,047
Surrendered	(488)
Balance at 31 January 2011 (unaudited)	1,377,402
Balance at 1 August 2010	1,352,843
Issued	89,458
Surrendered	(35,356)
Balance at 31 July 2011 (audited)	1,406,945

Co-operative shares

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

In addition, each Shareholder is able to hold further shares up to 20% of the share standard, so that they can hold shares of up to 120% of the number they are required to hold under the share standard.

The rights attaching to 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 Shareholder 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.

Shares are valued on the basis of a Restricted Share Value. The value of Fonterra shares is determined by the Board on an annual basis, for each season, after having regard to a value range determined by an independent valuer.

The Restricted Share Value for the 2011/12 season has been set by the Board at the base price that applies during the transition to the Restricted Market Value of $4.52 per share (2010/11 season: $4.52 per share).

Dividends paid

All shares are eligible to receive a dividend if declared by the Board. On 21 September 2011, the Board declared a final dividend of 22.0 cents per share (totalling $303 million), paid on 20 October 2011 to the Shareholders on the share register at 31 May 2011.

6 PROPERTY, PLANT AND EQUIPMENT

	GROUP $ MILLION		
	SIX MONTHS TO		YEAR ENDED
	31 JAN 2012 UNAUDITED	31 JAN 2011 UNAUDITED	31 JUL 2011 AUDITED
Additions	**249**	233	488
Disposals	**(8)**	(8)	(104)
Capital commitments	**232**	80	227

7 EQUITY ACCOUNTED INVESTMENTS

The ownership interest of the following entities is 50% or less and the Group is considered to exercise significant influence, or joint control. These entities are therefore accounted for as equity accounted investees.

		OWNERSHIP INTERESTS (%)		
		AS AT		
SIGNIFICANT EQUITY ACCOUNTED INVESTEES	COUNTRY OF INCORPORATION	**31 JAN 2012**	31 JAN 2011	31 JUL 2011
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
Lactaid Holdings Limited[1]	Barbados	**50**	50	50
International Nutritionals Limited[2]	New Zealand	**50**	–	50

1. Balance date 31 December.

2. Balance date 31 May. International Nutritionals Limited is 50% owned by RD1 Limited. RD1 Limited became a subsidiary during the year ended 31 July 2011, as set out in Note 8.

8 BUSINESS COMBINATIONS

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

During the year ended 31 July 2011, the Group completed the purchase of the remaining 50% of RD1 Limited. The Group recorded a gain of $23 million relating to this business combination. This gain represented the difference between the carrying value of the Group's equity accounted investment in RD1 at the time of acquisition of the remaining 50%, and the fair value of that pre-existing interest. This gain was recognised in other operating income, in the Standard and Premium Ingredients segment result. This transaction is not considered material and therefore no further disclosure has been made.

9 BORROWINGS

	GROUP $ MILLION		
	SIX MONTHS TO		YEAR ENDED
	31 JAN 2012 UNAUDITED	31 JAN 2011 UNAUDITED	31 JUL 2011 AUDITED
Opening balance	**4,650**	4,924	4,924
New issues			
Bank loans	**987**	1,964	2,298
Finance leases	**2**	–	–
Commercial paper	**328**	404	817
Medium term notes	**–**	–	533
	1,317	2,368	3,648
Repayments			
Bank loans	**(190)**	(916)	(2,396)
Finance leases	**(4)**	(3)	(9)
Commercial paper	**(116)**	(373)	(990)
Medium term notes	**(3)**	(5)	(153)
	(313)	(1,297)	(3,548)
Other movements			
Amortisation of debt	**4**	4	7
Changes in fair value	**56**	(50)	(6)
Changes due to foreign currency translation	**88**	(95)	(375)
	148	(141)	(374)
Closing balance	**5,802**	5,854	4,650
Included within the statement of financial position as follows:			
Current borrowings	**1,485**	1,153	444
Non-current borrowings	**4,317**	4,701	4,206
Total borrowings	**5,802**	5,854	4,650

	GROUP $ MILLION		
	AS AT		
	31 JAN 2012 UNAUDITED	31 JAN 2011 UNAUDITED	31 JUL 2011 AUDITED
Net interest bearing debt position			
Total borrowings	**5,802**	5,854	4,650
Cash and cash equivalents	**(684)**	(831)	(785)
Interest bearing advances included in other non-current assets	**(126)**	(117)	(122)
Bank overdraft	**27**	29	23
Net interest bearing debt	**5,019**	4,935	3,766
Value of derivatives used to manage changes in hedged risks and other foreign exchange movements on debt	**429**	396	565
Economic net interest bearing debt[1]	**5,448**	5,331	4,331

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

9 BORROWINGS CONTINUED

	GROUP		
	AS AT		
	31 JAN 2012 UNAUDITED	31 JAN 2011 UNAUDITED	31 JUL 2011 AUDITED
Net tangible assets per security[1]			
$ per listed debt security on issue	**3.37**	2.94	3.60
$ per Co-operative share on issue	**2.47**	2.25	2.70
Listed debt securities on issue (million)	**1,053**	1,053	1,053
Co-operative shares on issue (million)	**1,433**	1,377	1,407

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 27 March 2012, the Board declared an interim dividend of 12 cents per share, to be paid on 20 April 2012 to the Shareholders on the share register at 31 March 2012.

There were no other material events subsequent to 31 January 2012 that would impact these interim financial statements.

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