Fonterra Co-operative Group Limited
Results for Announcement to the Market

Reporting Period	Six months ended 31 January 2016
Previous Reporting Period	Six months ended 31 January 2015

	31 January 2016 (NZD million)	31 January 2015 (NZD million)	Percentage Change
Revenue from sale of goods	8,838	9,746	(9.3)%
Net profit attributable to Shareholders of the company[1]	404	165	144.8%
Non-controlling interests	5	18	(72.2)%
Net profit for the period	**409**	**183**	**123.5%**

1 Net profit attributable to shareholders of the company is equivalent to profit from ordinary activities after tax attributable to shareholders of the company (as required to be disclosed pursuant to Clause 2.2 of Appendix 1 of the Fonterra Shareholders' Market Listing Rules, and Clause 2.2 of Appendix 1 of the NZX Debt Market Listing Rules).

Interim/Final Dividend	Amount per Security (NZ cents)	Imputed Amount per Security (NZ cents)
Interim	20.0	Nil

Record Date	Interim: 8 April 2016
Dividend Payment Date	Interim: 20 April 2016

Comments	On 22 March 2016, the Board of Directors declared an interim dividend of 20.0 cents per share payable on 20 April 2016 to Shareholders on the share register at 8 April 2016.

To be followed by the balance of the information required in the report pursuant to Appendix 1.

Media release

23 March 2016

FONTERRA ANNOUNCES 2016 INTERIM RESULTS

Click here to review the Interim Results presentation and Interim Report.

Results Highlights

- 2016 financial year forecast
  - Forecast Farmgate Milk Price $3.90 per kgMS
  - Forecast available for payout $4.35 - $4.45 per kgMS[i]
  - Forecast earnings per share range of 45-55 cents
  - Total forecast dividend of 40 cents per share
  - Forecast cash payout $4.30 per kgMS[ii]
- Interim dividend of 20 cents per share – to be paid in April
- Intention to pay the final dividend earlier
- Normalised EBIT $665 million, up 77 per cent
- Net profit after tax (NPAT) $409 million, up 123 per cent
- Ingredients normalised EBIT $617 million, up 27 per cent
- Consumer and foodservice normalised EBIT $241 million, up 108 per cent
- Moved an additional 235 million litres of milk higher up the value chain into consumer and foodservice products

Forecast Cash Payout

Fonterra Co-operative Group Limited today announced a good performance in the first half of the current financial year, with normalised earnings before interest and tax (EBIT) of $665 million up 77 per cent on the comparable period, and net profit after tax of $409 million up 123 per cent.

Chairman John Wilson said that the supply and demand imbalance in the globally traded dairy market has brought prices down to unsustainable levels for farmers around the world, and particularly in New Zealand. The strong New Zealand dollar has also had a negative impact on the Milk Price.

“The low prices have placed a great deal of pressure on incomes, farm budgets, and our farming families.

“Our priority is to generate more value out of every drop of our farmers’ milk by focusing on the areas within our control. We aim to efficiently convert as much milk as possible into the highest-returning products.

“Our management is aware of the need for strong performance to ensure that we get every possible cent back into farmers’ hands during a very tough year.

“We have lifted profitability from last season to this season, resulting in higher earnings per share to help offset low global dairy prices. As a result, we have delivered an interim dividend of 20 cents per share, up from an interim dividend for last year of 10 cents per share.

"Our forecast Farmgate Milk Price of $3.90 per kgMS reflects low global dairy prices, with Whole Milk Powder decreasing around 17 per cent[iii] this season to date. Forecast total available for payout of $4.35-$4.45 per kgMS currently equates to a forecast cash payout of $4.30 per kgMS after retentions for a fully shared up farmer.

"Our forecast total dividend for the current financial year is 40 cents per share. The Board has today declared a 20 cent dividend which will be paid in April. We intend declaring the remaining 20 cents per share in two dividends of 10 cents in May and 10 cents in August to help support farmers at a time when cash flows are extremely tight," said Mr Wilson.

These two dividends in May and August are subject to the Board's approval at the time and Fonterra's financial performance continuing to support its forecast earnings per share of not less than the current 45 to 55 cents forecast range per share.

The timing of these payments is a specific response to the current, very challenging, financial conditions farmers are facing and does not signal any intention to move away from Fonterra's normal practice of twice-yearly dividends paid in April and October.

Business Performance

Chief Executive Theo Spierings said the Co-operative's strong performance reflected a sustained effort in three main areas.

"We focused on the efficiency of our ingredients business and capturing demand for ingredients in a wide range of markets.

"We aimed to make the most of global consumption growth by building demand for higher-value products in our consumer and foodservice markets.

"Our working capital has improved significantly, and our inventory levels are lower than in recent periods for this time of year – down 9 per cent in volume terms due to strong sales."

Free cash flow for the six months to 31 January 2016 was $2.1 billion higher than the first half last year, with gearing[iv] at 49 per cent, down from 51 per cent in the previous year.

"Finally, we maintained strict financial discipline to keep lifting our return on capital and our strong cash flow has enabled us to strengthen the Co-operative and reduce gearing," said Mr Spierings.

"Ingredients achieved normalised EBIT of $617 million, up 27 per cent compared to the first half last year. This resulted from improved product mix returns, and the increased production and cost efficiencies coming from our investments in plant capacity in New Zealand.

"In consumer and foodservice we have delivered very good growth, with normalised EBIT increasing 108 per cent to $241 million. We remain focused on growing demand, especially in the eight markets where we currently hold or want to gain leadership or a very strong position: New Zealand, Australia, Sri Lanka, Malaysia, Chile, China, Indonesia and Brazil. These are well established markets for Fonterra, so we are working off a strong base.

"The additional 235 million litres of milk we converted into higher-returning consumer and foodservice products in this six month period built on the additional 600 million litres last year.

"Our farms in China are a key part of our integrated dairy business. We are achieving operational efficiencies on the farms which are helping offset the current low domestic milk price in China."

Outlook

Current global economic conditions remain challenging and are impacting dairy demand and prices, said Mr Spierings.

"The balance between available dairy exports and imports has been unfavourable for 18 months following European production increasing more than expected and lower imports into China and Russia. This imbalance is likely to continue in the short term, with prices expected to lift later this calendar year.

"The long term fundamentals for global dairy are positive with demand expected to increase by two to three per cent a year due to the growing world population, increasing middle classes in Asia, urbanisation and favourable demographics."

Mr Wilson said the Co-operative's solid performance was set to continue.

"The business will continue to work on capturing demand and margins in the second half of the year, just as it did in the first half, by focusing on our consumer and foodservice volumes and those of specialty ingredients.

"We remain firmly on track to achieve our forecast earnings of 45-55 cents per share, ahead of the 40-50 cents per share we indicated at the commencement of the season.

"Our net debt[v] is $6.9 billion and we are expecting this to reduce significantly in the second half of the year. We are on track to reduce gearing to 40-45 per cent by the end of the current financial year."

The record date for the interim dividend is 8 April, and the payment date is 20 April. The Co-operative will continue to offer a dividend reinvestment plan, at a discount of 2.5 per cent to the strike price. Eligible shareholders who want to participate for the interim dividend need to submit a notice of participation by 11 April 2016.

– ENDS –

Note: currency is New Zealand dollars unless otherwise stated.

For further information contact:
Connie Buchanan
Fonterra Communications
Phone: +64 22 698 5602

24-hour media line
Phone: +64 21 507 072

About Fonterra

Fonterra is a global leader in dairy nutrition – the preferred supplier of dairy ingredients to many of the world's leading food companies. It is also a market leader with its own consumer dairy brands in New Zealand and Australia, Asia, Africa, the Middle East and Latin America. Fonterra is a farmer-owned co-operative and the largest processor of milk in the world. It is one of the world's largest investors in dairy research and innovation drawing on generations of dairy expertise to produce more than two million tonnes of dairy ingredients, value added dairy ingredients, specialty ingredients and consumer products for 140 markets.

[i] *Total forecast available for payout is forecast Farmgate Milk Price plus forecast earnings per share*
[ii] *Cash payout is forecast Farmgate Milk Price plus forecast dividend per share*
[iii] *WMP weighted average price change from 1 June 2015 to 1 March 2016*
[iv] *Gearing ratio is economic interest bearing debt divided by economic net interest bearing debt, plus equity excluding cash flow hedge reserve*

Appendix One

Non-GAAP measures

Fonterra uses several non-GAAP measures when discussing financial performance. For further details and definitions of non-GAAP measures used by Fonterra, refer to the Glossary in Fonterra's 2016 Interim Report. These are non-GAAP measures and are not prepared in accordance with NZ IFRS.

Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They may be used internally to evaluate the underlying performance of business units and to analyse trends. These measures are not uniformly defined or utilised by all companies. Accordingly, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS.

- Fonterra calculates normalised EBIT by adding back net finance costs, taxation expense and normalisation adjustments to profit for the period.
- Normalisation adjustments are transactions that are unusual by nature or size such that they materially reduce the ability of users of the financial results to understand the underlying performance of the Group or operating segment to which they relate.
- Unusual transactions by nature are the result of a specific event or set of circumstances that are outside the control of the business, or relate to the major acquisitions or disposals of an asset/group of assets or business.
- Unusual transactions by size are those that are unusually large in a particular accounting period.
- Normalisation adjustments are determined on a consistent basis each period.

Reconciliation from the NZ IFRS measure of profit after tax to Fonterra's normalised EBIT

$ million	Six months ended 31 January 2016	Six months ended 31 January 2015
Profit after tax	409	183
Add: Net finance costs	266	303
Add/Less: Taxation expense/credit	77	(3)
Total EBIT	752	483
Less: Gain on DairiConcepts sale	(68)	-
Add: Impairment of assets in Australia	12	-
(Less)/Add: Time value of options	(31)	22
Less: Net gain on Latin American strategic realignment	-	(129)
Total normalisation adjustments	(87)	(107)
Normalised EBIT	665	376

Fonterra
Dairy for life

PERFORMANCE REVIEW

OUR CO-OPERATIVE
OUR MARKETS
OUR PERFORMANCE

Interim Results 2016

MARCH 2016

Forward Looking Statements

This presentation contains forward looking statements, and forecasts, including statements of current intention, statements of opinion and predictions as to possible future events. Such statements are not statements of fact and there can be no certainty of outcome in relation to the matters to which the statements relate. These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual outcomes to be materially different from the events or results expressed or implied by such statements. Those risks, uncertainties, assumptions and other important factors are not all within the control of Fonterra Co-operative Group (Fonterra) and its subsidies (the Fonterra Group) and cannot be predicted by the Fonterra Group and include changes in circumstances or events that may cause objectives to change as well as risks, circumstances and events specific to the industry, countries and markets in which the Fonterra Group operates. They also include general economic conditions, exchange rates, interest rates, regulatory environments, competitive pressures, selling price, market demand and conditions in the financial markets which may cause objectives to change or may cause outcomes not to be realised.

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Statements about past performance are not necessarily indicative of future performance.

Except as required by applicable law or any applicable Listing Rules, the Relevant Persons disclaim any obligation or undertaking to publicly update any forward looking statements or forecasts, whether as a result of new information or future events.

No offer of securities

This presentation does not constitute investment advice, or an inducement or recommendation to acquire or dispose of any securities in Fonterra or the Fonterra Shareholders' Fund, in any jurisdiction.

OVERVIEW

A tough season for farmers

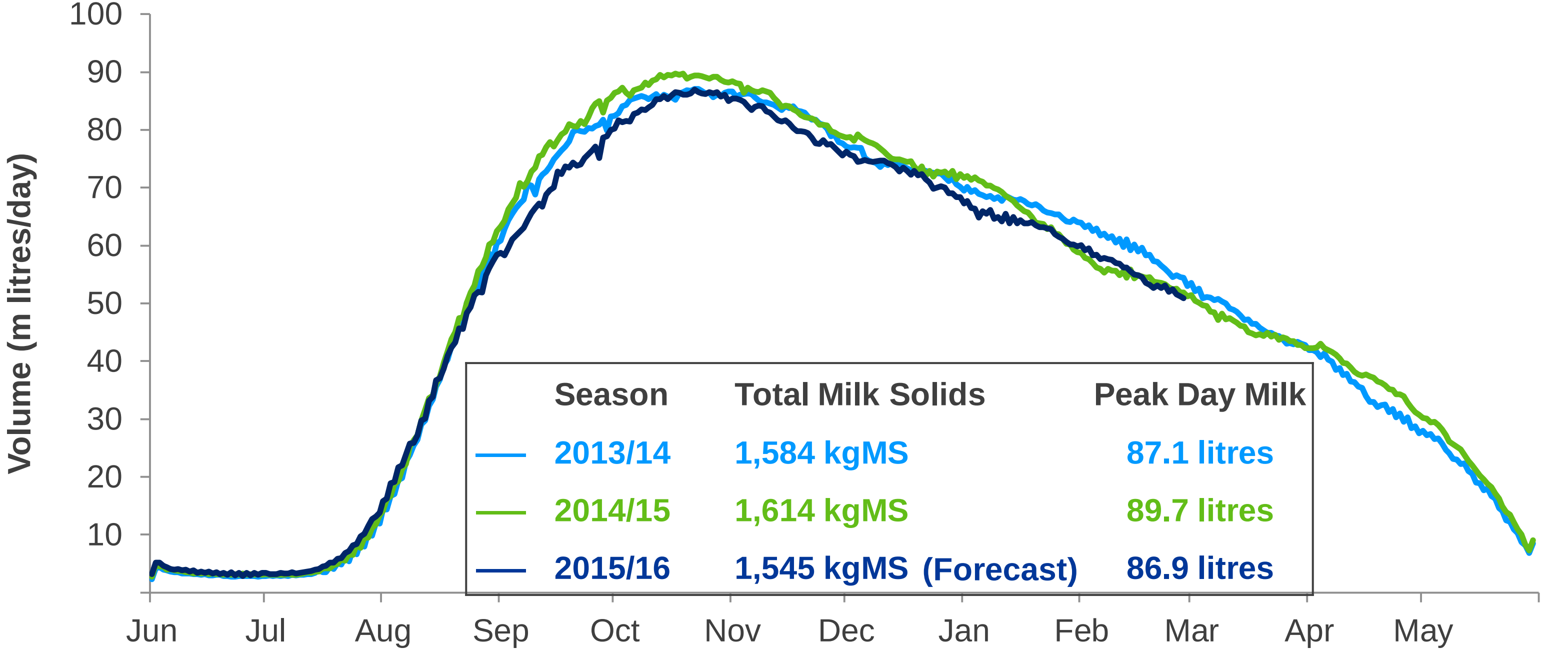
Low milk price, but our Co-op delivered a strong result

2015/16 forecast payout	• Farmgate Milk Price	$3.90 PER KGMS
	• Available for payout[1]	$4.35 – $4.45 PER KGMS
	• Forecast full year dividend	40 cents PER SHARE
	• Cash payout[2]	$4.30 PER KGMS
Strong interim results (6 months)	• Normalised EBIT	$665 MILLION
	• Interim earnings per share	25 CENTS
	• Interim dividend per share	20 CENTS
Strength of the Co-op to support farmers	• Co-operative Support loan	
	• Farm Source™ deferred payment terms	
	• Higher interim dividend	
	• Intention to pay final dividend earlier	

1. *Total available for payout is forecast Farmgate Milk Price plus forecast earnings per share.*
2. *Cash payout is forecast Farmgate Milk Price plus forecast dividend per share.*

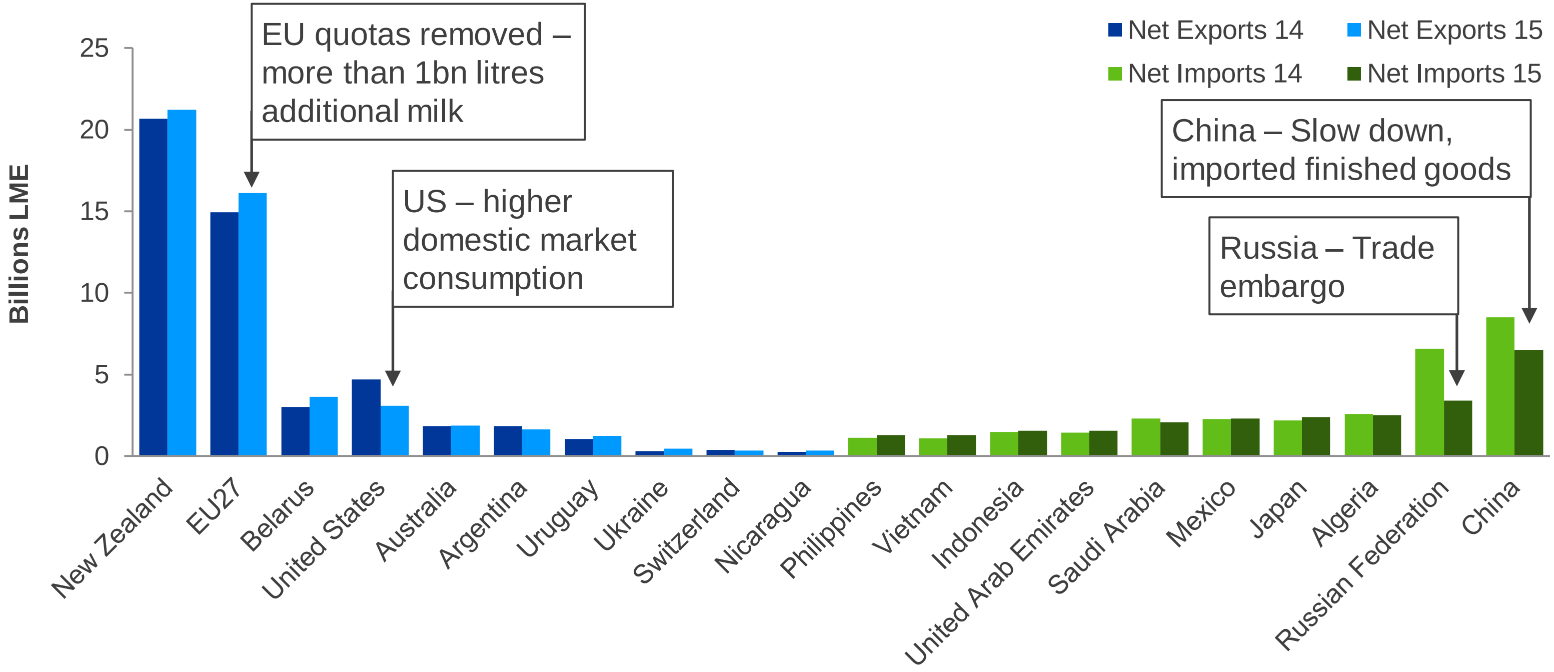
Milk supply in NZ lower than last season

2015/16 season forecast to be 4% lower



Global trade in dairy – temporary imbalance

Key changes in net trade from 2014 to 2015



Note: Trade expressed in terms of tonnes of Liquid Milk Equivalent (milk standardized to 4.2% fat and 3.5% protein). These are the top 10 net importing and the top 10 exporting markets

Outlook

- Good operating performance to continue
- Forecast 2015/16 total available for payout:
  - A forecast Farmgate Milk Price of $3.90 per kgMS
  - A strong forecast earnings performance of 45-55 cents per share
- Intention to pay final dividend earlier
- Dairy market outlook
  - WMP price expected to lift through balance of 2016
  - Expecting EU to revert to normal growth of 1% per annum
  - Expecting China WMP imports to grow steadily at 4-5% per annum
  - Either a supply or demand shock could significantly change this outlook

Strong Co-op

- Driving performance
  - Volume to higher value and increased earnings
  - Cash flow focus
  - Strong balance sheet
  - Higher dividend
- Fonterra Co-op Support loan
- Intention to pay final dividend earlier
- More support on the ground: regional heads
- Fonterra Farm Source™
  - Extended credit – $31 million
  - Rewards programme delivered $8.5 million in benefits to farmers

PERFORMANCE

Performance has been strong

VOLUME	REVENUE	GROSS MARGIN
12.6BN LME	$8.8BN	21%
↑ 8%	↓ 9%	↑ Up from 16%

NORMALISED EBIT	NET PROFIT AFTER TAX	INTERIM DIVIDEND PER SHARE
$665M	$409M	20CPS
↑ 77%	↑ 123%	↑ 100%

Ingredients[1]

Volume (LME)	↑	6% chg
Gross Margin	↑	15%
Normalised EBIT	↑	$617m

Consumer and Foodservice

Volume (LME)	↑	10% chg
Gross Margin	↑	28%
Normalised EBIT	↑	$241m

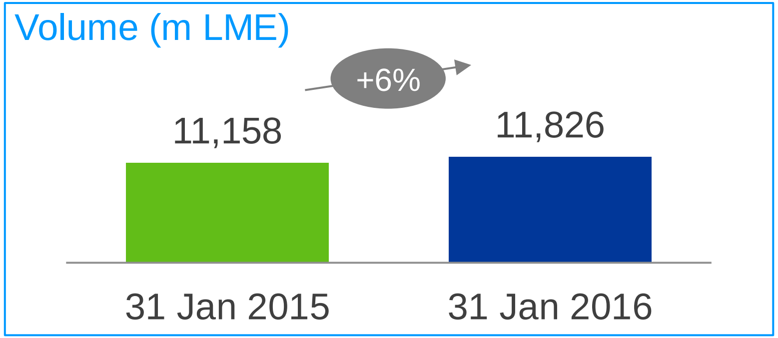
International Farming

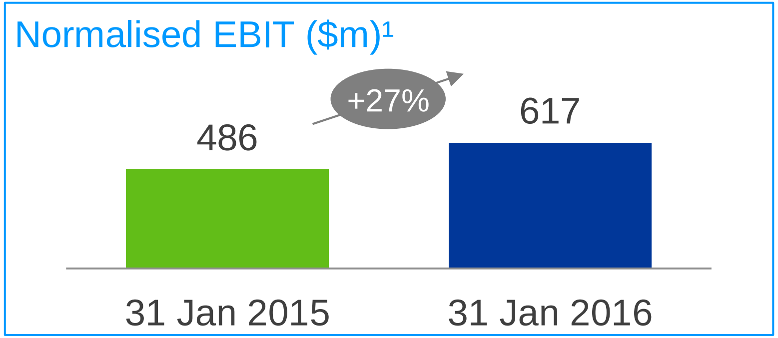
Volume (LME)	↑	54% chg
Gross Margin	↓	(21%)
Normalised EBIT	↓	($29m)

1. Ingredients excludes unallocated costs.

Ingredients

Delivered a strong performance





Volume

- Higher sales of non-reference products
- Late season inventory from 2015 cleared

Value

- Investments in NZ capacity – efficiencies, better yields
- NZ ingredients
  - No peak costs
  - Improved optionality and manufacturing performance
  - Positive stream returns – favourable product mix
- Australia ingredients – adverse product mix
  - EBIT $28 million loss

1. *Ingredients normalised EBIT excludes unallocated group costs.*

Global dairy market – strong long-term fundamentals

New Zealand

- Significant participant in tradable market

25bn L (2% growth[4])

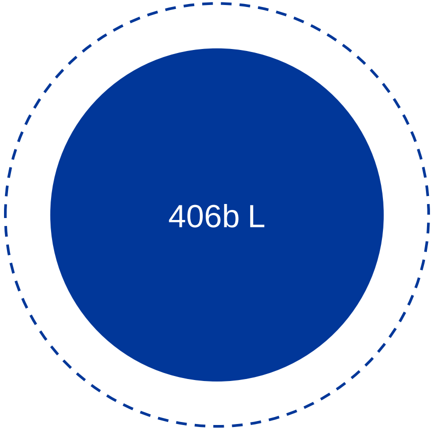
Globally Traded Dairy Market[1,3]

- Global export/import market
- Informs Farmgate Milk Price

91bn L (5.5% growth[4])

Formal Dairy Market[2,3]

- Reflects total dairy demand



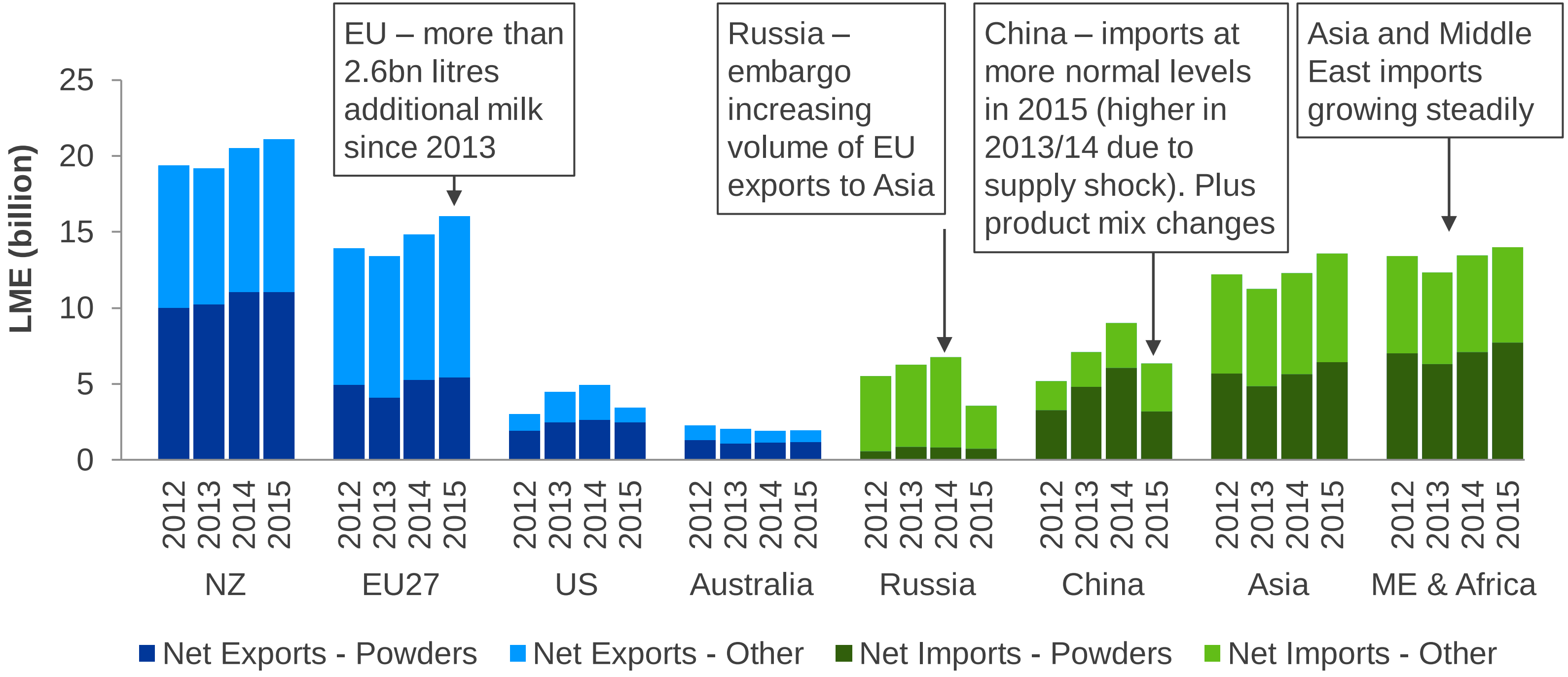
465bn L (2.3% growth[4])

2014 Baseline
2020 Projection

1. Source: International Farm Comparison Network (IFCN), Economist Intelligence Unit (EIU), Euromonitor, Fonterra analysis. Measured as total global imports.
2. Source: Euromonitor.
3. Volume expressed on an LME basis with standardised composition of milk, 4.2% fat and 3.5% protein
4. Growth is compound annual growth.

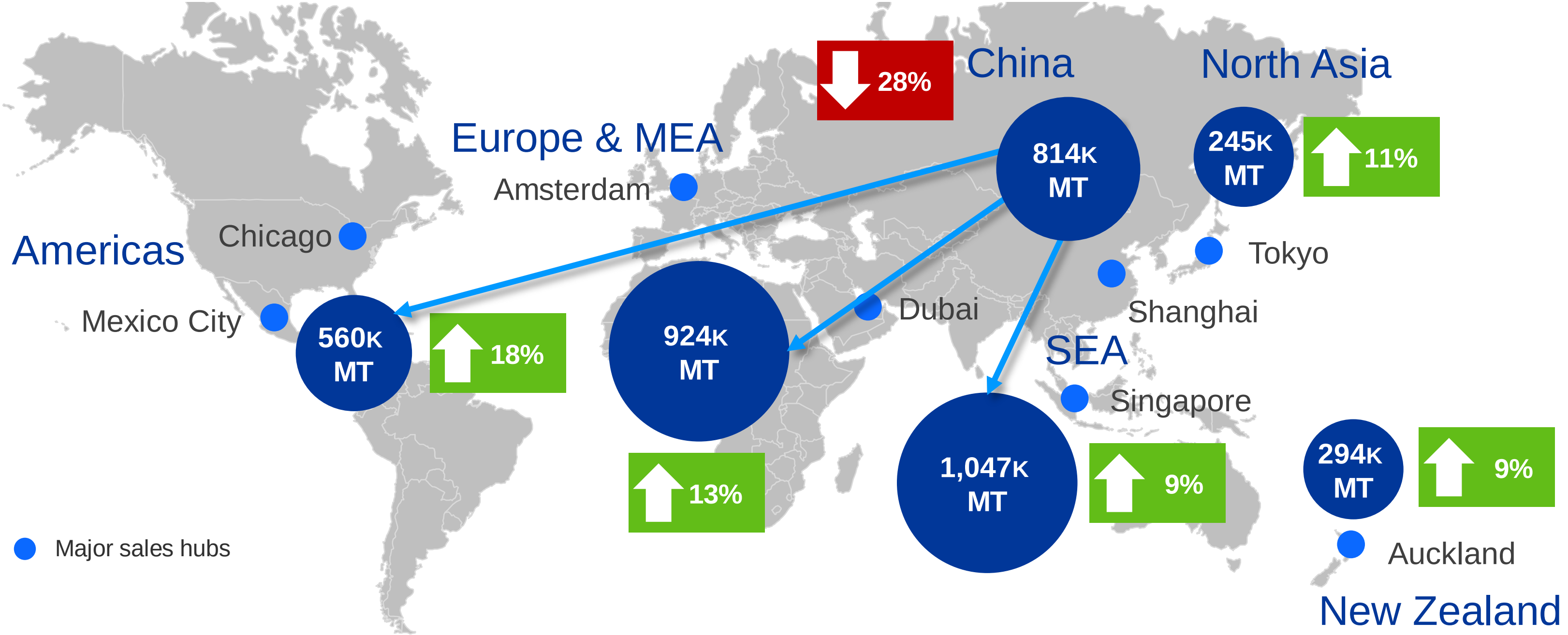
Changes in the globally traded market impacting prices

Significant change in imports and exports



New Zealand ingredients market reach

Past 18 months lower sales to China offset by higher volume into other markets

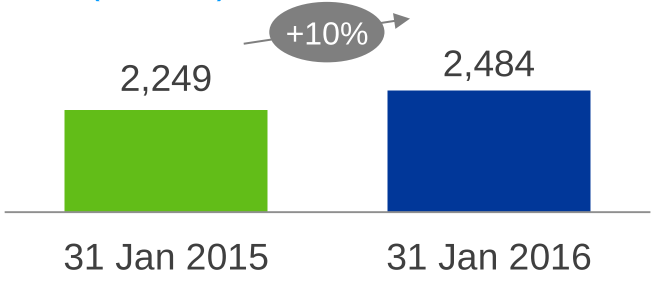


Note: Major sales hub rounded volumes for 18 months to 31 Jan 2016 and percentage compared to 18 months to 31 Jan 2015.
Note: Sales are reported based on the Global Ingredients and Operations management structure and not on a shipped to basis.

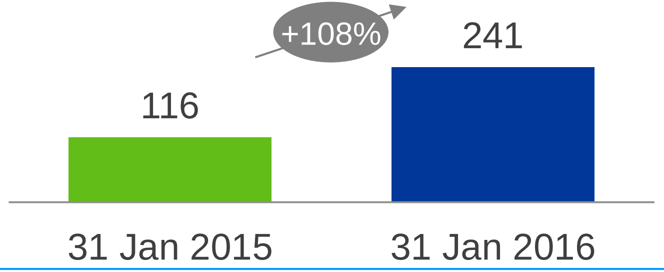
Consumer and foodservice

Strong volume and margin growth – generating higher value demand

Volume (m LME)



Normalised EBIT ($m)



Volume

- 235 million of additional LME
- More volume higher up the value chain
- Strong foodservice volume growth

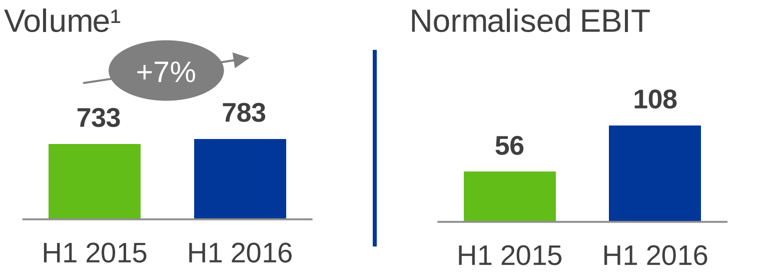
Value

- Continued to build on strong result of second half 2015
- Broad-based performance
- Volume growth, strength of our brands and lower input costs

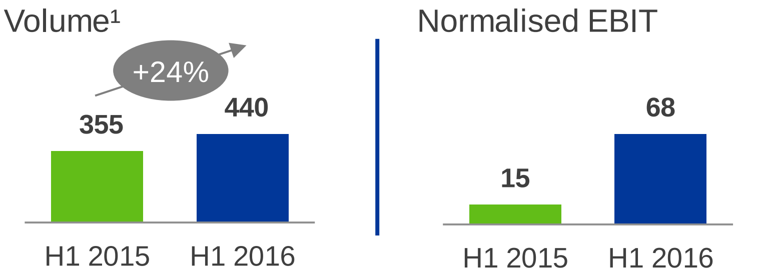
Consumer and foodservice

Strong performance across the business – generating higher volume demand

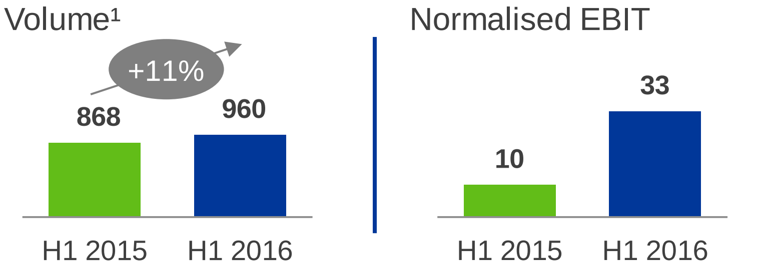
Asia



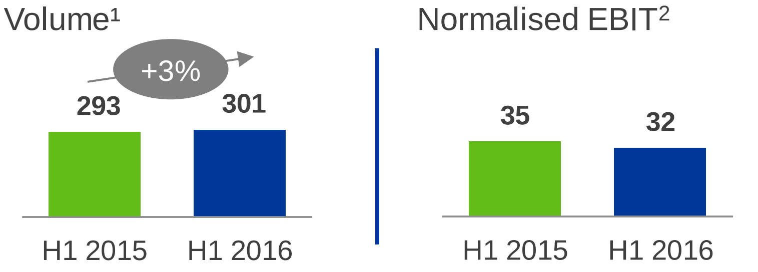
Greater China



Oceania



Latin America



1. *Volume (m LME).*
2. *Venezuela has been impacted by the currency translation. Excluding Venezuela, Latin America normalised EBIT was 50% higher.*

Australia – cheese, whey and nutritionals focus

A clear plan and progress made on returning business to profitability

Review
✓

- Multi-hub strategy
- Integrated model
- Cheese/whey/ nutritionals

Fix leaks
✓

- Maintain milk supply
- Cost reductions
- Winning supply chain
- Working capital improvements

Improve Portfolio
✓

- Stanhope rebuild underway
- Major supply agreements at Darnum
- Sale of non-strategic assets

Transform Business
In progress

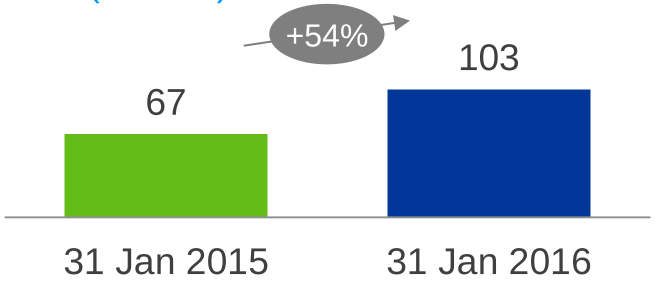
- Profitable end game
- Key priorities:
  - Complete Stanhope
  - Fill Darnum
  - Grow brands

A profitable business

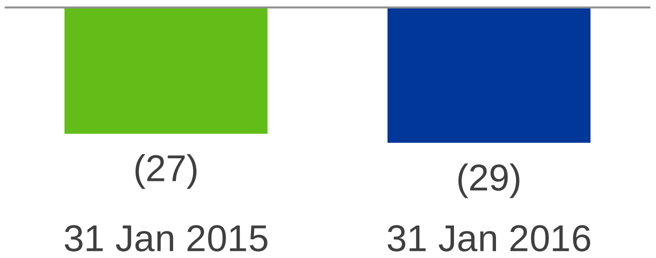
International farming ventures

Key to integrated dairy business

Volume (m LME)



Normalised EBIT ($m)



Volume

- New farms coming on stream
- Two hubs complete – 10 farms in total
- Access to secure, high quality milk supply

Value

- Scale achieved to capture downstream value
- Lower milk price and higher volumes increased operating deficit
  - RMB0.95 reduction in milk price
- Largely offset by operational improvements

International farming ventures

Roadmap to integrated business in China following major industry change

Key milestones

A Clear Plan, Support 2008

- Trigger point – industry change
- Clear business plan:
  - Support NZ exports
  - Develop safe, secure local supply
  - Build integrated business
  - Built first farm

Test, Build and Learn 2009-13

- Developed Hub 1 (Yutian)
- Biosecurity/food safety
- Effluent management

Scale and Efficiency 2014-15

- Developed Hub 2 (Ying)
- On-farm efficiencies
- Milk supply at scale

Downstream value 2016-18

- Local partnerships
- Developing higher-value demand
- Abbott JV (Hub 3)

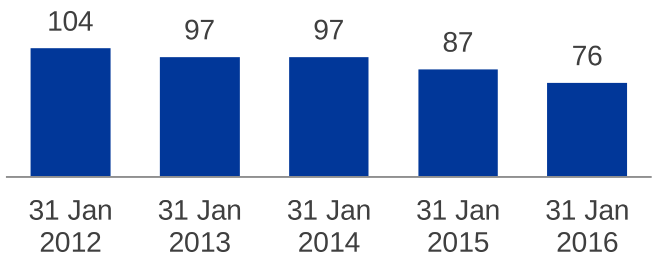
#1 strategic market

Integrated China business

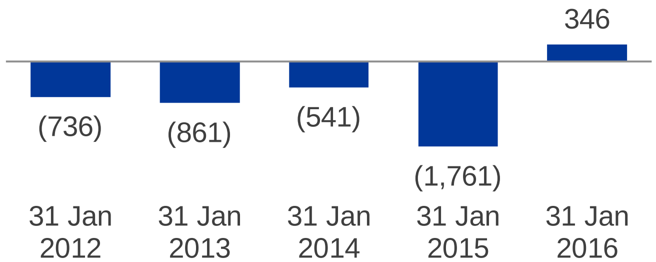
Strong financial discipline delivering results

Working capital improvements and strong cash flow

Reduced working capital days[1]



Strong free cash flow[2]



1. *Working capital days excludes milk suppliers payable.*
2. *Free cash flow is funds available for dividend, interest and debt.*

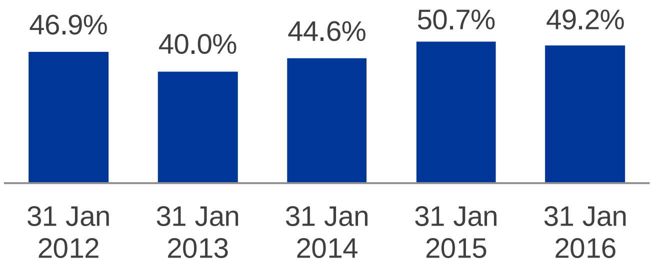
- Key focus of transformation
- Supply chain improvements and inventory volumes lower
- Improved terms for receivables and payables

- Strong cash flow benefited from
  - Higher earnings
  - Working capital improvements, including milk suppliers payable returning to normal
  - Reduced capex and sale of non-strategic assets
- Free cash flow at the half year typically negative reflecting seasonal business

Financial strength of the Co-op

Strong balance sheet and solid credit rating

Gearing[1]



Strong credit rating

Credit Rating	Fitch	A (stable outlook)
	S&P	A- (stable outlook)
Debt Weighted Average Term to Maturity	As at 31 Jan 2016	4.3 years

- Reduced gearing achieved after
  - Paying a higher dividend
  - Funding Beingmate acquisition
  - Completion of expansion capex
- Lower net debt of $6.9bn, higher earnings and equity
- On track for gearing of 40-45% by financial year-end

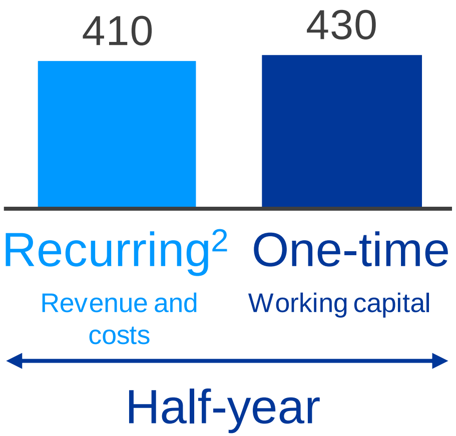
- Ratings reflect Co-op's strength
  - Highest rated agricultural co-op globally
- Strong access to capital
- Conservative funding maturity

1. *Gearing ratio is economic interest bearing debt divided by economic net interest bearing debt plus equity excluding cash flow hedge reserve.*

Transformation – delivering cash benefits

Transformation Cash Benefits[1]

$ million



Milk Price

EBIT

Balance sheet

Cash flow

1. *The estimated FY16 cash benefits of business transformation initiatives implemented in H1.*
2. *Recurring cash benefits will impact both EBIT and the Farmgate Milk price and are based on assumptions set at commencement of the business transformation*

SUPPLEMENTARY SLIDE

Normalised EBIT reconciliation

$ million	Six months to 31 January 2016	Six months to 31 January 2015
Profit after tax	**409**	**183**
Add: Net finance costs	**266**	**303**
Add/(less): Taxation expense/(credit)	**77**	**(3)**
Total EBIT	**752**	**483**
Less: Gain on DairiConcepts sale	**(68)**	**-**
Add: Impairment of assets in Australia	**12**	**-**
(less)/Add: Time value of options	**(31)**	**22**
Net gain on Latin America strategic realignment	**-**	**(129)**
Total normalisation adjustments	**(87)**	**(107)**
Total normalised EBIT	**665**	**376**

PERFORMANCE REVIEW

CONTENTS

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OUR CO-OPERATIVE

With the tough market conditions, the Co-operative has been able to provide alternative ways to help our farmers.

FARMERS TAKING UP FONTERRA CO-OPERATIVE SUPPORT LOANS

76%

FARM SOURCE™ REWARDS ACCUMULATED

$8.5M

$3.90 ↓ **FORECAST FARMGATE MILK PRICE**

1,107M KGMS ↓ **NEW ZEALAND MILK COLLECTION SEASON TO 31 JANUARY 2016**

20CPS ↑ **INTERIM DIVIDEND PER SHARE**

OUR MARKETS

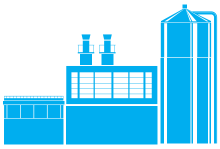
We aim to secure the best returns by converting our farmers' milk into high-value products for customers around the world.

ADDITIONAL MILK CONVERTED INTO HIGHER-VALUE PRODUCTS

235 M LME

CHINA FOODSERVICE

42 CITIES



No peak costs following investments such as our high-efficiency plant at Pahiatua that came online in August 2015.

Our oldest brand, Anchor™, is seen across many markets globally including Sri Lanka, Egypt and Indonesia. It has recently launched in Australia and Ethiopia.

We are growing value by moving more volume higher up the value chain in consumer and foodservice.

OUR PERFORMANCE

We have delivered a solid result with a strong ingredients performance and moved more volume higher up the value chain in consumer and foodservice.

INGREDIENTS NORMALISED EBIT

$617M

CONSUMER AND FOODSERVICE NORMALISED EBIT

$241M

$665M ↑ **GROUP NORMALISED EBIT (NZD)**

12.6B ↑ **VOLUME (LME)**

$409M ↑ **NET PROFIT AFTER TAX (NZD)**

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S LETTER

This is another tough season for our shareholders. The supply and demand imbalance in the globally traded dairy market has brought prices down to unsustainable levels for farmers around the world and this has placed a great deal of pressure on incomes, farm budgets, and farming families, particularly in New Zealand.

OUR PRIORITY IS FOCUSING ON THE AREAS WITHIN OUR CONTROL.

WE AIM TO EFFICIENTLY CONVERT AS MUCH MILK AS POSSIBLE INTO THE HIGHEST-RETURNING PRODUCTS, ESPECIALLY THOSE IN CONSUMER AND FOODSERVICE, WHICH ARE LESS SUBJECT TO DAIRY PRICE VOLATILITY.

Our management is very aware of the need for a strong performance to ensure that we get every possible cent back into farmers' hands during a very tough year.

OUR PERFORMANCE

Our Co-operative delivered a good performance in the first half of the financial year and this built on the solid performance in the second half of last year. Normalised earnings before interest and tax (EBIT) of $665 million is up 77 per cent on the comparable period, and net profit after tax of $409 million is up 123 per cent. Volumes increased eight per cent to 12.6 billion liquid milk equivalent (LME) and included an additional 235 million LME converted into higher-returning products in consumer and foodservice.

This performance came from a sustained effort in three main areas. We focused on the efficiency of our ingredients business and building demand for ingredients in alternative markets. We aimed to make the most of global consumption growth by building demand for higher-value products in our consumer and foodservice markets. Finally, we maintained strict financial discipline to keep lifting our return on capital.

Ingredients achieved normalised EBIT of $617 million, up 27 per cent compared to the first half last year. This resulted from improved product mix returns and the increased production and cost efficiencies coming from our investments in plant capacity in New Zealand. We have also worked hard on capturing alternative ingredients demand with increased sales in Southeast Asia, Europe, Middle East and Africa, and the United States to offset lower imports in the globally traded market, most notably in China and Russia.

In consumer and foodservice we have delivered very good growth, with normalised EBIT increasing 108 per cent to $241 million. We remain focused on growing demand, especially in the eight markets where we currently hold or aim to achieve a leadership or very strong position: New Zealand, Australia, Sri Lanka, Malaysia, Chile, China, Indonesia and Brazil. These are already established markets for Fonterra, so we are working off a strong base. The additional 235 million LME converted into higher-returning consumer and foodservice products in this six-month period built on the additional 600 million LME last year.

We have lifted profitability from last season to this season, resulting in higher earnings per share to help offset low global dairy prices. We remain firmly on track to achieve our forecast earnings of 45–55 cents per share, ahead of the 40–50 cents per share we indicated at the beginning of the season. As a result, we have delivered an interim dividend of 20 cents per share, up from 10 cents last year. Our forecast Farmgate Milk Price of $3.90 per kgMS reflects low globally traded dairy prices, with Whole Milk Powder (WMP) decreasing around 17 per cent[1] this season to date. Total available for payout[2] of $4.35–$4.45 per kgMS currently equates to a forecast cash payout[3] of $4.25–$4.30 per kgMS after retentions.

USEFUL FACT

An extra 835 million LME has been converted into higher-returning consumer and foodservice products over 18 months.

We continue to offer a dividend reinvestment plan, at a discount of 2.5 per cent to the strike price. Eligible shareholders who want to participate for the interim dividend need to submit a notice of participation by 11 April 2016.

1 *WMP weighted average price change on GDT from 1 June 2015 to 1 March 2016.*
2 *Total available for payout is Farmgate Milk Price plus forecast earnings per share.*
3 *Cash payout is Farmgate Milk Price plus forecast dividend per share.*

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S LETTER

$241M

GROWTH IN NORMALISED EBIT

Consumer and foodservice normalised EBIT up 108 per cent to $241 million.

A CLEAR PLAN FOR SUCCESS

Our primary Australian strengths are in cheese, whey and nutritionals, alongside our market-leading brands in the butter, cheese, cream and fresh milk categories.

Recognising that the tough industry conditions had an impact on our farmers, we offered Fonterra Co-operative Support, an interest-free loan of 50 cents per kgMS for production from June to December. This was taken up by 76 per cent of our farmers, and $383 million will be paid out. The loan was funded by the cash benefits from our business transformation and cost controls. In January, the Board made no change to the term of the loan but indicated it would look at the best way to help our farmers' cash flows, underpinned by the expected improvement in dividend returns and the financial strength of the Co-operative at the half-year.

PROGRESS IN AUSTRALIA

We continue to make progress in the highly competitive market in Australia. The financial results in Australia this year are still not satisfactory as we work towards recovering from the Stanhope fire and the shift in product mix at Darnum from nutritionals to powders post our precautionary recall. However, we have implemented a clear plan to return to profitability. The half-year saw us achieve several significant milestones as we work to rebuild a profitable business with an acceptable return on capital.

Our primary Australian strengths in ingredients are in cheese, whey and nutritionals, alongside our market-leading brands in the butter, cheese, cream and fresh milk categories.

In nutritionals, we have made very good progress this year with our Beingmate partnership, which will support growth in nutritionals volume at our Darnum plant and, in turn, support demand for whey and lactose from our Heerenveen plant in Europe, ingredients from New Zealand and milk from Australia. It will also support sales of our Anmum™ maternal and paediatric products in China. We also entered into other long-term supply agreements at Darnum.

In cheese, we are realigning our product portfolio and playing to our strengths. Following the sale of our nine per cent stake in Bega™ we are investing $141 million in a new 45,000 metric tonnes (MT) cheese plant at Stanhope, bringing the site back into production after last year's fire and increasing capacity by 15,000 MT. When operational, this plant will also supply whey to our nutritionals business.

In consumer and foodservice, we divested our Australian yoghurt and dairy desserts business, including manufacturing sites at Tamar Valley and Echuca.

SUPPORT FOR ANMUM™

Our Beingmate partnership will support growth in sales of our Anmum™ maternal and paediatric products in China.

DAIRY CONSUMPTION IN CHINA

China is expected to achieve compound annual growth rates of around four per cent.

CHINA

China continues to be an attractive opportunity for growth, despite current economic volatility. Following the major milk adulteration issue and changes in the local industry in 2008, we developed a long-term plan to build an integrated business, based on a safe, secure and high-quality local milk supply from our farms, and to capitalise on the opportunities in this key market.

These farms are important to our overall China growth. Dairy consumption in China is expected to achieve compound annual growth rates in the region of four per cent, much of it favouring liquid milk, including UHT and fresh milk. Supporting these demand forecasts are continued urbanisation, a growing population and China's shift from being a manufacturing to a consuming economy. We are capitalising on these trends, including supplying milk from our China farms to a chain of 700 outlets for a leading foodservice brand.

As with any new farm development, there is a time lag between the investment and the return on capital. China is no exception and reporting separately on international farming ventures was introduced last year so our shareholders could clearly track progress and performance in this long-term investment. In common with our New Zealand shareholders, and other producers, our China farms' performance is affected by the current low milk prices. We are achieving production efficiencies that are helping offset this and our China farms will benefit when prices improve.

We now have sufficient scale with access to 250 million litres of raw milk, which gives us opportunities inside China's borders. This will support us to take advantage of growing demand for higher-value fresh dairy, complementing our imported ingredients.

USEFUL FACT

China foodservice is now in 42 cities across China.

We are making good progress on our plan to work with local partners to build demand and earnings beyond the farm gate. As the middle class grows, so too does demand for better nutrition, including a shift to a Westernised diet. This in turn is supporting strong volume growth in our foodservice business and good performance from our consumer brands.

Our Beingmate partnership enables us to capitalise on a rapidly changing regulatory environment as we build our market share in infant nutrition by selling our Anmum™ paediatric products through Beingmate's wide distribution channels.

CHAIRMAN AND **CHIEF EXECUTIVE OFFICER'S** LETTER

OUR CHINA FARMS

We now have sufficient scale with access to 250 million litres of raw milk to capture downstream value.

CONSUMER AND FOODSERVICE

Sales volume increased 10 per cent to 2,484 million LME.

THE GLOBAL MARKET OUTLOOK

Current global economic conditions remain challenging and are impacting demand and prices in the globally traded dairy market.

This 66 billion litre globally traded market is a fraction of the wider dairy market but it impacts our Farmgate Milk Price, as we export a significant portion of our New Zealand production. In contrast the United States, for example, produced 92 billion litres in 2015 yet exported just 14 per cent of this.

USEFUL FACT

Annual dairy imports were 2.0 million MT for China, 3.9 million MT for Asia, and 3.6 million MT for the Middle East and Africa

The balance between available dairy exports and imports has been unfavourable for the past 18 months following European production increasing more than expected, lower imports into China and the Russian trade embargo.

This imbalance is likely to continue in the short term, with prices expected to lift later this calendar year, as European production growth slows and China's imports build in line with overall consumption growth. A market shift, such as Russia reopening its borders or a change in supply in any key dairy-producing country, could put positive tension on prices and increase them at a greater rate, but the current outlook is for a slower recovery.

Although the imbalance between exports and imports remains, the prospects for growth in the broader global market are favourable, with demand increasing by around two to three per cent a year. We will continue to work on capturing demand and margins in the second half of the year, just as we did in the first half, by focusing on our consumer and foodservice volumes and those of specialty ingredients.

Further out, the long-term fundamentals remain strong with demand supported by a growing world population, increasing GDP in Africa, growing middle classes in Asia, urbanisation, favourable demographics, potential growth arising from the new two-child policy in China and Iran opening up for dairy imports.

Our strategy has always been to capture this growth and increase sales of ingredients and consumer and foodservice products in this broader market.

OUR MESSAGE

We will keep pushing to grow demand that is both profitable and less subject to commodity price changes.

STRONGER TOGETHER

As a Co-operative, we are stronger together – from our world-leading farming systems, to our efficient processing of farmers' milk, and our market reach globally.

OUR COMMITMENT TO SHAREHOLDERS

Our message to farmer shareholders and investors is that we will keep building on our first-half performance. We will keep pushing to capture demand that is both profitable and less subject to dairy price volatility.

While global prices remain low, our aim is to generate the best possible margins to achieve more sustainable returns at the farm gate.

We have a secure and high-quality supply base in New Zealand, starting with pasture-fed cows and some of the most efficient farmers in the world. We can source milk in other geographies to meet demand in these markets for fresh consumer dairy, while complementing our New Zealand supply to go into the best-returning products. Having this wider supply of milk broadens our earning opportunities and, ultimately, our returns to our farmers here at home.

We can tactically use ingredients from other sources to expand our access to specialty products, such as those for infant formula. These strengths are hard to match and have not happened by accident; they have been carefully built up over the years and we are building on them where it is good business to do so.

This is an incredibly tough year for our farmers and will likely remain so until the current export and import imbalance in the globally traded market is corrected.

As a Co-operative, we are stronger together and this strength starts with our farmers. Current prices have placed many farming families in real difficulty and the pressure they are under is also being felt by sharemilkers, rural suppliers and across regional communities. While the first-half result will assist, it needs to be built on in the second half.

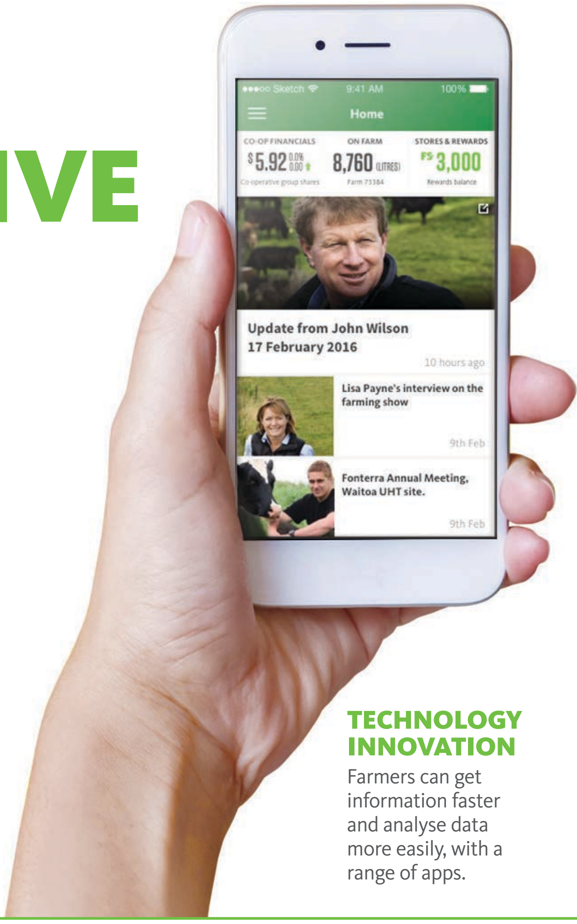
Our commitment is that we will continue to do all we can to lift performance in the areas we can control while keeping our costs as lean as possible. We are determined to hit our earnings targets, lift profitability and achieve our earnings per share forecasts. We will draw on our regional networks, Farm Source™ and our scale to support our shareholders until there is a recovery in the prices that flows into the Farmgate Milk Price. When it does, our efficient farming families, combined with an efficient Co-operative, will ensure that our farmers recover quickly.

John Wilson
Chairman

Theo Spierings
Chief Executive Officer

OUR
CO-OPERATIVE

The tough market conditions mean that all but the least indebted of our farmers are facing the very real challenge of knowing they will struggle to break even in the current season.



TECHNOLOGY INNOVATION
Farmers can get information faster and analyse data more easily, with a range of apps.

ALL OF OUR FARMERS ARE DRAWING ON THEIR EXPERIENCE IN PASTURE-BASED FARMING TO ADAPT THEIR FARM MANAGEMENT PRACTICES IN RESPONSE TO THE DROP IN GLOBAL MILK PRICES. THEY ARE REDUCING SUPPLEMENTARY FEEDING AND CUTTING EXPENSES TO THE BARE ESSENTIALS.

Our farmers' ability to be flexible and adjust their farming systems in response to the market is important in these difficult conditions. It also has consequences beyond the farm gate, with cost cutting affecting local communities and the services that support farming. In many cases our farmers have had to lay off some of their farm staff and this is never an easy decision.

As our farmers and their local communities go through this transition from the high milk price of recent years, it is important that we continue to lower our cost base and lock in the competitive advantage we have in our pasture-based systems.

With market conditions making it difficult on farm, our farmers deserve considerable credit for maintaining their commitment to sustainability. In every region there are stand-out examples of our farmers investing in their farm infrastructures in ways that benefit their businesses and the environment. This includes the continued effort to exclude stock from waterways with 98 per cent of waterways on Fonterra farms now with stock excluded.

Some farmers have gone beyond minimum requirements, fencing an additional 10,000 kilometres of smaller waterways. We now have 76 per cent of our farmers recording detailed on-farm information to enable nutrient management reports to be prepared and implemented to improve nutrient use efficiency, benefiting the environment and particularly waterways.

CONNECTING TO OUR CO-OP

Our regional structure, led by our regional heads, is now at full strength, giving our farmers a much closer connection to their Co-operative in their local area.

Our Co-operative has been able to provide alternative ways of supporting our farmers through a difficult season. The Fonterra Co-operative Support loan announced at the close of last season offered farmers 50 cents per kgMS on share-backed production for the first half of the season. The offer was taken up by 76 per cent of farmer shareholders.

Farm Source™ is also providing savings and rewards to farmers. Fonterra farmers have accumulated $8.5 million Farm Source™ reward dollars since the programme commenced. They have benefited by $3.5 million from the rewards deals in store and saved $2.2 million through fuel discounts. Farmers were offered six-month deferred payment terms between May and December 2015, with more than 4,000 farmers taking up the offer totalling $31 million. In addition, farmers have redeemed $1.6 million in Farm Source™ rewards dollars with November and December redemptions 200 per cent above the average redemption rate.

Getting farmers information faster remains a priority, with smartphones and tablets an important channel. We're now delivering production and milk data, tanker arrival information, the monthly hygiene app and Co-op news app direct to farmers' mobile devices. These apps have been downloaded more than 11,000 times to assist our farmers with their farming businesses.

Our regional structure, led by our regional heads, is now at full strength, giving our farmers a much closer connection to their Co-operative in their local area.

The advantages of having senior management on the ground are becoming clear. This includes practical help, such as activating our Emergency Response Team in the Manawatu to help farmers after the June 2015 floods. Our regional heads are also playing an important role supporting local Shareholders' Councillors in engaging local farmer shareholders on the governance and representation review.

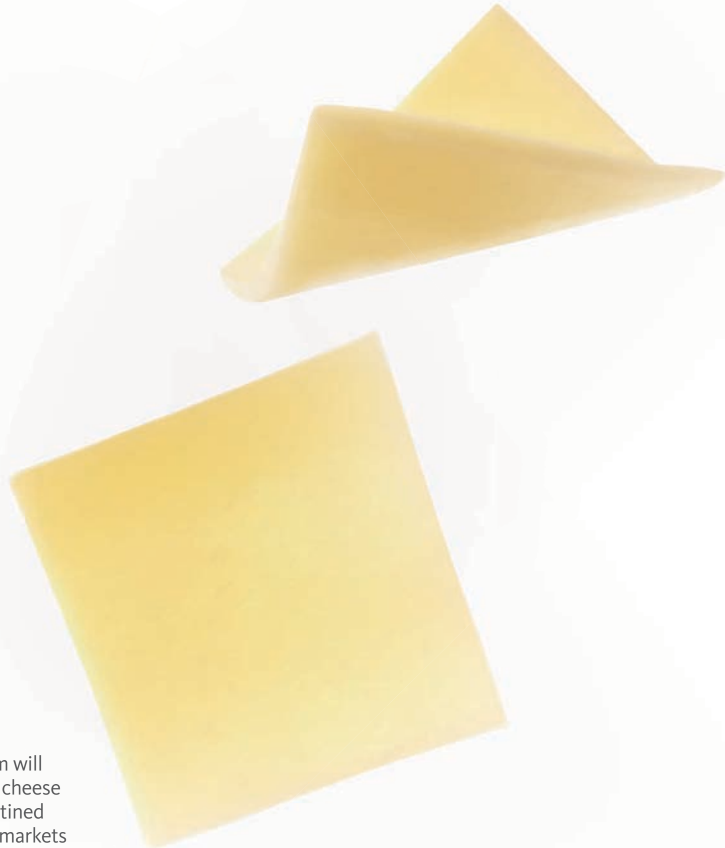
We opened up the formal discussions with farmer shareholders in early February via a booklet outlining the importance of strong governance and representation and our opportunity to further strengthen an already successful model. The booklet set out our current systems and how they work, and included thought starters so farmers could prepare their questions, ideas and opinions ahead of the 16 director meetings and almost 250 shed meetings that were held throughout February and March.

It has been an encouraging start, with those attending the meetings ready to engage and well advanced in their thinking about how we might strengthen our Board, our Shareholders' Council and its role, and the overall connections between our Co-operative and our farmer shareholders.

Farmer feedback is now being considered alongside international best practice in the formation of a draft proposal that will precede a further round of consultation in late April. Any proposed changes will be taken to a vote at a special meeting in late May.

OUR **MARKETS**

We aim to secure the best returns by converting our farmers' milk into high-value products for customers around the world.



2.3B

SLICES IN DEMAND

Our plant at Eltham will produce 2.3 billion cheese slices annually, destined for more than 100 markets around the world.

OUR FARMERS PRODUCE SOME OF THE BEST MILK IN THE WORLD.

AS OUR FARMERS GROW THEIR PRODUCTION, WE HAVE INVESTED IN PROCESSING CAPACITY TO DELIVER EFFICIENCIES, BETTER YIELDS AND HIGHER-QUALITY PRODUCTS. MORE CAPACITY MEANS MORE CHOICE, SO WE TAILOR OUR PRODUCTION TO SATISFY GROWING DEMAND FOR DAIRY INGREDIENTS AND SPECIALTY PRODUCTS.

Some ingredients highlights:

- An $11 million upgrade has doubled capacity of the lactoferrin plant at Hautapu. Lactoferrin is an iron-binding protein used in infant formula and health foods and is in high demand in Asia. This investment means we can secure our position in these markets.
- The first individually wrapped slices of cheese, the most in-demand cheese product used in foodservice and home kitchens, are now coming off the line at Eltham. This plant will produce 2.3 billion slices annually, destined for more than 100 markets around the world.
- Clandeboye's new mozzarella plant is running 24 hours a day, making enough cheese to top 300 million pizzas a year in our global markets. This premium-performance mozzarella is one of our most sought-after cheeses, destined for pizzas across China, Asia and the Middle East.

WHEY PROTEIN CONCENTRATE

Used in protein bars, sport beverages and protein gels.

- In Australia, work on the rebuild of our Stanhope plant has begun. Stanhope will produce 45,000 MT of cheese a year for our global markets, increasing demand for local milk supply in Australia, and provide whey to our Darnum and Dennington nutritional plants. Stanhope is playing to our Australian ingredients strengths in cheese, whey and nutritionals.

USEFUL FACT

Anhydrous Milk Fat (AMF) is used as an ingredient in chocolate, confectionery products, ice cream and cheese processing.

- Our Heerenveen plant in Europe is now producing a highly functional whey protein concentrate for use in protein sports and nutrition bars, protein-fortified foods and yoghurt applications. The Darnum plant will use ingredients from Heerenveen for infant formula destined for China through our Beingmate partnership.
- The new Reverse Osmosis, Milk Protein Concentrate and Anhydrous Milk Fat plants at Edendale have increased our value-add portfolio, enabling us to meet changing product trends and customer demands more responsively. New technology in the plants makes them some of the most efficient in the world and the additional capacity gives us more optionality during the peak of the season.
- Our Pahiatua high-efficiency plant came online in August, producing WMP destined for more than 20 markets worldwide, making the most of milk growth from our farmers in the lower North Island. It has been a valuable addition to our asset base ahead of this season's peak, providing more capacity that allowed us to process milk in a way that delivers the most value to shareholders.

OUR **MARKETS**

AIMING FOR LEADERSHIP

In consumer and foodservice, we are aiming for leadership positions in eight strategic markets to create more value from volume.

ANCHOR™ AUSTRALIA

A new range of Anchor™ creams in Australia is aimed at the country's food and culinary culture.

CONSUMER AND FOODSERVICE

In consumer and foodservice we are aiming for leadership positions in eight strategic markets to create more value from the volume we sell to customers and consumers. We are making steady progress as we build a larger customer base in foodservice and secure a place in consumers' diets.

Some consumer highlights:

- Our oldest brand, Anchor™, is even more global as we have introduced it to consumers in new markets in formats we know will meet local needs. We have launched Anchor™ Fortified Milk Drink in Ethiopia, in Fonterra's first major move into Africa. Using New Zealand milk powder, it is specially formulated with more than 30 nutrients to provide Ethiopians with affordable, high-quality dairy nutrition. Ethiopia has the second largest population in Africa with close to 100 million people. We worked with the Food and Nutrition Society of Ethiopia to ensure that the product provides children with the essential nutrients they may be missing from their daily diet.
- In Egypt, a long-established market for our bulk butter, we have launched Anchor™ butter in consumer formats, teaming up with local food company Sakr Group to access supermarkets and hypermarkets.
- Consumers in Sri Lanka are now enjoying Anchor™ in a liquid format, complementing our Anchor™ milk powder range. Anchor™ Liquid Milk is made with milk sourced from our dairy farmers in Sri Lanka.

USEFUL FACT

Anchor™ is also at home in Australia following the launch of Anchor™ Pure Cream, Anchor™ Thickened Cream and Anchor™ Light Thickened Cream.

- Australian consumers have been the first to taste Anchor™ milk processed with new microfiltration technology that extends the shelf life of the milk to 21 days without using additives or preservatives.
- Our new blending and packing plant in Indonesia is supporting the growth of Anchor™ and our other consumer brands. The new plant has the capacity to pack around 16,000 MT of dairy ingredients a year – that is a pack of Anlene™, Anmum™ and Anchor™ Boneeto every second, or 87,000 packs every day.

FOODSERVICE

Our aim is to grow foodservice into a $5 billion business by 2023. Our strategy of working with chefs to produce innovative answers to questions such as improving profitability and reducing waste is paying off in growing volume and value.

Some foodservice highlights:

- Our foodservice business now operates in 42 cities in China and has scooped up 55 awards from customers. We are supplying milk from our China farms to a chain of 700 outlets for a leading foodservice brand. In addition, New Zealand Anchor™ UHT milk is in 300 outlets.
- Fonterra's premium Anchor™ brand is already a leading player in China's dairy cream segment. Supporting this is our new Fonterra Application Centre in Guangzhou, which was opened in November. The centre complements our Shanghai facility and reflects the growing demand for the company's premium Anchor™ brand foodservice products and accompanying services.
- In our Middle East and Africa markets, foodservice growth is being driven by our Anchor™ Innovation Kitchen in Dubai and master classes for local chefs. Anchor™ cream cheese has also been launched in the Middle East.

USEFUL FACT

China foodservice has an ambitious goal to increase Anchor™ cream sales at 40 per cent compound annual growth to 2018.

- Australian foodservice distributors have voted Fonterra their top dairy supplier. In 2015 Fonterra was named chilled supplier of the year and most improved supplier of the year.

GROUP **OVERVIEW**

Delivering on our strategy of producing a strong ingredients performance and moving more milk higher up the value chain.

12.6 B LME

SALES VOLUME
Up eight per cent compared to the same period last year.

HIGHLIGHTS

- A strong New Zealand ingredients performance
- Moved an additional 235 million LME into the consumer and foodservice business
- Higher margins across the consumer and foodservice business
- Ongoing financial discipline and strong cash flow strengthened the Co-operative and reduced gearing

Sales volume increased to 2.3 million MT for the six months to 31 January 2016, up six per cent compared to the same period last year.

Key drivers of the volume growth were New Zealand ingredients, where strong sales cleared our higher opening inventory position following the increase in late season milk flows in the 2014/15 season, and consumer and foodservice with growth across the business. In addition international farming ventures had new farms coming into operation during the period.

The Co-operative delivered significantly higher normalised earnings before interest and tax (EBIT) of $665 million for the six months to 31 January 2016, up 77 per cent compared to the first half last year. The largest contributors to the strong performance were:

- New Zealand ingredients, where the business benefited from improved product mix returns and efficiencies and no peak costs.
- Asia and Greater China consumer and foodservice, which delivered strong growth in earnings benefiting from volume growth in foodservice and increasing margins due to lower input costs.

GROWTH IN ASIA AND GREATER CHINA

Asia and Greater China consumer and foodservice delivered strong growth in earnings.

NZD MILLION	SIX MONTHS ENDED 31 JANUARY 2016	SIX MONTHS ENDED 31 JANUARY 2015	CHANGE
Volume (LME, billion)	**12.6**	11.7	8%
Volume ('000 MT)	**2,324**	2,189	6%
Sales revenue	**8,838**	9,746	(9%)
Gross margin	**1,873**	1,552	21%
Gross margin percentage	**21%**	16%	–
Operating expenses	**(1,312)**	(1,337)	(2%)
Reported EBIT	**752**	483	56%
Normalised EBIT	**665**	376	77%
Net finance costs	**(266)**	(303)	(12%)
Tax (expense)/credit	**(77)**	3	–
Net profit after tax	**409**	183	123%
Earnings per share (cents)	**25**	10	150%
Dividend per share (cents)	**20**	10	100%
Gearing ratio[1]	**49%**	51%	–

1 Gearing ratio is economic interest-bearing debt divided by economic net interest-bearing debt, plus equity, excluding cash flow hedge reserve.

GROUP **OVERVIEW**

77% ↑

INCREASE IN NORMALISED EBIT

The Co-operative delivered a significantly higher normalised EBIT of $665 million.

In addition, Oceania had a strong performance and Latin America had solid growth other than in Venezuela where changes were made to the business as a result of the local economy.

Management is addressing challenges in Australia and international farming ventures. In Australia, earnings continued to be impacted by an adverse product mix due to a slower than expected recovery in the nutritionals business and the fire at the Stanhope cheese factory, but we have a clear plan in place and are on track to return the business to profitability. International farming ventures' earnings were impacted by the low domestic milk price in China. However, we have managed to significantly reduce on-farm costs in China to offset the lower milk price, which was RMB0.95 per litre lower than the first half last year.

We continued our strong focus on cost control. Benefits from the transformation project, realised in the second quarter, have been reinvested in additional selling and marketing costs to drive higher volumes. Operating expenses were two per cent lower in the first half to 31 January 2016 compared to the first half last year.

Net finance costs for the six months were $266 million, $37 million lower than the same period last year. Tax expense from operations for the first half was up compared to the same period last year due to higher tax payable relating to the increased pre-tax profit, as well as a tax charge for capital gains relating to the sale of DairiConcepts. This was partially offset by the tax credit in relation to the half-year dividend.

IMPROVED MARGINS

Consumer and foodservice achieved higher margins across the business.

$1.9B

OPERATING CASHFLOW

Operating cash flow was $1.9 billion higher due to higher EBIT, significant working capital improvements and suppliers payable returning to normal levels.

BALANCE SHEET AND CASH FLOW

Ongoing financial discipline and strong cash flow have enabled us to strengthen the Co-operative and reduce gearing. The gearing ratio has reduced to 49 per cent compared to 51 per cent in the previous year. This reflects the increase in equity and a small reduction in economic net interest-bearing debt; this has been achieved after taking into account the payment for the investment in Beingmate in the second half last year and the higher dividend payment in October 2015, which otherwise would have increased debt. We are on target to reduce the gearing ratio to between 40 and 45 per cent by year-end.

Free cash flow for the six months to 31 January 2016 was $2.1 billion higher than the first half last year, reflecting improvements in both operating and investing cash flows.

Operating cash flow was up $1.9 billion due to higher EBIT, significant working capital improvements and suppliers payable returning to normal levels.

Working capital was lower, predominantly as a result of higher sales volume in New Zealand ingredients and lower inventory valuation due to the lower milk price, plus improved terms for receivables and payables.

Inventory volume was nine per cent lower than the first half last year as a result of strong growth in sales volume, which cleared our higher opening inventory position following the increase in late season milk flows in the 2014/15 season.

Investing cash flow improved by $169 million relative to the first half last year, benefiting from the sale of non-strategic assets including Fonterra's investment in DairiConcepts and Bega™ shares in Australia, and lower capital expenditure. This lower capital expenditure was achieved after including payments made this year that related to last year.

Fonterra has credit ratings in the A category and a strong liquidity and debt maturity profile.

INGREDIENTS

This platform includes the ingredients businesses in New Zealand, Australia and Latin America. It also includes Fonterra Farm Source™ (formerly RD1), a rural supplies retailer in New Zealand.

$617M

NORMALISED EBIT

Ingredients normalised EBIT of $617 million was up 27 per cent.

RECORD EXPORT VOLUMES

Fonterra exported record volumes for a single month in December 2015, with more than 300,000 MT shipped to global markets.

HIGHLIGHTS

- A strong performance from New Zealand ingredients
- Higher sales volume, no peak costs, improved product mix returns and efficiencies
- Earnings partially offset by an adverse product mix and the higher relative cost of milk in Australia

VOLUME

Milk collection across New Zealand for the first eight months of the 2015/16 season to 31 January 2016 was 1,107 million kgMS, four per cent lower than the same period last season. Lower milk collections for the 2015/16 season are largely a result of the low milk price environment, where farmers have reduced stocking rates and supplementary feeding in order to reduce costs.

In Australia, milk collection for the seven months to 31 January 2016 reached 81 million kgMS, one per cent behind the same period last season. Production was lower as a result of unfavourable pasture growth, due to dry conditions across most dairying regions.

USEFUL FACT

Our New Zealand daily milk collection peaked at 87 million litres on 22 October 2015 for the 2015/16 season.

Despite lower milk collection, sales volume grew by six per cent. The increased sales were mainly due to New Zealand ingredients where we cleared our opening inventory position. Fonterra exported record volumes for a single month in December 2015, with more than 300,000 MT shipped to global markets.

NEW ZEALAND PRODUCT MIX GROSS MARGIN

Increased by 38 per cent to $836 million.

NZD MILLION	SIX MONTHS ENDED 31 JANUARY 2016	SIX MONTHS ENDED 31 JANUARY 2015	CHANGE
Volume (LME, billion)	**11.8**	11.1	6%
Volume ('000 MT)	**1,624**	1,538	6%
Sales revenue	**6,709**	7,617	(12%)
Total gross margin	**992**	718	38%
– New Zealand product mix	**836**	608	38%
New Zealand reference products	**351**	425	(17%)
New Zealand non-reference products	**485**	183	165%
– Australian ingredients	**9**	12	(25%)
– Other gross margin[1]	**147**	98	50%
Normalised EBIT[2, 3]	**617**	486	27%
New Zealand ingredients gross margin per MT			
– Reference products ($ per MT)	**331**	413	(20%)
– Non-reference products ($ per MT)	**1,412**	640	121%

1 Prior period numbers have been restated to exclude group unallocated costs.
2 Normalised EBIT for ingredients excludes unallocated costs.
3 The 2015 normalised EBIT has been restated to exclude group unallocated costs.

INGREDIENTS

NEW ZEALAND INGREDIENTS – REVENUE AND VOLUME	SIX MONTHS ENDED 31 JANUARY 2016	SIX MONTHS ENDED 31 JANUARY 2015	CHANGE
Sales volume ('000 MT)			
Reference products	**1,061**	1,028	3%
Non-reference products[1]	**343**	286	20%
Production volume ('000 MT)			
Reference products	**1,335**	1,381	(3%)
Non-reference products	**476**	478	–
Revenue per MT (NZD)			
Reference products	**3,209**	3,990	(20%)
Non-reference products[1]	**5,038**	6,247	(19%)

1 Sales volume and revenue excludes bulk liquid milk. The bulk milk volume for the six months ended 31 January 2016 was 37,000 MT.

December's sales volume was approximately 10 per cent higher than the previous record month in December 2014. The growth in volumes reflects the successful performance of our direct-to-customer ingredients sales despite the tough global market environment.

Over the past 12 months, the volume of sales to China decreased by around 14 per cent and this was offset by higher volumes into other regions across Southeast Asia, Europe, Middle East and Africa, and the United States. In the past six months sales increased to China compared to the previous period in spite of the uncertainty in that region. Together with increased sales to customers in the United States and Southeast Asia, this enabled the business to build on its strong position in the second half of 2015.

VALUE

Ingredients delivered another strong performance for the first half to 31 January 2016 with normalised EBIT up 27 per cent to $617 million. This was driven by New Zealand ingredients, where our plant investments and improvement programmes achieved efficiency gains, better yields and quality benefits.

With the increased capacity and lower milk supply, it was possible to optimise our product mix in New Zealand by adjusting our production away from reference products such as WMP towards non-reference products such as cheese and casein to take advantage of the change in relative commodity prices.

The overall New Zealand ingredients product mix gross margin, including both reference and non-reference products, increased by 38 per cent to $836 million. This reflects the value proposition of our ingredients products and services to our global customer base, which uses our high-quality ingredients in numerous product applications. These include consumer powder formats, recombined milk, flavoured milk, drinking and spoonable yoghurt, confectionery, fresh and cream cheese, sports drinks and infant formula.

$485M

NON-REFERENCE PRODUCTS

Gross margin increased significantly to $485 million, up 165 per cent.

USEFUL FACT

Reference products are dairy products used in the calculation of the Farmgate Milk Price. These are Whole Milk Powder (WMP), Skim Milk Powder (SMP), Buttermilk Powder, Butter and Anhydrous Milk Fat (AMF).

Reference products delivered a gross margin of $351 million compared to $425 million in the first half last year, while gross margin for non-reference products increased significantly to $485 million, up 165 per cent on the same period last year. This was mainly due to the higher gross margin on opening inventory of non-reference products and the change in product mix with higher volumes of non-reference products sold, compared to the first half last year.

Reference product gross margin benefited from higher volumes as a result of successful sales of our opening inventory position and good sales of product manufactured in the first half. However, the result was impacted by sales phasing relative to milk price recognition and advantages gained from quarterly pricing in a steeply falling market in the first half last year were not repeated. Across the season, returns from reference products are comparatively stable, however earnings can vary between halves.

Earnings benefited from additional capacity in New Zealand and the lower milk supply through the peak collection period, which resulted in no costs relating to additional transport or capacity constraints for the first half compared to peak costs of $48 million in the first half last year.

Earnings for the ingredients platform were partially offset by Australia, where profitability continued to be impacted by a negative product mix due to the lower proportion of nutritionals and cheese sales. Gross margin for ingredients manufactured in Australia was $9 million, down 25 per cent, with an EBIT loss of $28 million, as earnings continued to be impacted by the fire at the Stanhope cheese plant and the lower proportion of nutritionals being produced at Darnum.

We have a clear plan in Australia and are making progress on returning the business to profitability. The Stanhope cheese plant rebuild is underway and we have signed a number of major supply agreements in nutritionals at Darnum. As these come on stream the business will return to profitability and the product mix will improve with a higher proportion of the higher value nutritionals and cheese volumes improving returns over the next three years.

CONSUMER AND **FOODSERVICE**

This platform comprises the consumer brands and foodservice businesses in Asia, Greater China, Latin America and Oceania.

235M

HIGHER VALUE

An additional 235 million LME moved into higher-value consumer and foodservice.

VOLUME GROWTH

LME volume was up 10 per cent with broad-based volume growth across consumer and foodservice.

HIGHLIGHTS

- Additional 235 million LME moved into higher-value consumer and foodservice
- Delivering to plan with strong volume and margin growth
- Broad-based performance across the business
- Result reflects strength of our brands and foodservice expansion

VOLUME

Sales volume increased 10 per cent to 2,484 million LME for the six months to 31 January 2016 with broad-based volume growth across the consumer and foodservice regions.

Regions with the largest volume growth include:

- Greater China, predominantly in Taiwan and in mainland China, where the foodservice business was rolled out into an additional two cities, taking the total to 42.
- Oceania, where volume growth was a result of strong demand for fresh white milk and butter in New Zealand and for UHT milk exports to China.
- Asia consumer and foodservice, primarily due to the success of our chef-led foodservice model and strategy that targets three key channels.

USEFUL FACT

Liquid Milk Equivalent (LME) is a measure of the quantity of milk used in a processed dairy product based on the amount of fat and protein in the product. It does not consider lactose, minerals and water content.

FOODSERVICE CHEF-LED APPROACH

Our chef-led approach targets three key channels: Asian bakery, Italian kitchen and quick service restaurants.

NZD MILLION	SIX MONTHS ENDED 31 JANUARY 2016	SIX MONTHS ENDED 31 JANUARY 2015	CHANGE
Volume (LME, million)	**2,484**	2,249	10%
Volume ('000 MT)	**887**	840	6%
Sales revenue	**3,220**	3,256	(1%)
Normalised EBIT	**241**	116	108%

CONSUMER AND **FOODSERVICE**

CONSUMER AND FOODSERVICE PERFORMANCE

	LME (MILLION)			NORMALISED EBIT ($M)		
SIX MONTHS ENDED	31 JANUARY 2016	31 JANUARY 2015	CHANGE	31 JANUARY 2016	31 JANUARY 2015	CHANGE
Consumer and foodservice	**2,484**	2,249	10%	**241**	116	108%
Oceania	**960**	868	11%	**33**	10	230%
Asia	**783**	733	7%	**108**	56	93%
Greater China	**440**	355	24%	**68**	15	353%
Latin America	**301**	293	3%	**32**	35	(9%)

PERFORMANCE HIGHLIGHTS

Growth in normalised EBIT was primarily a result of lower input costs and volume growth.

VALUE

Our consumer and foodservice platform delivered to plan, with an additional 235 million LME moving higher up the value chain and strong margin growth. This built on the solid performance in the second half of 2015.

Normalised EBIT was $241 million, up 108 per cent compared to the first half last year. This was a result of a broad performance across the regions. Growth in normalised EBIT was primarily due to volume growth and lower input costs.

The lower input costs resulting from the fall in dairy ingredients pricing benefited our consumer and foodservice businesses in Asia, Greater China and Oceania, where products are primarily sourced from New Zealand. The lower milk price in Chile is now more closely aligned to global dairy prices and also resulted in lower input costs. In Australia, input costs were similar to the first half of last year, resulting in a slight improvement in gross margins.

We reduced our price points in most markets due to lower dairy prices. However, the quality and reputation of our products limited the impact of lower prices.

REGIONAL UPDATE

Asia

Asia delivered another strong performance, building on the second half of last year with normalised EBIT of $108 million for the six months to 31 January 2016, up 93 per cent compared to the first half last year.

Volume growth in LME was up seven per cent with foodservice and the Sri Lankan consumer business being the largest contributors. In Sri Lanka, a successful marketing campaign and the launch of Anchor™ UHT delivered strong volume growth, while foodservice increased volume across most markets, with our focused channel strategy delivering good returns. This growth was partially offset by lower volumes in advanced nutrition and the slowing economy in Malaysia and Indonesia.

LATIN AMERICA
Normalised EBIT of $32 million was due to good performances from Soprole and the Caribbean.

Asia consumer and foodservice delivered a significant improvement in gross margin as a result of our focused price management and change in mix towards higher-margin products in our foodservice business. The higher margins reflect the strength of our chef-led approach and channel strategy that is focused on Asian bakery and Italian kitchen across Asia. Flavoured Anchor™ UHT milk for kids continues to perform well in Sri Lanka and our everyday nutrition Anchor™ products achieved good volume and value growth. In Ethiopia we have successfully launched Anchor™ Fortified Milk Drink, a low-cost milk powder, and results were strong.

Latin America

In Latin America, there was volume growth in Brazil, Chile and the Caribbean; although, in Venezuela, limited access to imported materials impacted volume. Normalised EBIT of $32 million was due to good performances from Soprole and the Caribbean but was offset by lower normalised EBIT in Venezuela, due to challenges in the local economic environment, and in Brazil, where earnings in the first half were impacted by costs of implementing a new sales and distribution model.

In Chile, Soprole has a strong leadership position and the business delivered a very strong result in the first half.

Last year, the drought in the south of Chile meant the milk price was significantly higher than the price indicated by global commodities, however it is now more closely aligned to global prices. As a result the business also benefited from lower input costs. The new distribution centre is operating well, delivering improved efficiencies.

In Brazil, a significant change in our route to market is underway and is already delivering volume growth in a dairy market that is declining due to the economic recession. However, the implementation costs have impacted earnings in the first half. The benefits of this change are positioning the business well for the future to support growth in earnings.

CONSUMER AND **FOODSERVICE**

EARNINGS UP IN OCEANIA

Oceania consumer and foodservice delivered a significant increase in normalised EBIT to $33 million.

230%

FOODSERVICE BUSINESS

In the Australian domestic foodservice business, we achieved margin expectations and increased volumes in a highly competitive market.

Venezuela remains a good business for Fonterra in the long term and we have been going through a transformation process to adapt to the changing regulatory environment and limit the exchange rate risk in the business. We are implementing a plan to manage the business based on local funding and sourcing of ingredients and input costs in Bolívars, which will significantly reduce our exposure.

Limited access to US dollars in Venezuela impacted our ability to source offshore materials required for our factories there, and has also made it considerably more expensive to purchase those materials. While locally-sourced alternatives are being developed, production has been reduced to maximise profitability. Earnings were impacted by the devaluation of the Venezuelan exchange rate compared to last year.

Oceania

Oceania consumer and foodservice delivered a significant increase in normalised EBIT, up 230 per cent to $33 million for the first half.

USEFUL FACT

Western Star™ butter, a 125-year-old brand, is Australia's number one branded butter and is spreadable.

Volume growth was 11 per cent to 960 million LME, primarily as a result of strong demand for UHT milk, fresh white milk and butter. Gross margin was supported by an improved manufacturing performance compared to the first half last year, through better utilisation with the increased demand for UHT milk.

PROGRAMMES AND INNOVATION

We continue to invest in programmes and innovation that support our market-leading brands, such as Western Star™.

In our Australian domestic foodservice business, we achieved margin expectations and increased volumes in a highly competitive market, reflecting the strength of our chef-led approach. The successful launch of Anchor™ in Australia further strengthens the consumer business. We divested the challenged Australian yoghurt and dairy desserts business, and will continue to invest in programmes and innovation that support our market-leading brands in key retail categories, including Western Star™, Perfect Italiano, Mainland and Bega™.

In New Zealand, we reduced prices and effective price management enabled us to maintain market share. Continued strong focus on cost control across Oceania resulted in lower operating costs, contributing to the significant EBIT growth.

Greater China

Greater China delivered another strong result, with volume growth of 24 per cent to 440 million LME and normalised EBIT of $68 million for the first half, up from $15 million in the same period last year.

Volume growth was primarily due to an increase in UHT milk and foodservice in China, where there was particularly strong demand for butter and mozzarella. We also continued the foodservice rollout into two new cities in the first half, and the growth in volume was broad-based across most markets in Greater China.

USEFUL FACT

Fonterra's butter is sought after around the world because it is made with milk that has come from predominantly pasture-grazed cows.

We reduced our price points in China as a result of lower dairy prices; however the impact of this was reduced due to the quality of our products and strength of our brands.

INTERNATIONAL **FARMING VENTURES**

This platform comprises the international farming operations in China.

54%

SALES VOLUME

Sales volume of raw milk increased to 103 million LME due to additional farms coming on stream.

OPERATIONAL SAVINGS

Operational savings include lower labour costs, a decrease in feed costs and improved procurement processes.

HIGHLIGHTS

- Progress made on business plan to support New Zealand exports to China and build an integrated dairy business
- Access to secure, high-quality, local supply of around 250 million litres annually
- Scale achieved to capture downstream value
- Operating loss due to low milk price, partly offset by strong on-farm operational efficiencies

VOLUME

Sales volume of raw milk for the six months to 31 January 2016 increased to 103 million LME, up 54 per cent compared to the first half last year, largely due to the additional farms at Hub 2 (Ying) coming on stream during the period. This equates to 7.6 million kgMS of milk produced.

USEFUL FACT

A typical single farm can accommodate 3,500 milking cows.

At full capacity, these farms will be able to produce a combined volume of 400 million LME. In the current financial year they will produce around 250 million LME, reflecting the commissioning throughout the year and the start-up phase.

CHINA FARMS KEY TO INTEGRATED BUSINESS

The Co-op now has access to around 250 million litres of raw milk on an annual basis and has achieved sufficient scale to capture downstream value.

NZD MILLION	SIX MONTHS ENDED 31 JANUARY 2016	SIX MONTHS ENDED 31 JANUARY 2015	CHANGE
Volume (LME, million)	**103**	67	54%
Sales revenue	**95**	66	44%
Normalised EBIT	**(29)**	(27)	(7%)

VALUE

Our farms in China are key to our integrated dairy business and the Co-operative now has access to raw milk on an annual basis and has achieved sufficient scale to capture downstream value.

In the first half, the low milk price in China and the development phase of the farms continued to impact earnings. The business had a normalised EBIT loss of $29 million, in line with the loss of $27 million in the first half of last year. The average Chinese milk price over the first half last year reduced by RMB0.95, but strong on-farm efficiencies enabled us to largely offset this. While the efficiencies are being fully absorbed by the impact of the milk price, they position the business well for the future when the milk price recovers. Operational savings include lower labour costs, a decrease in feed costs and improved procurement processes.

USEFUL FACT

At full capacity, Ying hub and Yutian hub can each produce around 200 million litres per annum.

INTERIM **FINANCIAL STATEMENTS**

For the six months ended
31 January 2016

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DIRECTORS' STATEMENT

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

The Directors of Fonterra Co-operative Group Limited (Fonterra) 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 2016.

The Directors present financial statements for the six months which fairly present the financial position of the Group and its financial performance and cash flows for that period.

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

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the NZX Listing Rules.

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 2016 presented on pages 32 to 48.

For and on behalf of the Board:

JOHN WILSON
CHAIRMAN
22 March 2016

DAVID JACKSON
DIRECTOR
22 March 2016

INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

		GROUP $ MILLION		
		SIX MONTHS ENDED		YEAR ENDED
	NOTES	**31 JAN 2016 UNAUDITED**	31 JAN 2015 UNAUDITED	31 JUL 2015 AUDITED
Revenue from sale of goods		**8,838**	9,746	18,845
Cost of goods sold	2	**(6,965)**	(8,194)	(15,567)
Gross profit		**1,873**	1,552	3,278
Other operating income		**127**	188	288
Selling and marketing expenses		**(363)**	(356)	(693)
Distribution expenses		**(311)**	(318)	(700)
Administrative expenses		**(445)**	(444)	(874)
Other operating expenses		**(193)**	(219)	(493)
Net foreign exchange gains		**22**	51	70
Share of profit of equity accounted investees		**42**	29	66
Profit before net finance costs and tax		**752**	483	942
Finance income		**6**	20	39
Finance costs		**(272)**	(323)	(557)
Net finance costs		**(266)**	(303)	(518)
Profit before tax		**486**	180	424
Tax (expense)/credit		**(77)**	3	82
Profit after tax		**409**	183	506
Profit after tax is attributable to:				
Equity holders of the Co-operative		**404**	165	466
Non-controlling interests		**5**	18	40
Profit after tax		**409**	183	506

	GROUP $		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2016 UNAUDITED	31 JAN 2015 UNAUDITED	31 JUL 2015 AUDITED
Earnings per share:			
Basic and diluted earnings per share	**0.25**	0.10	0.29

The accompanying notes form part of these interim financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

	GROUP $ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2016 UNAUDITED	31 JAN 2015 UNAUDITED	31 JUL 2015 AUDITED
Profit after tax	**409**	183	506
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges:			
– Net fair value losses	**(22)**	(957)	(1,361)
– Transferred and reported in revenue from sale of goods	**446**	128	501
– Tax (expense)/credit on cash flow hedges	**(119)**	232	241
Net investment hedges:			
– Net fair value gains/(losses) on hedging instruments	**25**	(81)	(164)
– Tax (expense)/credit on net investment hedges	**(7)**	23	46
Available-for-sale investments:			
– Net fair value gains/(losses) on available-for-sale investments	**10**	3	(2)
– (Gains)/losses on sale reclassified to income statement	**(7)**	–	–
Foreign currency translation (losses)/gains attributable to equity holders	**(171)**	235	385
Foreign currency translation reserve transferred to income statement	**(1)**	78	78
Hyperinflation movements attributable to equity holders	**(9)**	4	20
Share of equity accounted investees' movements in reserves	**5**	7	4
Total items that may be reclassified subsequently to profit or loss	**150**	(328)	(252)
Items that will not be reclassified subsequently to profit or loss:			
Foreign currency translation (losses)/gains attributable to non-controlling interests	**(55)**	5	(6)
Hyperinflation movements attributable to non-controlling interests	**(6)**	3	13
Total items that will not be reclassified subsequently to profit or loss	**(61)**	8	7
Total other comprehensive income/(expense) recognised directly in equity	**89**	(320)	(245)
Total comprehensive income/(expense)	**498**	(137)	261
Total comprehensive income/(expense) is attributable to:			
Equity holders of the Co-operative	**554**	(163)	214
Non-controlling interests	**(56)**	26	47
Total comprehensive income/(expense)	**498**	(137)	261

The accompanying notes form part of these interim financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 JANUARY 2016

		GROUP $ MILLION		
		AS AT		
	NOTES	**31 JAN 2016 UNAUDITED**	31 JAN 2015 UNAUDITED	31 JUL 2015 AUDITED
ASSETS				
Current assets				
Cash and cash equivalents		**338**	266	342
Trade and other receivables		**2,282**	2,461	2,322
Inventories		**4,071**	4,651	3,025
Tax receivable		**13**	36	22
Derivative financial instruments		**43**	265	44
Assets held for sale		**107**	–	90
Other current assets		**117**	364	232
Total current assets		**6,971**	8,043	6,077
Non-current assets				
Property, plant and equipment		**6,086**	5,778	6,159
Equity accounted investments		**1,065**	298	1,185
Livestock		**358**	264	331
Intangible assets		**3,138**	3,354	3,273
Deferred tax assets		**579**	555	732
Derivative financial instruments		**483**	335	373
Other non-current assets		**396**	169	185
Total non-current assets		**12,105**	10,753	12,238
Total assets		**19,076**	18,796	18,315
LIABILITIES				
Current liabilities				
Bank overdraft		**15**	13	39
Borrowings	5	**1,397**	2,660	1,681
Trade and other payables		**1,983**	1,997	1,984
Owing to suppliers		**1,213**	978	159
Tax payable		**44**	17	39
Derivative financial instruments		**431**	973	993
Provisions		**48**	49	77
Other current liabilities		**36**	32	59
Total current liabilities		**5,167**	6,719	5,031
Non-current liabilities				
Borrowings	5	**6,314**	4,840	5,879
Derivative financial instruments		**429**	492	415
Provisions		**157**	185	186
Deferred tax liabilities		**83**	121	109
Other non-current liabilities		**21**	17	36
Total non-current liabilities		**7,004**	5,655	6,625
Total liabilities		**12,171**	12,374	11,656
Net assets		**6,905**	6,422	6,659
EQUITY				
Subscribed equity		**5,822**	5,807	5,814
Retained earnings		**1,458**	1,151	1,289
Foreign currency translation reserve		**(264)**	(200)	(110)
Cash flow hedge reserve		**(232)**	(515)	(537)
Other reserves		**11**	6	17
Total equity attributable to equity holders of the Co-operative		**6,795**	6,249	6,473
Non-controlling interests		**110**	173	186
Total equity		**6,905**	6,422	6,659

The accompanying notes form part of these interim financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE CO-OPERATIVE							
GROUP $ MILLION	SUBSCRIBED EQUITY	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION RESERVE	CASH FLOW HEDGE RESERVE	OTHER RESERVES	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
As at 1 August 2015	**5,814**	**1,289**	**(110)**	**(537)**	**17**	**6,473**	**186**	**6,659**
Profit after tax	**–**	**404**	**–**	**–**	**–**	**404**	**5**	**409**
Other comprehensive income/(expense)	**–**	**5**	**(154)**	**305**	**(6)**	**150**	**(61)**	**89**
Total comprehensive income/(expense)	**–**	**409**	**(154)**	**305**	**(6)**	**554**	**(56)**	**498**
Transactions with equity holders in their capacity as equity holders:								
Dividend paid to equity holders of the Co-operative	**–**	**(240)**	**–**	**–**	**–**	**(240)**	**–**	**(240)**
Equity instruments issued	**8**	**–**	**–**	**–**	**–**	**8**	**–**	**8**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(20)**	**(20)**
As at 31 January 2016 (unaudited)	**5,822**	**1,458**	**(264)**	**(232)**	**11**	**6,795**	**110**	**6,905**
As at 1 August 2014	5,807	1,059	(455)	82	(1)	6,492	42	6,534
Profit after tax	–	165	–	–	–	165	18	183
Other comprehensive income/(expense)	–	7	255	(597)	7	(328)	8	(320)
Total comprehensive income/(expense)	–	172	255	(597)	7	(163)	26	(137)
Transactions with equity holders in their capacity as equity holders:								
Dividend paid to equity holders of the Co-operative	–	(80)	–	–	–	(80)	–	(80)
Acquisition of subsidiaries	–	–	–	–	–	–	120	120
Dividend paid to non-controlling interests	–	–	–	–	–	–	(15)	(15)
As at 31 January 2015 (unaudited)	5,807	1,151	(200)	(515)	6	6,249	173	6,422
As at 1 August 2014	5,807	1,059	(455)	82	(1)	6,492	42	6,534
Profit after tax	–	466	–	–	–	466	40	506
Other comprehensive income/(expense)	–	4	345	(619)	18	(252)	7	(245)
Total comprehensive income/(expense)	–	470	345	(619)	18	214	47	261
Transactions with equity holders in their capacity as equity holders:								
Dividend paid to equity holders of the Co-operative	–	(240)	–	–	–	(240)	–	(240)
Acquisition of subsidiaries	–	–	–	–	–	–	120	120
Equity instruments issued	7	–	–	–	–	7	–	7
Dividend paid to non-controlling interests	–	–	–	–	–	–	(23)	(23)
As at 31 July 2015 (audited)	5,814	1,289	(110)	(537)	17	6,473	186	6,659

The accompanying notes form part of these interim financial statements.

CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

	GROUP $ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2016 UNAUDITED	31 JAN 2015 UNAUDITED	31 JUL 2015 AUDITED
Cash flows from operating activities			
Profit before net finance costs and tax	**752**	483	942
Adjustments for:			
Foreign exchange (gains)/losses	**(113)**	5	(70)
Depreciation and amortisation	**286**	283	561
Other	**(59)**	(145)	(60)
	114	143	431
Decrease/(increase) in working capital:			
Inventories	**(1,051)**	(913)	713
Trade and other receivables	**(67)**	42	186
Amounts owing to suppliers	**1,054**	(793)	(1,612)
Payables and accruals	**162**	79	35
Other movements	**(9)**	(23)	28
Total	**89**	(1,608)	(650)
Cash generated from operations	**955**	(982)	723
Net taxes paid	**(31)**	(32)	(55)
Net cash flows from operating activities	**924**	(1,014)	668
Cash flows from investing activities			
Cash was provided from:			
– Proceeds from sale of business operations	**187**	62	62
– Proceeds from the sale of available-for-sale investments	**78**	–	–
– Proceeds from disposal of property, plant and equipment	**6**	5	20
– Proceeds from sale of livestock	**20**	20	30
– Other cash inflows	**1**	36	36
Cash was applied to:			
– Acquisition of business operations	**–**	(162)	(771)
– Acquisition of property, plant and equipment	**(530)**	(584)	(1,189)
– Acquisition of livestock	**(61)**	(70)	(121)
– Acquisition of intangible assets	**(53)**	(54)	(104)
– Co-operative Support loans	**(215)**	–	–
– Other cash outflows	**(11)**	–	(3)
Net cash flows from investing activities	**(578)**	(747)	(2,040)
Cash flows from financing activities			
Cash was provided from:			
– Proceeds from borrowings	**2,936**	3,120	7,470
– Proceeds from settlement of borrowing derivatives	**7**	35	–
– Interest received	**5**	3	8
Cash was applied to:			
– Interest paid	**(205)**	(262)	(427)
– Repayment of borrowings	**(2,754)**	(1,098)	(5,443)
– Settlement of borrowing derivatives	**(8)**	(36)	–
– Dividends paid to non-controlling interests	**(21)**	(15)	(23)
– Dividends paid to equity holders of the Co-operative	**(231)**	(80)	(233)
– Other cash outflows	**(1)**	–	–
Net cash flows from financing activities	**(272)**	1,667	1,352
Net increase/(decrease) in cash and cash equivalents	**74**	(94)	(20)
Cash and cash equivalents at the beginning of the year	**303**	319	319
Effect of exchange rate changes on cash balances	**(54)**	28	4
Cash and cash equivalents at the end of the period	**323**	253	303
Reconciliation of closing cash balances to the statement of financial position:			
Cash and cash equivalents	**338**	266	342
Bank overdraft	**(15)**	(13)	(39)
Closing cash balances	**323**	253	303

The accompanying notes form part of these interim financial statements.

BASIS OF PREPARATION

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

A) GENERAL INFORMATION

Fonterra Co-operative Group Limited (Fonterra or the Co-operative) is a co-operative company incorporated and domiciled in New Zealand. Fonterra is registered under the Companies Act 1993 and the Co-operative Companies Act 1996, and is an FMC Reporting Entity under the Financial Markets Conduct Act 2013. 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 ending 31 January 2016, comprise Fonterra and its subsidiaries (together the Group) and the Group's interest in its equity accounted investees.

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

B) BASIS OF PREPARATION

These consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34: Interim Financial Reporting and New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting. They have also been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They should be read in conjunction with the consolidated financial statements for the year ended 31 July 2015.

These consolidated interim financial statements are presented in New Zealand Dollars ($ or NZD), which is Fonterra's functional currency, and rounded to the nearest million, except where otherwise stated.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing these consolidated interim financial statements the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 July 2015.

C) ACCOUNTING POLICIES

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 2015. The accounting policy for the Fonterra Co-operative Support loans is set out below, as these loans were a new transaction for Fonterra during the period.

Fonterra Co-operative Support loans

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

PERFORMANCE

1 SEGMENT REPORTING

a) Operating segments

The Group has five reportable segments that reflect the Group's management and reporting structure as viewed by the Fonterra Management Team. Transactions between segments are based on estimated market prices.

REPORTABLE SEGMENT	DESCRIPTION
Global Ingredients and Operations	Represents the collection, processing and distribution of New Zealand milk, global sales and marketing of New Zealand and non-New Zealand milk products (including Quick Service Restaurants in Asia and Greater China), Global Brands and Nutrition, Co-operative Affairs, Fonterra Farm Source stores and Group Services.
Oceania	Represents Fast Moving Consumer Goods (FMCG) businesses in New Zealand (including export to the Pacific Islands) and all FMCG and ingredients businesses in Australia (including Milk Supply and Manufacturing). It includes foodservice sales in Australia and New Zealand.
Asia	Represents FMCG and foodservice businesses (excluding Quick Service Restaurants) in Asia (excluding Greater China), Africa and the Middle East.
Greater China	Represents FMCG, foodservice (excluding Quick Service Restaurants) and farming businesses in Greater China.
Latin America	Represents FMCG and ingredients businesses in South America and the Caribbean.

From 1 August 2015, Fonterra's organisational structure was realigned and as a result the Fonterra Farm Source stores have moved out of Oceania into Global Ingredients and Operations. Comparatives have been restated to reflect these changes.

a) Operating segments continued

	GROUP $ MILLION						
	GLOBAL INGREDIENTS AND OPERATIONS	OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	ELIMINATIONS	TOTAL GROUP
Segment income statement							
Six months ended 31 January 2016 (unaudited)							
External revenue	5,482	1,232	837	514	773	–	8,838
Inter-segment revenue	789	230	85	13	4	(1,121)	–
Revenue from sale of goods	6,271	1,462	922	527	777	(1,121)	8,838
Cost of goods sold	(5,296)	(1,240)	(630)	(389)	(531)	1,121	(6,965)
Segment gross profit	975	222	292	138	246	–	1,873
Selling and marketing expenses	(76)	(55)	(103)	(70)	(59)	–	(363)
Distribution expenses	(113)	(91)	(20)	(6)	(81)	–	(311)
Administrative and other operating expenses	(393)	(102)	(65)	(44)	(52)	18	(638)
Segment operating expenses	(582)	(248)	(188)	(120)	(192)	18	(1,312)
Net other operating income	102	20	1	18	4	(18)	127
Net foreign exchange gains/(losses)	45	–	(2)	(5)	(16)	–	22
Share of profit of equity accounted investees	36	–	–	4	2	–	42
Segment earnings before net finance costs and tax	576	(6)	103	35	44	–	752
(Deduct)/add normalisation adjustments (gains)/losses	(99)	12	–	–	–	–	(87)
Normalised segment earnings before net finance costs and tax	477	6	103	35	44	–	665
Normalisation adjustments							87
Finance income							6
Finance costs							(272)
Profit before tax							486
Profit before tax includes the following amounts:							
Depreciation	(171)	(26)	(6)	(13)	(19)	–	(235)
Amortisation	(37)	(11)	(2)	–	(1)	–	(51)
Normalisation adjustments consist of the following amounts:							
Gain on sale of DairiConcepts investment[1]	68	–	–	–	–	–	68
Time value of options[2]	31	–	–	–	–	–	31
Impairment of assets in Australia[3]	–	(12)	–	–	–	–	(12)
Total normalisation adjustments	99	(12)	–	–	–	–	87
Segment asset information:							
As at and for the six months ended 31 January 2016 (unaudited)							
Equity accounted investments	217	7	–	832	9	–	1,065
Capital expenditure[4]	306	25	11	93	18	–	453

1 The $68 million normalisation relates to other operating income.

2 The $31 million normalisation adjustment relates to net foreign exchange gains.

3 Of the total $12 million, $6 million relates to cost of goods sold and $6 million to other operating expenses.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

a) Operating segments continued

	GROUP $ MILLION						
	GLOBAL INGREDIENTS AND OPERATIONS	OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	ELIMINATIONS	TOTAL GROUP
Segment income statement							
Six months ended 31 January 2015 (unaudited)							
External revenue	6,340	1,260	776	425	945	–	9,746
Inter-segment revenue	801	251	92	–	1	(1,145)	–
Revenue from sale of goods	7,141	1,511	868	425	946	(1,145)	9,746
Cost of goods sold	(6,402)	(1,297)	(646)	(311)	(676)	1,138	(8,194)
Segment gross profit	739	214	222	114	270	(7)	1,552
Selling and marketing expenses	(70)	(53)	(95)	(77)	(61)	–	(356)
Distribution expenses	(108)	(85)	(16)	(5)	(104)	–	(318)
Administrative and other operating expenses	(398)	(105)	(55)	(48)	(80)	23	(663)
Segment operating expenses	(576)	(243)	(166)	(130)	(245)	23	(1,337)
Net other operating income	45	13	1	6	146	(23)	188
Net foreign exchange gains/(losses)	55	(2)	1	–	(3)	–	51
Share of profit of equity accounted investees	27	1	–	–	1	–	29
Segment earnings before net finance costs and tax	290	(17)	58	(10)	169	(7)	483
Add/(deduct) normalisation adjustments losses/(gains)	22	–	–	–	(129)	–	(107)
Normalised segment earnings before net finance costs and tax	312	(17)	58	(10)	40	(7)	376
Normalisation adjustments							107
Finance income							20
Finance costs							(323)
Profit before tax							180
Profit before tax includes the following amounts:							
Depreciation	(168)	(31)	(5)	(7)	(17)	–	(228)
Amortisation	(41)	(12)	(1)	–	(1)	–	(55)
Normalisation adjustments consist of the following amounts:							
Net gain on Latin America strategic realignment[1]	–	–	–	–	129	–	129
Time value of options[2]	(22)	–	–	–	–	–	(22)
Total normalisation adjustments	(22)	–	–	–	129	–	107
Segment asset information:							
As at and for the six months ended 31 January 2015 (unaudited)							
Equity accounted investments	279	7	–	4	8	–	298
Capital expenditure[3]	390	35	18	263	57	–	763

1 Of the $129 million normalisation adjustment, $141 million relates to other operating income, $4 million to cost of goods sold and $8 million to other operating expenses.

2 The $22 million normalisation adjustment relates to net foreign exchange losses.

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

a) Operating segments continued

	GROUP $ MILLION						
	GLOBAL INGREDIENTS AND OPERATIONS	OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	ELIMINATIONS	TOTAL GROUP
Segment income statement							
Year ended 31 July 2015 (audited)							
External revenue	11,861	2,438	1,551	807	2,188	–	18,845
Inter-segment revenue	1,570	480	181	–	2	(2,233)	–
Revenue from sale of goods	13,431	2,918	1,732	807	2,190	(2,233)	18,845
Cost of goods sold	(11,866)	(2,577)	(1,224)	(599)	(1,516)	2,215	(15,567)
Segment gross profit	1,565	341	508	208	674	(18)	3,278
Selling and marketing expenses	(147)	(103)	(176)	(135)	(132)	–	(693)
Distribution expenses	(221)	(160)	(33)	(10)	(276)	–	(700)
Administrative and other operating expenses	(805)	(264)	(105)	(81)	(162)	50	(1,367)
Segment operating expenses	(1,173)	(527)	(314)	(226)	(570)	50	(2,760)
Net other operating income	131	29	2	18	158	(50)	288
Net foreign exchange gains/(losses)	83	(1)	(4)	–	(8)	–	70
Share of profit of equity accounted investees	67	2	–	(5)	2	–	66
Segment earnings before net finance costs and tax	673	(156)	192	(5)	256	(18)	942
Add/(deduct) normalisation adjustments losses/(gains)	38	118	3	1	(128)	–	32
Normalised segment earnings before net finance costs and tax	711	(38)	195	(4)	128	(18)	974
Normalisation adjustments							(32)
Finance income							39
Finance costs							(557)
Profit before tax							424
Profit before tax includes the following amounts:							
Depreciation	(326)	(61)	(10)	(19)	(37)	–	(453)
Amortisation	(79)	(23)	(3)	(1)	(2)	–	(108)
Normalisation adjustments consist of the following amounts:							
Net gain on Latin America strategic realignment[1]	–	–	–	–	129	–	129
Impairment of assets in Australia[2]	–	(108)	–	–	–	–	(108)
Restructuring and redundancy provisions[3]	(18)	(10)	(3)	(1)	(1)	–	(33)
Time value of options[4]	(20)	–	–	–	–	–	(20)
Total normalisation adjustments	(38)	(118)	(3)	(1)	128	–	(32)
Segment asset information:							
As at and for the year ended 31 July 2015 (audited)							
Equity accounted investments	311	7	–	858	9	–	1,185
Capital expenditure[5]	939	84	36	382	90	–	1,531

1 Of the $129 million normalisation adjustment, $141 million relates to other operating income, $4 million to cost of goods sold and $8 million to other operating expenses.
2 Of the $108 million normalisation adjustment, $58 million relates to other operating expenses and $50 million to cost of goods sold.
3 The $33 million normalisation adjustment relates to administrative and other operating expenses.
4 The $20 million normalisation adjustment relates to net foreign exchange losses.
5 Capital expenditure comprises purchases of property, plant and equipment and intangible assets, and net purchases of livestock.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

b) Strategic platforms

The Group also presents financial information that reflects Fonterra's strategic platforms. These strategic platforms are organised on a different basis than the Group's operating segments presented in section a) of this note. The basis of presentation is explained in the table below.

Fonterra considers this information is useful as it provides more clarity on the financial performance of the ingredients, consumer and foodservice, and international farming businesses.

PLATFORM	DESCRIPTION
Ingredients	Represents the Global Ingredients and Operations reportable segment, the ingredients businesses in Australia and South America, and excludes the foodservice businesses in Asia and Greater China and unallocated costs.
Consumer and foodservice	
– Oceania	Represents the Oceania reportable segment, excluding the ingredients business in Australia.
– Asia	Represents the Asia reportable segment and the Asia foodservice business reported in Global Ingredients and Operations.
– Greater China	Represents the Greater China reportable segment, excluding International Farming and including the foodservice business in Greater China reported in Global Ingredients and Operations.
– Latin America	Represents the Latin America reportable segment excluding the ingredients businesses in South America.
International Farming	Represents China farming operations.

	GROUP								
	31 JANUARY 2016 (UNAUDITED)								
	INGREDIENTS	CONSUMER AND FOODSERVICE					INTERNATIONAL FARMING	UNALLOCATED COSTS AND ELIMINATIONS	TOTAL
		OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL			
Volume[1] (liquid milk equivalents, billion)	11.8	1.0	0.8	0.4	0.3	2.5	0.1	(1.8)	12.6
Volume[1] (metric tonnes, thousand)	1,624	339	145	82	321	887	103	(290)	2,324
Sales revenue[1] ($ million)	6,709	1,046	992	465	717	3,220	95	(1,186)	8,838
Normalised EBIT ($ million)	617	33	108	68	32	241	(29)	(164)	665

	GROUP								
	31 JANUARY 2015 (UNAUDITED)								
	INGREDIENTS	CONSUMER AND FOODSERVICE					INTERNATIONAL FARMING	UNALLOCATED COSTS AND ELIMINATIONS	TOTAL
		OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL			
Volume[1] (liquid milk equivalents, billion)	11.1	0.9	0.7	0.3	0.3	2.2	0.1	(1.7)	11.7
Volume[1] (metric tonnes, thousand)	1,538	310	142	64	324	840	67	(256)	2,189
Sales revenue[1] ($ million)	7,617	1,043	968	389	856	3,256	66	(1,193)	9,746
Normalised EBIT ($ million)	486	10	56	15	35	116	(27)	(199)	376

	GROUP								
	31 JULY 2015 (AUDITED)								
	INGREDIENTS	CONSUMER AND FOODSERVICE					INTERNATIONAL FARMING	UNALLOCATED COSTS AND ELIMINATIONS	TOTAL
		OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL			
Volume[1] (liquid milk equivalents, billion)	21.5	1.7	1.6	0.6	0.6	4.5	0.2	(3.4)	22.8
Volume[1] (metric tonnes, thousand)	2,982	619	284	122	660	1,685	164	(528)	4,303
Sales revenue[1] ($ million)	14,341	2,021	1,918	729	2,033	6,701	141	(2,338)	18,845
Normalised EBIT ($ million)	973	51	202	45	110	408	(44)	(363)	974
Capital employed[2] ($ million)	8,592	465	145	45	403	1,058	594	(757)	9,487
Return on capital[3] (%)	9.3%	5.0%	96.2%	71.5%	18.6%	25.5%	(7.3)%		8.9%

For the year ended 31 July 2015 the Group's return on capital including intangible assets, goodwill and equity accounted investments, was 6.9 per cent.

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

2 Capital employed excludes brands, goodwill and equity accounted investments.

3 Return on capital is calculated as normalised EBIT, less equity accounted investees' earnings, less a notional royalty charge for use of the Group's brands, less a notional tax charge, divided by capital employed.

c) Geographical revenue

	GROUP $ MILLION								
	CHINA	REST OF ASIA	AUSTRALIA	NEW ZEALAND	USA	EUROPE	LATIN AMERICA	REST OF WORLD	TOTAL
Geographical segment external revenue:									
Six months ended 31 January 2016 (unaudited)	**1,307**	**2,341**	**766**	**964**	**657**	**412**	**1,228**	**1,163**	**8,838**
Six months ended 31 January 2015 (unaudited)	1,203	2,610	811	977	643	414	1,554	1,534	9,746
Year ended 31 July 2015 (audited)	2,111	5,222	1,560	1,882	1,198	725	3,113	3,034	18,845

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

d) Non-current assets

	GROUP $ MILLION							
	GLOBAL INGREDIENTS AND OPERATIONS		OCEANIA		ASIA	GREATER CHINA	LATIN AMERICA	TOTAL GROUP
	NEW ZEALAND	REST OF WORLD	NEW ZEALAND	AUSTRALIA				
Geographical segment reportable non-current assets:								
As at 31 January 2016 (unaudited)	**5,242**	**338**	**1,286**	**697**	**808**	**1,768**	**904**	**11,043**
As at 31 January 2015 (unaudited)	4,523	447	1,286	993	766	724	1,124	9,863
As at 31 July 2015 (audited)	4,888	464	1,289	814	822	1,751	1,105	11,133

	GROUP $ MILLION		
	AS AT		
	31 JAN 2016 UNAUDITED	31 JAN 2015 UNAUDITED	31 JUL 2015 AUDITED
Reconciliation of geographical segment non-current assets to total non-current assets:			
Geographical segment non-current assets	**11,043**	9,863	11,133
Deferred tax assets	**579**	555	732
Derivative financial instruments	**483**	335	373
Total non-current assets	**12,105**	10,753	12,238

2 COST OF GOODS SOLD

	GROUP $ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2016 UNAUDITED	31 JAN 2015 UNAUDITED	31 JUL 2015 AUDITED
Opening inventory	**3,025**	3,701	3,701
Cost of Milk:			
– New Zealand sourced	**4,254**	5,057	7,121
– Non-New Zealand sourced	**601**	617	1,151
Other purchases	**3,156**	3,470	6,619
Closing inventory	**(4,071)**	(4,651)	(3,025)
Total cost of goods sold	**6,965**	8,194	15,567

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

DEBT AND EQUITY

3 SUBSCRIBED EQUITY INSTRUMENTS

Co-operative shares, including shares held within the Group

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

	CO-OPERATIVE SHARES (THOUSANDS)
Balance at 1 August 2015	**1,599,094**
Shares issued[2]	**1,591**
Balance at 31 January 2016 (unaudited)	**1,600,685**
Balance at 1 August 2014	1,597,834
Shares issued	–
Balance at 31 January 2015 (unaudited)	1,597,834
Balance at 1 August 2014	1,597,834
Shares issued[3]	1,260
Balance at 31 July 2015 (audited)	1,599,094

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

2 1,591,062 shares with a total value of $8 million were issued under the Dividend Reinvestment Plan during the six months ended 31 January 2016.

3 1,260,116 shares with a total value of $7 million were issued under the Dividend Reinvestment Plan during the year ended 31 July 2015.

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

Units in the Fonterra Shareholders' Fund

The Custodian holds legal title of Co-operative shares of which the Economic Rights have been sold to the Fund on trust for the benefit of the Fund. At 31 January 2016, 103,926,303 Co-operative shares (31 January 2015: 121,855,834; 31 July 2015: 105,480,366) were legally owned by the Custodian, on trust for the benefit of the Fund.

	UNITS (THOUSANDS)
Balance at 1 August 2015	**105,480**
Units issued	**16,375**
Units surrendered	**(17,929)**
Balance at 31 January 2016 (unaudited)	**103,926**
Balance at 1 August 2014	109,778
Units issued	17,984
Units surrendered	(5,906)
Balance at 31 January 2015 (unaudited)	121,856
Balance at 1 August 2014	109,778
Units issued	21,906
Units surrendered	(26,204)
Balance at 31 July 2015 (audited)	105,480

The rights attaching to units are set out in the Trust Deed constituting the Fonterra Shareholders' Fund, available in the 'Financial/Trading Among Farmers' section of Fonterra's website.

4 DIVIDENDS PAID

DIVIDENDS	$ MILLION SIX MONTHS ENDED 31 JAN 2016 UNAUDITED	$ MILLION SIX MONTHS ENDED 31 JAN 2015 UNAUDITED	$ MILLION YEAR ENDED 31 JUL 2015 AUDITED
2015 Final dividend – 15 cents per share[1]	**240**	–	–
2015 Interim dividend – 10 cents per share[2]	**–**	–	160
2014 Final dividend – 5 cents per share[3]	**–**	80	80

1 Declared on 23 September 2015 and paid on 20 October 2015 to all Co-operative shares on issue at 8 October 2015. The Dividend Reinvestment Plan applied to this dividend.

2 Declared on 24 March 2015 and paid on 20 April 2015 to all Co-operative shares on issue at 10 April 2015. The Dividend Reinvestment Plan applied to this dividend.

3 Declared on 23 September 2014 and paid on 20 October 2014 to all Co-operative shares on issue at 9 October 2014.

Dividends declared after balance date

On 22 March 2016, the Board declared an interim dividend of 20 cents per share, to be paid on 20 April 2016 to all Co-operative shares on issue at 8 April 2016.

Fonterra has a Dividend Reinvestment Plan, where eligible shareholders can choose to reinvest all or part of their future dividend in additional Co-operative shares. The Dividend Reinvestment Plan does apply to this dividend. Full details of the Dividend Reinvestment Plan are available on the financial section of Fonterra's website.

5 BORROWINGS

	GROUP $ MILLION AS AT 31 JAN 2016 UNAUDITED	GROUP $ MILLION AS AT 31 JAN 2015 UNAUDITED	GROUP $ MILLION AS AT 31 JUL 2015 AUDITED
Commercial paper	**401**	504	473
Bank loans	**1,879**	1,874	1,717
Finance leases	**154**	178	169
Capital notes	**35**	35	35
NZX listed bonds	**500**	950	500
Medium-term notes	**4,742**	3,959	4,666
Total borrowings	**7,711**	7,500	7,560
Included within the statement of financial position as follows:			
Total current borrowings	**1,397**	2,660	1,681
Total non-current borrowings	**6,314**	4,840	5,879
Total borrowings	**7,711**	7,500	7,560

Economic net interest bearing debt

	GROUP $ MILLION AS AT 31 JAN 2016 UNAUDITED	GROUP $ MILLION AS AT 31 JAN 2015 UNAUDITED	GROUP $ MILLION AS AT 31 JUL 2015 AUDITED
Net interest bearing debt position			
Total borrowings	**7,711**	7,500	7,560
Cash and cash equivalents	**(338)**	(266)	(342)
Interest bearing advances included in other non-current assets	**(295)**	(56)	(65)
Bank overdraft	**15**	13	39
Net interest bearing debt	**7,093**	7,191	7,192
Value of derivatives used to manage changes in hedged risks and other foreign exchange movements on debt	**(185)**	(57)	(72)
Economic net interest bearing debt	**6,908**	7,134	7,120

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

LONG TERM ASSETS

6 PROPERTY, PLANT AND EQUIPMENT

	GROUP $ MILLION		
	SIX MONTHS TO		YEAR ENDED
	31 JAN 2016 UNAUDITED	31 JAN 2015 UNAUDITED	31 JUL 2015 AUDITED
Additions	**371**	659	1,338
Disposals	**(2)**	(3)	(13)
Capital commitments	**162**	467	283

INVESTMENTS

7 EQUITY ACCOUNTED INVESTMENTS

The Group's significant equity accounted investments are listed below. The ownership interest in these entities is 50 per cent or less and the Group is not considered to exercise a controlling interest.

		OWNERSHIP INTERESTS (%)		
		AS AT		
EQUITY ACCOUNTED INVESTEE NAME[1]	COUNTRY OF INCORPORATION[2]	**31 JAN 2016 UNAUDITED**	31 JAN 2015 UNAUDITED	31 JUL 2015 AUDITED
DMV Fonterra Excipients GmbH & Co KG	Germany	**50**	50	50
DairiConcepts, L.P.[3]	USA	**–**	50	50
DairiConcepts Management, L.L.C.[3]	USA	**–**	50	50
Beingmate Baby & Child Food Co., Ltd	China	**18.8**	–	18.8

1 All investees have balance dates of 31 December.

2 This is also the principal place of business.

3 On 31 December 2015 the Group sold its 50 per cent interest in DairiConcepts, L.P. and DairiConcepts Management, L.L.C.

FINANCIAL RISK MANAGEMENT

8 FAIR VALUE

Fair value hierarchy

All financial instruments for which a fair value is recognised are categorised within level 1 or level 2 of the fair value hierarchy. The fair value of the Group's livestock is categorised within level 3. These categories are described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

	GROUP $ MILLION								
	LEVEL 1			LEVEL 2			LEVEL 3		
	AS AT			AS AT			AS AT		
	31 JAN 2016 UNAUDITED	31 JAN 2015 UNAUDITED	31 JUL 2015 AUDITED	**31 JAN 2016 UNAUDITED**	31 JAN 2015 UNAUDITED	31 JUL 2015 AUDITED	**31 JAN 2016 UNAUDITED**	31 JAN 2015 UNAUDITED	31 JUL 2015 AUDITED
Derivative assets									
– Commodity derivatives	**3**	19	13	**–**	1	3	**–**	–	–
– Foreign exchange derivatives	**–**	–	–	**49**	244	16	**–**	–	–
– Interest rate derivatives[1]	**–**	–	–	**474**	336	386	**–**	–	–
Derivative liabilities									
– Commodity derivatives	**(16)**	(5)	(29)	**(7)**	(5)	(4)	**–**	–	–
– Foreign exchange derivatives	**–**	–	–	**(420)**	(1,019)	(1,009)	**–**	–	–
– Interest rate derivatives[1]	**–**	–	–	**(417)**	(436)	(367)	**–**	–	–
Available-for-sale investments	**2**	75	74	**–**	1	–	**–**	–	–
Livestock	**–**	–	–	**–**	–	–	**358**	264	331
Fair value	**(11)**	89	58	**(321)**	(878)	(975)	**358**	264	331

1 Includes cross currency interest rate swaps.

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

	GROUP $ MILLION								
	CARRYING VALUE			LEVEL 1			LEVEL 2		
	AS AT			AS AT			AS AT		
	31 JAN 2016 UNAUDITED	31 JAN 2015 UNAUDITED	31 JUL 2015 AUDITED	**31 JAN 2016 UNAUDITED**	31 JAN 2015 UNAUDITED	31 JUL 2015 AUDITED	**31 JAN 2016 UNAUDITED**	31 JAN 2015 UNAUDITED	31 JUL 2015 AUDITED
Financial liabilities									
Borrowings									
– NZX listed bonds	**(500)**	(950)	(500)	**(499)**	(945)	(502)	**–**	–	–
– Bank loans	**(1,879)**	(1,872)	(1,717)	**–**	–	–	**(1,879)**	(1,872)	(1,718)
– Medium-term notes	**(4,743)**	(3,959)	(4,666)	**–**	–	–	**(4,743)**	(3,961)	(4,960)
– Finance leases	**(154)**	(178)	(169)	**–**	–	–	**(154)**	(178)	(192)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

OTHER

9 CONTINGENT LIABILITIES

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

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

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

In January 2014, Danone formally initiated legal proceedings against Fonterra in the High Court of New Zealand and separate Singapore arbitration proceedings against Fonterra in relation to the WPC80 precautionary recall. The New Zealand High Court proceedings have been stayed pending completion of the Singapore arbitration. The hearing of the arbitration took place in February 2016. Post-hearing submissions in connection with the arbitration will be filed by the end of May 2016. A decision of the arbitration panel is expected to be issued by the end of 2016.

Based on current information available and the claims made to date in both proceedings, Fonterra will vigorously defend its position in these proceedings. Uncertainty exists regarding the outcome of the proceedings. Fonterra has provided $11 million (31 July 2015: $11 million; 31 January 2015: $11 million) in respect of the Danone claims, which represents the maximum contractual liability to Danone.

The Directors believe that these proceedings have been adequately provided for and disclosed by the Group and that there are no additional claims or legal proceedings in respect of this matter that are pending at the date of these financial statements that require provision or disclosure.

The Group has no other contingent liabilities as at 31 January 2016 (31 January 2015: nil; 31 July 2015: nil).

10 NET TANGIBLE ASSETS PER SECURITY

	GROUP		
	AS AT		
	31 JAN 2016 UNAUDITED	31 JAN 2015 UNAUDITED	31 JUL 2015 AUDITED
Net tangible assets per security[1]			
$ per listed debt security on issue	**6.25**	2.91	5.62
$ per equity instrument on issue	**2.35**	1.92	2.12
Listed debt securities on issue (million)	**603**	1,053	603
Equity instruments on issue (million)	**1,601**	1,598	1,599

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

NON-GAAP MEASURES

Fonterra uses several non-GAAP measures when discussing financial performance. For further details and definitions of non-GAAP measures used by Fonterra, refer to the glossary on page 50. These are non-GAAP measures and are not prepared in accordance with NZ IFRS.

Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They may be used internally to evaluate the underlying performance of business units and to analyse trends. These measures are not uniformly defined or utilised by all companies. Accordingly, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS.

Reconciliations from the NZ IFRS measures to certain non-GAAP measures referred to by Fonterra are detailed below.

Reconciliation from the NZ IFRS measure of profit for the period to Fonterra's normalised EBITDA

	GROUP $ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2016	31 JAN 2015	31 JUL 2015
Profit after tax	**409**	183	506
Add: Depreciation	**235**	228	453
Add: Amortisation	**51**	55	108
Add: Net finance costs	**266**	303	518
Add/(Less): Taxation expense/(credit)	**77**	(3)	(82)
Total EBITDA	**1,038**	766	1,503
Add: Impairment of assets in Australia	**12**	–	108
Add: Restructuring and redundancy provisions	**–**	–	33
(Less)/Add: Time value of options	**(31)**	22	20
Less: Gain on DairiConcepts sale	**(68)**	–	–
Less: Gain on Latin America realignment	**–**	(129)	(129)
Total normalisation adjustments	**(87)**	(107)	32
Normalised EBITDA	**951**	659	1,535

Reconciliation from the NZ IFRS measure of profit for the period to Fonterra's normalised EBIT

	GROUP $ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2016	31 JAN 2015	31 JUL 2015
Profit after tax	**409**	183	506
Add: Net finance costs	**266**	303	518
Add/(Less): Taxation expense/(credit)	**77**	(3)	(82)
Total EBIT	**752**	483	942
(Less)/Add: Normalisation adjustments (as detailed above)	**(87)**	(107)	32
Total normalised EBIT	**665**	376	974

Reconciliation from the NZ IFRS measure of profit for the period to Fonterra's normalised earnings per share

	GROUP $ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2016	31 JAN 2015	31 JUL 2015
Profit after tax	**409**	183	506
(Less)/Add: Normalisation adjustments (as detailed above)	**(87)**	(107)	32
Add/(Less): Tax on normalisation adjustments	**50**	(6)	(42)
Total normalised earnings	**372**	70	496
Less: Share attributable to non-controlling interests	**(5)**	(18)	(40)
Net normalised earnings attributable to equity holders of the Parent	**367**	52	456
Weighted average number of shares (thousands of shares)	**1,599,889**	1,597,834	1,598,464
Normalised earnings per share ($)	**0.23**	0.03	0.29

GLOSSARY

NON-GAAP MEASURES

Fonterra refers to non-GAAP financial measures throughout the Interim Report, and these measures are not prepared in accordance with NZ IFRS. The definitions below explain how Fonterra calculates the non-GAAP measures referred to throughout the Interim Report.

EBIT	means earnings before interest and tax and is calculated as profit for the period before net finance costs and tax.
EBIT margin %	is calculated as profit for the period before net finance costs and tax and divided by revenue.
EBITDA	means earnings before interest, tax, depreciation and amortisation and is calculated as profit for the period before net finance costs, tax, depreciation and amortisation.
Economic debt to debt plus equity ratio	is calculated as net interest bearing debt divided by net interest bearing debt plus equity. Net interest bearing debt includes the effect of debt hedging, and equity excludes the cash flow hedge reserve.
Farmgate Milk Price	means the base price that Fonterra pays for milk supplied to it in New Zealand for a season. The season refers to the 12 month milk season of 1 June to 31 May.
Net tangible assets	means total assets less total liabilities less intangible assets.
Normalisation adjustments	means transactions that are unusual by nature and size. Excluding these transactions can assist users with forming a view of the underlying performance of the business. Unusual transactions by nature are the result of a specific event or set of circumstances that are outside the control of the business, or relate to the major acquisitions or disposals of an asset/group of assets or business. It may also include certain fair value movements created by required accounting treatments, in particular if they are non-cash movements, and will have no impact on profit over time. Unusual transactions by size are those that are unusually large in a particular accounting period. Unusually large is defined as greater than $30 million or where a transaction or event has previously met the normalisation criteria, or where costs or income exceed $10 million in a subsequent period.
Normalised EBIT	means profit for the period before net finance costs, tax and after normalisation adjustments.
Normalised EBIT margin %	means profit for the period before net finance costs, tax and after normalisation adjustments divided by revenue.
Normalised EBITDA	means profit for the period before net finance costs, tax, depreciation, amortisation and after normalisation adjustments.
Normalised segment earnings	means segmental profit for the period before depreciation, amortisation, net finance costs, taxation expense, and after normalisation adjustments.

SHAREHOLDER INFORMATION

FONTERRA BOARD OF DIRECTORS

John Wilson

Malcolm Bailey

Clinton Dines

Ian Farrelly

Leonie Guiney

Simon Israel

David Jackson

David MacLeod

John Monaghan

Nicola Shadbolt

Michael Spaans

John Waller

Ashley Waugh

FONTERRA MANAGEMENT TEAM

Theo Spierings

Lukas Paravicini

Jacqueline Chow

Maury Leyland
(Resigned effective 31 March 2016)

Johan Priem

Robert Spurway

Judith Swales

Alex Turnbull

Kelvin Wickham

REGISTERED OFFICE

Fonterra Co-operative Group Limited
Private Bag 92032
Auckland 1010
New Zealand

Fonterra Centre
9 Princes Street
Auckland Central 1010
New Zealand

From 2 May 2016
109 Fanshawe Street
Auckland Central 1010
New Zealand

Phone +64 9 374 9000
Fax +64 9 374 9001

AUDITORS

PricewaterhouseCoopers
Level 22, PwC Tower
188 Quay Street
Auckland 1142
New Zealand

FARMER SHAREHOLDER AND SUPPLIER SERVICES

Freephone 0800 65 65 68

FONTERRA SHARES AND FSF UNITS REGISTRY

Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
New Zealand

Level 2, 159 Hurstmere Road
Takapuna
Auckland 0622
New Zealand

CAPITAL NOTES REGISTRY

Link Market Services Limited
PO Box 91976
Auckland 1142
New Zealand

Level 7, Zurich House
21 Queen Street
Auckland Central 1010
New Zealand

INVESTOR RELATIONS ENQUIRIES

investor.relations@fonterra.com

www.fonterra.com

NZX WAIVERS

NZX Main Board/Debt Market Listing Rule 5.2.3 provides that a class of securities will generally not be considered for quotation unless those securities meet the prescribed spread.

The Company was issued with a waiver of Listing Rule 5.2.3 by NZX on 10 April 2015 (for a period of one year from 21 April 2015) in respect of the Company's April 2015 issue of $350 million of unsecured, unsubordinated, fixed rate bonds ('FCG030 Bonds'), to the extent that that Rule would otherwise require the FCG030 Bonds to be held by at least 500 members of the public holding at least 25 per cent of the FCG030 Bonds.

The Company was also issued with a waiver of Listing Rule 5.2.3, as modified by NZX's ruling on Rule 5.2.3 issued on 29 September 2015, by NZX on 18 February 2016 (for a period of six months from 8 March 2016) in respect of the company's March 2016 issue of $150 million of unsecured, unsubordinated, fixed rate bonds ('FCG040 Bonds'), to the extent that Rule would otherwise require the FCG040 Bonds to be held by at least 100 members of the public holding at least 25 per cent of the FCG040 Bonds.

The effect of these waivers from Listing Rule 5.2.3 is that the FCG030 Bonds and the FCG040 Bonds may not be widely held and there may be reduced liquidity in those bonds.

APPENDIX 3 – FSM Rules

EMAIL: announce@nzx.com

Notice of event affecting securities

FSM Rule 6.8.2. For rights, Rules 6.6.8 and 6.6.10.
For change to allotment, FSM Rule 6.8.1, a separate notice is required.

Number of pages including this one (Please provide any other relevant details on additional pages) [ ]

Full name of Issuer	**Fonterra Co-operative Group Limited**
Name of officer authorised to make this notice	**Lukas Paravicini**
Authority for event, e.g. Directors' resolution	**Directors' resolution**
Contact phone number	**(09) 374 9000**
Contact fax number	**(09) 379 8281**
Date	**23 / 03 / 2016**

Nature of event
Tick as appropriate

Bonus Issue [ ] — *If ticked, state whether:* Taxable [ ] / Non Taxable [ ]
Conversion [ ]
Interest [ ]
Rights Issue Renouncable [ ]
Rights Issue non-renouncable [ ]
Capital change [ ]
Call [ ]
Dividend [x] — If ticked, state whether: Interim [x] Full Year [ ] Special [ ]
DRP Applies [x]

EXISTING securities affected by this

If more than one security is affected by the event, use a separate form.

Description of the class of securities	**Shares (FCG)**
ISIN	**NZFCGE0001S7**

If unknown, contact NZX

Details of securities issued pursuant to this event

If more than one class of security is to be issued, use a separate form for each class.

Description of the class of securities	**N/A**
ISIN	

If unknown, contact NZX

Number of Securities to be issued following event	**N/A**
Minimum Entitlement	
Ratio, e.g (1) for (2)	for
Conversion, Maturity, Call Payable or Exercise Date	**N/A**
Treatment of Fractions	**N/A**
Tick if pari passu	[ ]
OR provide an explanation of the ranking	
Strike price per security for any issue in lieu or date Strike Price available.	

Enter N/A if not applicable

Monies Associated with Event

Dividend payable, Call payable, Exercise price, Conversion price, Redemption price, Application money.

In dollars and cents

Amount per security (does not include any excluded income)	**$0.200**
Source of Payment	**Profit**
Currency	**NZD**
Total monies	**$320,136,928**

Supplementary dividend details - FSM Rule 6.8.5

Amount per security in dollars and cents	
Date Payable	

Taxation

Amount per Security in Dollars and cents to six decimal places

In the case of a taxable bonus issue state strike price	$
Resident Withholding Tax	
Imputation Credits (Give details)	
Foreign Withholding Tax	$
FDP Credits (Give details)	

Timing (Refer Appendix 4 in the FSM Rules)

Record Date 5pm *For calculation of entitlements -*	**8 April, 2016**
Application Date *Also, Call Payable, Dividend / Interest Payable, Exercise Date, Conversion Date. In the case of applications this must be the last business day of the week.*	**20 April, 2016**
Notice Date *Entitlement letters, call notices, conversion notices mailed*	**N/A**
Allotment Date *For the issue of new securities. Must be within 5 business days of application closing date.*	**N/A**

OFFICE USE ONLY
Ex Date:
Commence Quoting Rights:
Cease Quoting Rights 5pm:
Commence Quoting New Securities:
Cease Quoting Old Security 5pm:

Security Code:

Security Code:

NZX