EMBARGOED UNTIL 12:00PM MIDDAY NZT, 23 September 2010

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

Reporting Period	Year ended 31 July 2010
Previous Reporting Period	Year ended 31 July 2009

	31 July 2010 (NZD million)	Restated[1] 31 July 2009 (NZD million)	Percentage Change
Revenue from the sale of goods	16,726	16,035	4.3%
Profit from ordinary activities after tax attributable to shareholders of the company	685	610	12.3%
Net profit attributable to shareholders of the company	669	599	11.7%

[1] *Restated: The Group has changed its accounting policy in respect of the recognition of the tax effect of distributions to Shareholders. Please refer to the Summary Financial Statements attached, Statement of Significant Accounting Policies a).*

Interim/Final Dividend	Amount per Security (NZ cents)	Imputed Amount per Security (NZ cents)
Interim	8.0	nil
Final	19.0	nil

Record Date	Interim: 31 March 2010 Final: 31 May 2010
Dividend Payment Date	Interim: 20 April 2010 Final: 20 October 2010

Comments	At Fonterra's Annual Meeting on 18 November 2009, shareholders approved changes to the Company's capital structure. As a result of these changes all shares, whether supply backed or not, are now eligible to receive a dividend if declared by the Board. Previously, a Value Return payment was made in respect of supply backed shares only. On 22 September 2010, the Board declared a final dividend of 19.0 cents per share payable on 20 October 2010 to shareholders on the register at 31 May 2010.

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

DISCUSSION ON FINANCIAL AND OPERATING RESULTS

Income Statement

Revenue: Total revenue for the 2010 financial year was $16.7 billion, $691 million (4 per cent) higher than for 2009. This improvement was driven by a $721 million (7 per cent) increase in revenue (including hedging gains) within the Commodities & Ingredients (C&I) segment, while combined revenues for the consumer businesses remained steady.

The increase in C&I revenue, to $11.2 billion, was mostly due to higher prices for dairy products on world markets, combined with a slight increase in external sales volumes. Fonterra adopts a policy of hedging its revenue from ingredients sales against foreign exchange movements to provide greater certainty of returns in its business. In the 2010 financial year, these hedges resulted in a Fonterra Average Conversion Rate (FACR) of US66.7 cents, significantly lower than the average spot rate for the year of US70.8 cents and very similar to the previous year's FACR of US66.5 cents. Hedging gains more than offset translation losses when converting revenue back to New Zealand dollars.

Combined revenues for the consumer business segments remained steady at $5.5 billion, as the combined benefit of higher volumes and prices across most consumer business units was offset by adverse foreign exchange movements. The majority of this impact was felt in Asia/AME, due to an appreciation of the New Zealand dollar against many Asian currencies.

Cost of goods sold: As a co-operative company, Fonterra makes payments to its farmer shareholders for the milk they supply each season via the Milk Price. The total cost of goods sold in the 2010 financial year was $14.0 billion, compared with $13.2 billion in the previous year. The increase was primarily driven by a higher Cost of Milk and, to a much lesser extent, a small increase in the volume of milk supplied.

For 2009/10, Fonterra's total Cost of Milk, calculated in accordance with the Milk Price Manual, was $7.7 billion which equates to $6.10 per kilogram of milksolids (kgMS). Of this Cost of Milk, $26 million was paid for a portion of the total winter milk premiums and net capacity rebates. The remainder was paid on a fat and protein basis and represents $6.08 per kgMS. An additional $29 million was paid for other premiums.

Other operating income: Other operating income was $277 million, compared with $119 million in the previous year. The main reason for the increase was a gain on the sale of Fonterra's 25 per cent share in AFF P/S, a UK consumer products joint venture with Arla Foods.

Operating expenses: Operating expenses decreased $37 million to $2.0 billion, however this was driven by a $76 million favourable movement in translation of overseas costs from a stronger New Zealand currency. Underlying operating expenses increased primarily from higher advertising and promotional costs to support consumer brands.

Share of profit of equity accounted investees: Fonterra's share of reported profits from equity accounted investments was $56 million, a $73 million decrease from the previous year. The decrease reflects the strengthening of the New Zealand dollar against the base currencies in which the investments operate and the exclusion in 2010 of any share of earnings from Fonterra's 25 per cent share in AFF P/S, sold during the year. The main investee companies contributing to share of profit of equity accounted investees were DMV Fonterra Excipients (DFE), DairiConcepts, and the DPA joint ventures in Latin America. There were no impairments of equity accounted investments during the year.

EBIT: Earnings before finance costs and tax, including equity accounted earnings, (EBIT) were $1,078 million, compared with $990 million in 2009. Normalised EBIT (excluding non-recurring items and impairment of equity accounted investees) was $904 million, compared to $1,019 million last year. Higher earnings from the consumer businesses were offset by reduced earnings from the ingredients businesses as margins were pressured due to volatile prices in international dairy markets.

Net finance costs: Net finance costs were $313 million, a decrease of $135 million from the previous year, as interest costs were lower due to a lower level of borrowings throughout the year, combined with lower floating interest rates.

Taxation: Tax expense was $80 million, compared with a credit of $68 million in the previous year. Key reasons for this change were the booking of a $61 million deferred tax adjustment following the Government's decision not to allow tax depreciation on buildings with a life greater than 50 years and a $68 million lower tax credit as a result of lower distributions this year.

Tax credits arising from distributions are now recognised within the tax expense/(credit) line on the income statement. Previously, the income tax consequences of the Value Return payment were recognised directly in equity. The tax effect of dividends has been recognised as a $109 million credit in the income statement for the year. The accounting policy change has been applied retrospectively, resulting in a restatement of the financial statements for the 2009 financial year to recognise a $177 million credit in the tax expense/(credit) line in the income statement rather than directly in equity.

Profit: As a result of the above factors, the profit for the 2010 financial year was $685 million, a 12 per cent increase compared with the restated previous year. After adjusting for non-controlling interests and the tax effect of retentions, the Distributable Profit was $800 million (2009: $603 million) or 60 cents per share, an increase from the 49 cents per kgMS achieved in 2009.

Balance Sheet

Inventories: Inventory volumes as at 31 July 2010 were down 10 per cent on a year earlier, but a higher Milk Price has resulted in the value of inventories increasing $214 million to $2.9 billion. Also contributing to this increase was a change to using a monthly Milk Price rather than an annual Milk Price for valuing inventory. Consequently, the inventory value at 31 July 2010 was $179 million higher than would have been the case using the previous annual Milk Price method. In contrast, inventory value at 31 July 2009 would have been $124 million lower than reported if the monthly Milk Price had been used at that time. Inventory continues to be valued at the lower of cost and net realisable value.

Working capital: Average working capital days have improved by 24 per cent this year. This has been driven largely by a reduction in average monthly inventory volumes and an increased focus on faster collection of receivables.

Gearing: Total net interest bearing debt as at 31 July 2010 was $4.3 billion, a decrease of $898 million from 31 July 2009. This decline primarily reflects a continuing focus on the strength of Fonterra's balance sheet through:

- increased cash receipts from new co-operative share issues and lower end of season share redemptions;
- the restriction of non-essential capital expenditure and sale of non-strategic assets, allowing the Group's longer term debt levels to be reduced; and
- strong operating cash flows, meaning lower short term borrowing requirements.

After allowing for hedging, the Group's economic net interest bearing debt was $4.5 billion ($5.2 billion as at 31 July 2009).

As at 31 July 2010, Fonterra's total equity stood at $5.7 billion, an increase of $862 million from 31 July 2009. The key drivers of this increase were an increase in retained earnings and an increase in co-operative shares held.

As a result of reduced debt and increased equity, Fonterra's economic debt to debt plus equity ratio (which takes account of the carrying value of debt hedges) was 44.9 per cent as at 31 July 2010, an improvement from 53.0 per cent a year earlier.

A change in capital structure approved by shareholders during the 2010 financial year has resulted in dividend payments being made in place of Value Return payments. Accounting standards do not permit the recognition of a dividend until it has been declared. Consequently, the final dividend of 19 cents per share ($255 million) cannot be accrued as a liability at balance date. In contrast, the Value Return payment of $591 million in 2009 was recognised as a liability at balance date. This change has had a positive impact on the debt to debt plus equity ratio. Had last year's ratio been calculated on the same basis as for this year, the economic debt to debt plus equity ratio as at 31 July 2009 would have been 50.0 per cent rather than 53.0 per cent.

During the year ended 31 July 2010, net share issues generated an increase in share capital of $459 million. Of this increase, a net $263 million was raised in January 2010 after farmer shareholders were given the opportunity to adjust their shareholdings following the capital structure changes approved in November 2009. The remainder of the share transactions took place following the end of the 2009/10 season. As at 31 July 2010, there were 1,353 million co-operative shares on issue, an 8 per cent increase from the 1,251 million shares on issue as at 31 July 2009. Of these shares, 68 million or approximately 5 per cent were "dry" shares not required to cover 2009/10 season production.

Cash flows

Operating: Operating cash flows for the 2010 financial year were a net inflow of $1.5 billion, $115 million lower than in the year ended 31 July 2009. The decrease reflects the higher advance rate for the payment of shareholder milk, which was greater than the increase in cash receipts from customers due to average selling prices not increasing as quickly as the Milk Price. Partially offsetting this shortfall were lower payments to creditors, reflected in a higher trade and other payables balance at year end. Operating cash flows have improved from a net outflow of $129 million in the six months ended 31 January 2010. This is to be expected as cash outflows are usually higher during the first half of the financial year, when milk payments to farmers reflect the seasonal production peak period.

Investing: Investing cash flows were a net outflow of $354 million, compared with an outflow of $756 million in the previous year. The key reasons for the reduction in net investing cash outflow were higher receipts from the sale of non-strategic investments and other business operations ($222 million compared with $44 million previously) and lower capital expenditure ($437 million compared with $590 million previously). In addition, settlement of investment hedges resulted in a net cash gain of $11 million compared with a $112 million loss in 2009.

Financing: There was a net cash outflow from financing activities of $1.2 billion, compared with a $929 million outflow in 2009. This is primarily attributable to a decrease in Fonterra's net borrowings position, as funds were used to pay down debt. There was also a much larger outflow of cash in shareholder distributions in 2010 compared with the previous year. Distributions in 2010 totalled $698 million, comprising the 2010 interim dividend and the 2009 Value Return (which was paid in August and October 2009). In contrast, shareholder distributions in 2009 were just $12 million, representing a small final proportion of the 2008 Value Return (most of which had already been paid during 2008).

Business Segment Overview

Fonterra has four reportable segments that are defined by product type and geographic area to reflect how the Group's operations are managed. A full description of the segments can be found in Fonterra's Annual Report.

Commodities & Ingredients: The Commodities & Ingredients (C&I) segment principally comprises the businesses of Fonterra Trade & Operations (FTO) and Global Ingredients & Foodservices (GIF). FTO includes the core New Zealand processing activities and most global sales of standard dairy ingredients. GIF also sells standard dairy ingredients in certain markets but is increasingly focused on higher value specialty ingredients and is a leading provider of innovative dairy solutions – sourcing, partnering and supplying globally. Innovation and marketing efforts are aligned along four strategic categories: cheese, paediatric nutrition, functional nutrition and cultured milk products. GIF also manages the DMV Fonterra-Excipients (DFE) and DairiConcepts joint ventures.

C&I external revenue was $11.2 billion, $721 million or 7 per cent higher than the previous year. The increase in revenue was due to an increase in the average selling price achieved, with selling price increases for nine of the 12 C&I commodity categories, combined with a slight increase in sales volumes. Fonterra adopts a policy of hedging its foreign currency denominated ingredients revenues which largely offsets movements on currency translation.

Normalised segment profit before net finance costs and tax (excluding non-recurring items and impairment of equity accounted investees) was $339 million, $209 million (38 per cent) lower than the prior year. The decrease reflects that average margins were put under pressure as market volatility meant prices for some products lagged rises in international powder prices that are the main drivers of the Milk Price. The Cost of Milk (via the Milk Price) also increased faster than Fonterra's ability to change some of its customer contracts, putting pressure on margins.

External sales volumes increased by 2.5 per cent. The increase in sales volumes is a result of higher demand as the global market showed more confidence and customers returned to the market to replenish stocks run down during the global financial crisis experienced during the previous year. This increase was partially offset by a slowdown in North America where local

market prices were significantly lower than New Zealand prices, resulting in a fall in demand for Fonterra sourced product in that region.

ANZ: External revenue for the ANZ segment was $3.2 billion, a $117 million (4 per cent) increase over 2009. Of this increase, $47 million was due to a lower New Zealand dollar against the Australian dollar.

Normalised segment profit before net finance costs and tax of $290 million was $42 million (17 per cent) higher than the prior year. The main driver of the revenue improvement was volume growth, offset partly by pricing pressure across some categories. ANZ sales volumes increased 4 per cent over the prior year. Across most key categories, Fonterra's volumes grew faster than the overall market, increasing share. In New Zealand, Fonterra has retained strong leadership positions across all key categories, with number one rankings in cheese, spreads, yoghurts, milk and ice cream. Market shares grew in cheese and flavoured milk, but reduced in some ice cream market segments.

In Australia, Fonterra is ranked number one in cheese and spreads and number two in yoghurts. Market shares in Australia have experienced growth in all key categories. The cultured segment share continues to grow as a result of the earlier acquisition of Nestlé's yoghurt and dairy desserts business in Australia including the licences for the Nestlé™ and Ski™ brands. Sales volumes of yoghurts and dairy desserts grew 54 per cent on a reported basis, and 21 per cent when adjusted to reflect that the prior period did not include a full 12 months' contribution from the acquired licences. Offsetting this growth was a reduction in sales due to the prior year divestment of the Western Australia ice cream business.

Average consumer selling prices in Australia remained steady across all key categories with the exception of spreads and cheese which decreased due to higher trade spend to grow and protect market share. Selling prices in New Zealand remained steady for cheese and butter; whilst ice cream prices increased reflecting non-dairy based raw material price increases.

Pricing of dairy ingredients (sales of which represented approximately 19 per cent of ANZ revenue) decreased compared with the previous year due to lower commodity prices and the stronger Australian dollar which impacted market price returns.

Asia/AME: External revenue for the Asia/AME segment was $1.5 billion, $129 million (8 per cent) lower than 2009 due to the unfavourable appreciation of the New Zealand dollar against a basket of Asian currencies. Excluding the exchange rate impact, revenue would have been up by $98 million (6 per cent).

Normalised segment profit before net finance costs and tax of $157 million was $37 million (31 per cent) higher than the prior year. Operating margin improvements were driven by a higher mix of nutritional products and food service solutions.

Sales volumes across Asia/AME increased 3 per cent due to better performance from Anlene™ and Anmum™ milk products in Malaysia, Indonesia and Vietnam, and increased market share in Sri Lanka. A switch to high value dairy categories in some markets also had a positive impact on average prices. These benefits were partially offset by supply issues with some products across markets in the first half of the year and the impact of a typhoon that hit the Philippines in September 2009. Typhoon damage to co-packing operations and warehouses disrupted product availability for about four months.

The Asia/AME region's power brands are Anchor™, Anlene™ and Anmum™, collectively representing around two-thirds of revenue. In 2010, Anlene™ and Anmum™ milk products were the standout performers, growing revenue on a constant currency basis by 17 per cent and 29 per cent respectively. The year also saw the re-entry of Anlene™ and Anmum™ brands in selected Chinese cities, as well as the launch of Anchor Pedia-Pro™ a growing-up milk in Sri Lanka.

The foodservices business represents over a fifth of Asia/AME revenues. Foodservice revenues grew on a constant currency basis by 14 per cent in 2010, as the business targeted chefs with innovative solutions and specialised products geared for the commercial kitchen. A key strategy to build customer demand is an increasing emphasis on products that deliver unique benefits and solutions. Products are presented in the kitchen environment by demonstrating the use of Fonterra dairy products to chefs and other industry representatives.

Latam: External revenue for the Latam segment was $731 million, an $18 million (2 per cent) decrease over 2009. Revenue was $48 million lower due to appreciation of the New Zealand dollar against the Chilean peso. Normalised segment profit before net finance costs and tax was $118 million, a $12 million (11 per cent) increase on the prior year.

Sales volumes remained in line with the previous year. Higher sales of liquid and powder milk were partially offset by lower sales of juice and margarine. In the high value consumer segment, all key categories showed volume growth with the exception of UHT milk, yoghurts and desserts. The overall sales performance was achieved despite production constraints across some categories which included the effects of the earthquake that struck Chile in late February.

Average selling prices for consumer brands were higher as a result of an improvement in category yields, product mix and continuation of a brand innovation programme. Significant pricing uplifts were achieved in the juice, margarine and fresh cheese categories.

EMBARGOED UNTIL 12:00PM MIDDAY NZT, 23 September 2010

FONTERRA SUMMARY FINANCIAL STATEMENTS

For the Year Ended 31 July 2010

Confidential to Fonterra Co-operative Group Ltd

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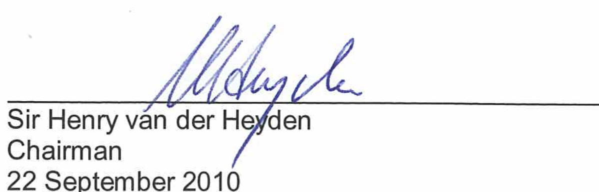
EMBARGOED UNTIL 12:00PM MIDDAY NZT, 23 September 2010

Fonterra Co-operative Group Limited

SUMMARY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2010

The Directors hereby approve and authorise for issue the summary financial statements for the year ended 31 July 2010 presented on pages 1 to 20. For and on behalf of the Board:



Sir Henry van der Heyden
Chairman
22 September 2010

David Jackson
Director
22 September 2010

	2010			2009		
	$ MILLION	**MILLION**	**$**	$ MILLION	MILLION	$ PER kgMS
Payout (before retentions)						
Cost of Milk	**7,664**	**1,256 kgMS**	**6.10**	5,793	1,227 kgMS	4.72
Distributable Profit	**800**	**1,343 shares**[1]	**0.60**	603	1,227 kgMS	0.49
Payout (before retentions)	**8,464**		**6.70**[2]	6,396	1,227 kgMS	5.21
Payout						
Distributable Profit	**800**	**1,343 shares**[1]	**0.60**	603	1,227 kgMS	0.49
Less retentions	**(438)**	**1,343 shares**[1]	**(0.33)**	(12)	1,227 kgMS	(0.01)
Dividend paid & declared/Value Return paid	**362**		**0.27**	591	1,227 kgMS	0.48
Cost of Milk	**7,664**	**1,256 kgMS**	**6.10**	5,793	1,227 kgMS	4.72
Payout	**8,026**		**6.37**[2]	6,384	1,227 kgMS	5.20

[1] At season end (31 May 2010).

[2] Average for a 100% share-backed supplier.

Note: Supplier premiums of $29 million equating to $0.02 per kgMS will be paid in addition to the Milk Price (2009: $35 million, $0.03 per kgMS).

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

These summary financial statements, comprising the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and Cash Flow Statement are those of Fonterra and its subsidiaries (the Group). They have been prepared in accordance with Financial Reporting Standard No. 43: Summary Financial Statements and have been extracted from the Group's full financial statements that have been prepared in accordance with New Zealand Generally Accepted Accounting Practice. Fonterra's full financial statements comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and with International Financial Reporting Standards.

These summary financial statements are presented for the year ended 31 July 2010. The comparative information is for the year ended 31 July 2009.

Payout (before retentions) for the year is $6.70. Milk Price for the year is $6.10 per kilogram of milksolids (kgMS) and Distributable Profit is $0.60 per share comprising a dividend of $0.27 per share and retentions of $0.33 per share.

The Board has elected to present summary financial statements for the year ended 31 July 2010 as part of the Annual Review sent to Shareholders. These summary financial statements include notes setting out the key information.

SUMMARY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2010

The full financial statements for the year ended 31 July 2010, approved and authorised for issue by the Board on 22 September 2010, have been audited by PricewaterhouseCoopers and given an unqualified opinion. The Group has changed its accounting policy in respect of the recognition of the tax impact of distributions to Shareholders, and has also adopted new and amended NZ IFRSs and NZ IASs that became mandatory for adoption during the period, refer to the Summary Statement of Significant Accounting Policies for further detail. Apart from these changes, the accounting policies used in the full financial statements are consistent with those used to prepare the full financial statements for the year ended 31 July 2009.

The Group is primarily involved in the collection, manufacture and sale of milk and milk derived products and is a profit oriented entity. These summary financial statements are presented in New Zealand dollars ($), which is the Company's functional and presentation currency, and rounded to the nearest million.

The summary financial statements cannot be expected to provide as complete an understanding of the financial affairs of the Group as the full financial statements, which are available from the Company's office at 9 Princes Street, Auckland, New Zealand or on the Company's website, www.fonterra.com.

INCOME STATEMENT
FOR THE YEAR ENDED 31 JULY 2010

	NOTES	GROUP $ MILLION	
		31 JULY 2010	RESTATED[1] 31 JULY 2009
Revenue from sale of goods		**16,726**	16,035
Cost of goods sold	1	**(13,975)**	(13,217)
Gross profit		**2,751**	2,818
Other operating income		**277**	119
Selling and marketing expenses		**(590)**	(554)
Distribution expenses		**(474)**	(481)
Administrative expenses		**(632)**	(634)
Other operating expenses		**(303)**	(367)
Net foreign exchange (losses)/gains		**(7)**	21
Operating profit	2	**1,022**	922
Finance income		**21**	41
Finance costs		**(334)**	(489)
Net finance (costs)/income		**(313)**	(448)
Share of profit of equity accounted investees	6	**56**	129
Impairment of equity accounted investees	6	**–**	(61)
Profit before tax		**765**	542
Tax (expense)/credit		**(80)**	68
Profit for the year		**685**	610
Profit for the year is attributable to:			
Shareholders of the Parent		**669**	599
Non-controlling interests		**16**	11
Profit for the year		**685**	610
Reconciliation to Group Distributable Profit			
Profit attributable to Shareholders		**669**	599
Tax effect of retentions		**131**	4
Distributable Profit		**800**	603
Group Distributable Profit is apportioned to:			
Interim dividend paid		**107**	–
Final dividend declared		**255**	–
Value Return		**–**	591
Retentions		**438**	12
Distributable Profit		**800**	603

[1] The Group has changed its accounting policy in respect of the recognition of the tax effect of on distributions to Shareholders, refer to the Summary Statement of Significant Accounting Policies a).

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 JULY 2010

	GROUP $ MILLION	
	31 JULY 2010	RESTATED[1] 31 JULY 2009
Profit for the year	**685**	610
Cash flow hedges:		
– Net fair value gains/(losses)	**584**	(803)
– Transferred and reported in revenue from sale of goods	**(631)**	1,171
– Tax credit/(expense) on cash flow hedges	**18**	(110)
Net investment hedges:		
– Net fair value gains/(losses)	**65**	(6)
– Transferred and reported in the income statement	**–**	8
– Tax expense on net investment hedges	**(19)**	(1)
Foreign currency translation (losses)/gains attributable to Shareholders	**(150)**	12
Foreign currency translation reserve transferred to income statement	**19**	–
Foreign currency translation attributable to non-controlling interests	**(2)**	5
Other comprehensive income/(expense) recognised directly in equity	**(116)**	276
Total comprehensive income for the year	**569**	886
Attributable to:		
Shareholders of the Parent	**555**	870
Non-controlling interests	**14**	16
Total comprehensive income for the year	**569**	886

[1] The Group has changed its accounting policy in respect of the recognition of the tax effect of distributions to Shareholders, refer to the Summary Statement of Significant Accounting Policies a).

BALANCE SHEET
AS AT 31 JULY 2010

	NOTES	GROUP $ MILLION AS AT 31 JULY 2010	GROUP $ MILLION AS AT 31 JULY 2009
ASSETS			
Current assets			
Cash and cash equivalents		**559**	600
Trade and other receivables		**2,088**	1,948
Inventories		**2,870**	2,656
Derivative financial instruments		**488**	613
Assets held for sale	6	**–**	67
Other current assets including tax receivable		**82**	104
Total current assets		**6,087**	5,988
Non-current assets			
Property, plant and equipment		**4,356**	4,403
Equity accounted investments	6	**458**	506
Intangible assets		**2,756**	2,792
Derivative financial instruments		**214**	174
Other non-current assets including deferred tax		**298**	254
Total non-current assets		**8,082**	8,129
Total assets		**14,169**	14,117
LIABILITIES			
Current liabilities			
Bank overdraft		**25**	58
Borrowings	8	**902**	1,627
Trade and other payables		**1,251**	1,132
Owing to suppliers		**1,138**	1,207
Derivative financial instruments		**113**	216
Other current liabilities, provisions and tax payable		**129**	174
Total current liabilities		**3,558**	4,414
Non-current liabilities			
Borrowings	8	**4,022**	4,167
Derivative financial instruments		**496**	322
Other non-current liabilities, provisions and deferred tax		**426**	409
Total non-current liabilities		**4,944**	4,898
Total liabilities		**8,502**	9,312
EQUITY			
Co-operative shares		**5,016**	4,557
Retained earnings		**547**	26
Foreign currency translation reserve		**(73)**	12
Cash flow hedge reserve		**141**	170
Total equity attributable to Shareholders		**5,631**	4,765
Non-controlling interests		**36**	40
Total equity		**5,667**	4,805
Total liabilities and equity		**14,169**	14,117

The accompanying notes form part of these summary financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 JULY 2010

	ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT						
GROUP $ MILLION	CO-OPERATIVE SHARES	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION RESERVE	CASH FLOW HEDGE RESERVE	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
As at 1 August 2008	4,297	18	(1)	(88)	4,226	43	4,269
Profit for the year (restated)[1]	–	599	–	–	599	11	610
Other comprehensive income for the year	–	–	13	258	271	5	276
Total comprehensive income for the year	–	599	13	258	870	16	886
Transactions with Shareholders in their capacity as Shareholders:							
Value Return paid to Shareholder Suppliers	–	(591)	–	–	(591)	–	(591)
Co-operative shares issued	766	–	–	–	766	–	766
Co-operative shares surrendered	(506)	–	–	–	(506)	–	(506)
Dividend paid to non-controlling interests	–	–	–	–	–	(19)	(19)
As at 31 July 2009	4,557	26	12	170	4,765	40	4,805
As at 1 August 2009	**4,557**	**26**	**12**	**170**	**4,765**	**40**	**4,805**
Profit for the year	**–**	**669**	**–**	**–**	**669**	**16**	**685**
Other comprehensive expense for the year	**–**	**–**	**(85)**	**(29)**	**(114)**	**(2)**	**(116)**
Total comprehensive income for the year	**–**	**669**	**(85)**	**(29)**	**555**	**14**	**569**
Transactions with Shareholders in their capacity as Shareholders:							
Dividends paid to Shareholders	**–**	**(107)**	**–**	**–**	**(107)**	**–**	**(107)**
Co-operative shares issued	**617**	**–**	**–**	**–**	**617**	**–**	**617**
Co-operative shares surrendered	**(158)**	**–**	**–**	**–**	**(158)**	**–**	**(158)**
Purchase of non-controlling interest	**–**	**(41)**	**–**	**–**	**(41)**	**(6)**	**(47)**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(12)**	**(12)**
As at 31 July 2010	**5,016**	**547**	**(73)**	**141**	**5,631**	**36**	**5,667**

[1] The Group has changed its accounting policy in respect of the recognition of the tax effect of distributions to Shareholders, refer to the Summary Statement of Significant Accounting Policies a).

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 JULY 2010

	GROUP $ MILLION	
	31 JULY 2010	31 JULY 2009
Cash flows from operating activities		
Cash was provided from:		
– Receipts from customers	**16,549**	16,257
– Dividends received	**55**	68
– Tax received	**32**	19
Cash was applied to:		
– Payments to creditors and employees	**(6,784)**	(7,141)
– Payments for milk purchased	**(8,322)**	(7,519)
– Tax paid	**(51)**	(90)
Net cash flows from operating activities	**1,479**	1,594
Cash flows from investing activities		
Cash was provided from:		
– Proceeds from disposal of property, plant and equipment	**22**	69
– Gains on settlement of net investment hedges	**50**	–
– Proceeds from sale of Group entities and other business operations	**222**	44
– Repayment of advances from equity accounted investees	**–**	15
Cash was applied to:		
– Acquisition of property, plant and equipment	**(437)**	(590)
– Acquisition of intangible assets	**(55)**	(47)
– Losses on settlement of net investment hedges	**(39)**	(112)
– Acquisition of Group entities and other business operations	**(14)**	(110)
– Purchase of non-controlling interests	**(48)**	(2)
– Advances made to equity accounted investees	**(50)**	(17)
– Acquisition of other non-current assets	**(5)**	(6)
Net cash flows from investing activities	**(354)**	(756)
Cash flows from financing activities		
Cash was provided from:		
– Proceeds from borrowings	**2,960**	3,854
– Proceeds from issue of Co-operative shares	**590**	687
– Gains on settlement of borrowing derivatives	**13**	228
– Proceeds for Co-operative shares not yet issued	**20**	63
– Interest received	**21**	41
Cash was applied to:		
– Interest paid	**(304)**	(324)
– Repayment of borrowings	**(3,549)**	(4,915)
– Losses on settlement of borrowing derivatives	**(37)**	(26)
– Surrender of Co-operative shares	**(158)**	(506)
– Dividends paid to non-controlling interests	**(12)**	(19)
– Dividends paid to Shareholders	**(107)**	–
– Value Return paid to Shareholder Suppliers	**(591)**	(12)
Net cash flows from financing activities	**(1,154)**	(929)
Net (decrease)/increase in cash and cash equivalents	**(29)**	(91)
Cash and cash equivalents at the beginning of the year	**542**	614
Effect of exchange rate changes on cash balances	**21**	19
Cash and cash equivalents at the end of the year	**534**	542
Reconciliation of closing cash balances to the balance sheet:		
Cash and cash equivalents	**559**	600
Bank overdraft	**(25)**	(58)
Closing cash balances	**534**	542

There were no material non-cash transactions during the year ended 31 July 2010, or for the year ended 31 July 2009.

SUMMARY STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 JULY 2010

These summary financial statements of the Group have been prepared using the same accounting policies and measurement basis as, and should be read in conjunction with the Group's full financial statements for the year ended 31 July 2010. The accounting policies applied by the Group are consistent with those applied for the year ended 31 July 2009, except for:

a) Change in accounting policy

As a result of the changes to capital structure during the year, Fonterra has commenced payment of dividends. Previously, in addition to the Milk Price, returns to Shareholder Suppliers were by way of the Value Return payment.

In March 2010 the International Financial Reporting Interpretations Committee recommended that the recognition of tax credits on distributions to holders of equity instruments in the income statement should be permitted. The Board has concluded that the recognition of tax credits in the income statement provides more relevant information to the users of the financial statements as it reflects Fonterra's actual tax position. Therefore Fonterra has changed its accounting policy to now recognise the tax consequences of distributions to Shareholders within tax expense in the income statement.

This change in accounting policy has been applied retrospectively and the tax effect of distributions to Shareholders of $177 million recognised in equity for the year ended 31 July 2009 is now presented in the income statement. There is no impact on the comparative balance sheet as a result of this change. The tax effect of distributions to Shareholders of $109 million has been recognised in the income statement for the year ended 31 July 2010.

b) New and amended International Financial Reporting Standards

The Group has adopted the following new and amended NZ IFRSs and NZ IASs during the year which had an impact on the summary financial statements:

NZ IFRS 3 (revised): Business Combinations requires all payments to purchase a business to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement and all acquisition related costs expensed. The change has not impacted reported earnings but can reasonably be expected to impact future business combinations.

NZ IAS 1 (revised): Presentation of Financial Statements requires that a statement of changes in equity and a statement of comprehensive income be presented as primary financial statements. As the change in the accounting policy is only presentational, there has been no impact on reported earnings as a result of adoption of this standard.

NZ IAS 27 (revised): Consolidated and Separate Financial Statements requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. Where control is lost, the remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in the income statement. The acquisition of non-controlling interests since 1 August 2009, has resulted in a $41 million reduction in retained earnings.

NOTES TO THE SUMMARY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2010

1 Cost of goods sold

	GROUP $ MILLION	
	31 JULY 2010	31 JULY 2009
Opening inventory	**2,656**	3,288
Cost of Milk	**7,664**	5,793
Supplier Premiums	**29**	35
Other purchases	**6,496**	6,757
Closing inventory	**(2,870)**	(2,656)
Total cost of goods sold	**13,975**	13,217

Fonterra collects approximately 89% of all New Zealand milk and accordingly there is not a market based price for raw milk acquired in New Zealand. The Cost of Milk is based on the Milk Price for the season, calculated in accordance with the Milk Price Manual.

2 Operating profit

		GROUP $ MILLION	
	NOTES	**31 JULY 2010**	31 JULY 2009
The following items have been included in arriving at operating profit:			
Operating lease expense		**54**	64
Restructuring and rationalisation costs		**9**	6
Research and development costs		**98**	86
Gain on acquisition	7	**–**	(13)
Net (gain)/loss on disposal of investments	6	**(127)**	3
Net loss/(gain) on disposal of property, plant and equipment		**3**	(8)
Receipt for amendments to equity accounted investee arrangements		**41**	–
Donations and grants		**6**	8
Total employee benefits expense		**1,460**	1,364
Included in employee benefits expense are:			
- Contributions to defined contribution plans		**42**	42

3 Segment reporting

The Group operates predominantly in the international dairy industry.

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

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

Transactions between segments are based on estimated market prices.

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

NOTES TO THE SUMMARY FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 JULY 2010

$ MILLION	COMMODITIES & INGREDIENTS	ANZ	ASIA/AME	LATAM	ELIMINATIONS	TOTAL GROUP
Segment revenue from sale of goods						
Year ended 31 July 2010						
External revenue	**11,225**	**3,233**	**1,537**	**731**	**–**	**16,726**
Inter-segment revenue	**1,532**	**570**	**–**	**7**	**(2,109)**	**–**
Revenue from sale of goods	**12,757**	**3,803**	**1,537**	**738**	**(2,109)**	**16,726**
Year ended 31 July 2009						
External revenue	10,504	3,116	1,666	749	–	16,035
Inter-segment revenue	1,502	702	39	49	(2,292)	–
Revenue from sale of goods	12,006	3,818	1,705	798	(2,292)	16,035
Segment profit						
Year ended 31 July 2010						
Segment operating profit before depreciation, amortisation, share of royalty income and non-recurring items	**675**	**372**	**166**	**94**	**–**	**1,307**
Depreciation	**(317)**	**(74)**	**(6)**	**(19)**	**–**	**(416)**
Amortisation	**(57)**	**(8)**	**(3)**	**–**	**–**	**(68)**
Share of royalty income	**5**	**–**	**–**	**20**	**–**	**25**
Non-recurring items	**190**	**(4)**	**–**	**(12)**	**–**	**174**
Segment operating profit	**496**	**286**	**157**	**83**	**–**	**1,022**
Share of profit of equity accounted investees	**33**	**–**	**–**	**23**	**–**	**56**
Segment profit before unallocated finance income, finance costs and tax	**529**	**286**	**157**	**106**	**–**	**1,078**
Finance income						**21**
Finance costs						**(334)**
Tax expense						**(80)**
Profit for the year						**685**

NOTES TO THE SUMMARY FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 JULY 2010

$ MILLION	COMMODITIES & INGREDIENTS	ANZ	ASIA/AME	LATAM	ELIMINATIONS	RESTATED[1] TOTAL GROUP
Year ended 31 July 2009						
Segment operating profit before depreciation, amortisation, share of royalty income and non-recurring items	846	322	129	67	(3)	1,361
Depreciation	(327)	(70)	(7)	(20)	–	(424)
Amortisation	(67)	(4)	(2)	–	–	(73)
Share of royalty income	6	–	–	20	–	26
Non-recurring items	35	(8)	5	–	–	32
Segment operating profit	493	240	125	67	(3)	922
Share of profit of equity accounted investees	62	–	–	39	–	101
Share of profit of equity accounted investees classified as assets held for sale	28	–	–	–	–	28
Impairment of equity accounted investees	1	–	(62)	–	–	(61)
Segment profit before unallocated finance income, finance costs and tax	584	240	63	106	(3)	990
Finance income						41
Finance costs						(489)
Tax credit[1]						68
Profit for the year						610
Segment assets						
As at and for the year ended 31 July 2010						
Total assets	**9,007**	**3,558**	**1,126**	**867**	**(389)**	**14,169**
Equity accounted investments (included in total assets)	**231**	**–**	**–**	**227**	**–**	**458**
Capital expenditure	**378**	**74**	**13**	**27**	**–**	**492**
As at and for the year ended 31 July 2009						
Total assets	8,734	3,599	1,156	936	(308)	14,117
Equity accounted investments (included in total assets)	245	–	–	261	–	506
Assets held for sale	67	–	–	–	–	67
Capital expenditure	506	180	18	30	–	734

[1] The Group has changed its accounting policy in respect of the recognition of the tax effect of distributions to Shareholders, refer to Summary Statement of Significant Accounting Policies a).

NOTES TO THE SUMMARY FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 JULY 2010

	GROUP $ MILLION	
	31 JULY 2010	31 JULY 2009
Entity wide products and services		
Consumer goods	**4,908**	5,048
Ingredients	**11,818**	10,987
Total Group revenue	**16,726**	16,035

$ MILLION	NEW ZEALAND	AUSTRALIA	USA	REST OF WORLD	ELIMINATIONS	TOTAL
Geographical segment revenue						
Year ended 31 July 2010						
Total external revenue	**9,073**	**2,333**	**1,234**	**4,086**	**–**	**16,726**
Inter-segment revenue	**3,489**	**531**	**31**	**152**	**(4,203)**	**–**
Total revenue	**12,562**	**2,864**	**1,265**	**4,238**	**(4,203)**	**16,726**
Year ended 31 July 2009						
Total external revenue	6,784	2,218	1,762	5,271	–	16,035
Inter-segment revenue	4,120	693	44	189	(5,046)	–
Total revenue	10,904	2,911	1,806	5,460	(5,046)	16,035
Geographical segment reportable non-current assets						
As at 31 July 2010	**4,790**	**1,077**	**136**	**1,765**	**–**	**7,768**
As at 31 July 2009	5,105	1,176	129	1,442	–	7,852

	GROUP $ MILLION	
	AS AT 31 JULY 2010	AS AT 31 JULY 2009
Reconciliation of geographical segment non-current assets to total non-current assets		
Geographical segment non-current assets	**7,768**	7,852
Deferred tax asset	**100**	103
Derivative financial instruments	**214**	174
Total non-current assets	**8,082**	8,129

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

4 Contingent liabilities

The Group has no contingent liabilities as at 31 July 2010 (31 July 2009: nil).

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

5 Co-operative shares

NUMBERS (THOUSANDS)	CO-OPERATIVE SHARES
Balance at 1 August 2008	1,199,913
Issued	147,981
Surrendered	(96,603)
Balance at 31 July 2009	1,251,291
Balance at 1 August 2009	**1,251,291**
Issued	**136,415**
Surrendered	**(34,863)**
Balance at 31 July 2010	**1,352,843**

Co-operative shares

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

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

Rights attaching to the shares include:

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

On 18 November 2009 Shareholders voted to approve stages 1 and 2 of the capital structure changes. As a result of the implementation of stages 1 and 2, shares are valued on the basis of a Restricted Share Value. The value of Fonterra shares is determined by the Board on an annual basis, for each season, after taking the advice of an independent valuer.

The use of a Restricted Share Value represents a constitutional change to approach from the fair value method used previously and was expected to result in a lower share valuation. To recognise the impact on the share price from such a change in valuation approach, there is a transition period to the new Restricted Share Value approach, during which the share is valued under both the Restricted Share Value approach and the fair value method. During the transition period the 2009 fair value operates as a current base price. If the Restricted Share Value is less than the fair value, then the fair value price at that time will be used as the share value. Once the Restricted Share Value is greater than the fair value base price, the transition period is deemed to have ended and the Restricted Share Value will be used from that point onwards.

The Restricted Share Value for the 2010/11 season has been set by the Board at $4.52 per share (2009: Fair value of $4.52 per share).

Shareholders may elect, within the application period (15 December–28 February) to purchase and surrender shares. Shareholders may elect to transact at the June price, which is the co-operative share price for the coming season, or under the default price mechanism. This mechanism sets a price range of +/- 7.5% of the interim share price set by the Board. If the June price falls within the +/-7.5% price range, shareholders will transact at the June price. If the June price is above or below the price range, Shareholders will transact at the upper or lower limit of the price range respectively.

If a Shareholder decreases supply during a season, the number of shares held will be re-apportioned between the number of minimum required shares (calculated using the share standard) and the number of additional shares that may be held.

Shares held in excess of the number required to be held by the share standard can be surrendered at the election of the shareholder. However shares representing greater than 120% of the number required by the share standard will automatically be surrendered, at the current season share price.

Payment for the surrender of shares may be made at the option of the Company by:

- cash; or
- the issue of Capital Notes.

The Company also has the option to pay the surrender value in special circumstances by the issue of redeemable preference shares.

The expected cash outflow on redemption or repurchase of the shares is dependent on the share value at that time, the number of shares redeemed or repurchased and the instrument used to settle the obligation, and accordingly cannot be reliably estimated.

If a Shareholder increases supply during a season, any additional shares held will be used first to satisfy the increased minimum required shares under the share standard. If no, or insufficient, additional shares are held, the shareholder may:

- acquire the extra shares required under the share standard at the current season share price; or
- request unshared supply (at the discretion of the Company).

Shareholders may be permitted to hold an unshared supply entitlement not exceeding 20% of a Shareholder's share standard for that season. If a Shareholder is granted unshared supply, they will not be required to purchase shares for the quantity elected. However, they will receive a lower milk payment for this unshared supply.

Additional shares acquired by Shareholders may be paid by:

- cash; or
- the redemption of any Capital Notes held (at the discretion of the Company).

On 30 June 2010 Shareholders approved constitutional changes that allow the Board to work towards implementation of stage 3 of capital structure changes which have the following key objectives:

- The establishment of a platform to enable share trading amongst Shareholder Suppliers at a market price.
- The establishment of the Fonterra Shareholders' Fund that would acquire from shareholders the right to receive dividends and the gain/loss from any change in the value of the shares, whilst Shareholder Suppliers retain voting rights and the access to milk payments attached to the shares.

There is no current year impact arising out of the approval granted on 30 June 2010.

Dividends paid

As a result of the change to the capital structure, all shares are eligible to receive a dividend if declared by the Board. On 23 March 2010, the Board declared an interim dividend of 8.0 cents per share (totalling $107 million), paid on 20 April 2010 to all shares on issue at 31 March 2010.

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

6 Equity Accounted Investments

Acquisitions during the year to 31 July 2010 included a further capital injection into DairiConcepts L.P. to finance its acquisition of the US hard Italian cheese businesses of Swiss Valley Farms. The movement in the carrying value of equity accounted investees is as follows:

	GROUP $ MILLION	
	31 JULY 2010	31 JULY 2009
Opening balance	**506**	592
– Share of profit after tax	**56**	101
– Share of profit from assets held for sale	**–**	28
Total share of profit after tax	**56**	129
Acquired	**14**	1
Disposals	**–**	(8)
Transfer to assets held for sale	**–**	(67)
Impairment of equity accounted investees	**–**	(61)
Foreign currency translation	**(63)**	(13)
Dividends received	**(55)**	(67)
Closing balance	**458**	506
Amount of goodwill in carrying value of equity accounted investees:		
Opening balance	**241**	268
Closing balance	**218**	241

At 31 July 2009 Fonterra's interest in AFF P/S was presented as held for sale following the Board's commitment to dispose of this investment at that time. The carrying value at 31 July 2009 was $67 million. On 19 November 2009, Fonterra disposed of its 25% interest in AFF P/S. Amongst the ongoing arrangements Fonterra will continue to licence the Anchor brand to AFF P/S and will continue to supply butter. The transaction and wider arrangements resulted in a net pre-tax gain of $127 million. The gain forms part of the Commodities & Ingredients segment and has been included within other operating income.

Disposals during the year to 31 July 2009 included the sale of Fonterra's 49% interest in Britannia New Zealand Foods PVTE Limited and 30% interest in Ba'Emek Advanced Technologies F.A. Limited (Ba'Emek).

In the year ended 31 July 2009 Fonterra's investment in San Lu of $62 million was written down to nil and a $1 million reversal of a prior year impairment was also recognised on the disposal of the Group's interest in Ba'Emek.

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

NOTES TO THE SUMMARY FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 JULY 2010

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

		OWNERSHIP INTERESTS (%)	
OVERSEAS EQUITY ACCOUNTED INVESTEES NOT CONSOLIDATED	COUNTRY OF INCORPORATION	**AS AT 31 JULY 2010**	AS AT 31 JULY 2009
Dairy Partners Americas Argentina S.A.[1]	Argentina	**50**	50
DPA Manufacturing Holdings Limited[1]	Bermuda	**50**	50
Dairy Partners Americas Brasil Limitada[1]	Brazil	**50**	50
Shijiazhuang San Lu Group Company Limited[1]	China	**43**	43
AFF P/S[1,2]	Denmark	**–**	25
Ecuajugos S.A.[1]	Ecuador	**50**	50
DMV Fonterra Excipients GmbH & Co KG[1]	Germany	**50**	50
Dairy Industries (Jamaica) Limited[1]	Jamaica	**50**	50
Dairiconcepts, L.P.[1]	USA	**50**	50
Dairiconcepts Management, L.L.C.[1]	USA	**50**	50
Corporacion Inlaca, C.A.[1]	Venezuela	**25**	25

[1] Balance date 31 December (comparative ownership interest % consistent at 31 December 2008).

[2] On 19 November 2009 the Group disposed of its interest in AFF P/S.

7 Business combinations

There were no material business combinations during the year ended 31 July 2010.

During the year ended 31 July 2009, the Group acquired the chilled dairy business of Nestlé Australia, acquired the Australian Ski™ dairy food business and disposed of its Western Australia ice cream business. None of these transactions, either individually or in total, were considered material and therefore no further disclosure has been made. The acquisition of the Australian Ski™ dairy food business resulted in a gain on acquisition of $13 million being recognised as the fair value of the net assets purchased were higher than the consideration paid. The gain on acquisition is included within other operating income in the income statement.

NOTES TO THE SUMMARY FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 JULY 2010

8 Borrowings

	GROUP $ MILLION	
	AS AT 31 JULY 2010	AS AT 31 JULY 2009
Opening balance	**5,794**	6,553
New issues		
Bank loans	**2,051**	1,264
Finance leases	**75**	82
Commercial paper	**612**	1,050
Retail bonds	**150**	784
Medium term notes	**72**	674
	2,960	3,854
Repayments		
Bank loans	**(2,223)**	(2,100)
Finance leases	**(5)**	(26)
Commercial paper	**(710)**	(2,492)
Medium term notes	**(611)**	(297)
	(3,549)	(4,915)
Other movements		
Amortisation of debt	**13**	50
Changes in fair value	**82**	32
Changes due to foreign currency translation	**(376)**	220
	(281)	302
Closing balance	**4,924**	5,794
Included within the balance sheet as follows:		
Current borrowings	**902**	1,627
Non-current borrowings	**4,022**	4,167
	4,924	5,794

	GROUP $ MILLION	
	AS AT 31 JULY 2010	AS AT 31 JULY 2009
Net interest bearing debt position		
Total borrowings	**4,924**	5,794
Cash and cash equivalents	**(559)**	(600)
Interest bearing advances included in other non-current assets	**(122)**	(86)
Bank overdraft	**25**	58
Net interest bearing debt	**4,268**	5,166
Value of derivatives used to manage changes in hedged risks and other foreign exchange movements on debt	**226**	55
Economic net interest bearing debt[1]	**4,494**	5,221

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

	GROUP $ MILLION	
	AS AT 31 JULY 2010	AS AT 31 JULY 2009
Net tangible assets per security[1]		
$ per listed debt security on issue	**2.76**	2.23
$ per Co-operative share on issue	**2.15**	1.61
Listed debt securities on issue (million)	**1,053**	903
Co-operative shares on issue (million)	**1,353**	1,251

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

9 Financial Risk Management

Overview

Global financial and commodity markets remain highly volatile. The nature of Fonterra's business is such that managing risks in the foreign exchange, interest rate, commodity, credit and liquidity markets is critical to maximising returns to shareholders.

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board:

– has established risk management procedures to identify, analyse and where appropriate, manage the risks faced by the Group;
– has approved a Treasury Policy that covers appropriate risk limits and controls (including, but not limited to, delegated authority levels and authorised use of various financial instruments); and
– monitors risks and adherence to approved limits.

The Group's overall risk management programme focuses primarily on maintaining a prudent risk profile that provides flexibility to implement the Group's strategies, while ensuring the optimisation of the return on assets. Risk management is predominantly carried out by a central treasury department (Group Treasury), which ensures compliance with the risk management policies and procedures set by the Board.

During the year in order to manage the financial risks, the key risk management activities undertaken by the Group included, but were not limited to, the following:

Capital structure

Fonterra's shareholders voted in favour of changes to the Company's capital structure and gave the Board a mandate to establish a platform permitting Shareholders to trade amongst themselves. These capital structure changes are significant steps for Fonterra, on which further detail is given in Note 5.

Bond issues

On 4 March 2010, Fonterra issued $150 million of six year unsecured fixed rate bonds. A US$50 million European medium term note was also issued on 17 February 2010 in the amount of $71 million.

Bank facility renewal

Fonterra's banking facilities are renewed annually. On 31 July 2010, Fonterra had $3,687 million of undrawn committed facilities.

Debt to debt plus equity ratio

For the 12 months to 31 July 2010, the Board had set a target debt to debt plus equity ratio of less than or equal to 50%. As a result of the above activities and close management of the financial risks faced by Fonterra, including sale of certain non-strategic assets and restriction of non-essential capital expenditure, along with the different accounting treatment for paying dividends compared to making Value Return payments, the debt to debt plus equity ratio has reduced from 52.7% at 31 July 2009 to 43.6% at 31 July 2010.

For further details in respect of financial risk faced by the Group refer to the Group's full consolidated financial statements.

10 Subsequent events

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

There were no other material events subsequent to 31 July 2010 that would impact these financial statements.

For the year ended 31 July 2009, subsequent events relating to potential changes to Fonterra's capital structure were disclosed. At the Annual Meeting on 18 November 2009, Shareholders approved changes to the Company's constitution in relation to the capital structure. Further information is provided in Note 5 – Co-operative shares.

EMBARGOED UNTIL 12:00PM MIDDAY NZT, 23 September 2010

PRICEWATERHOUSECOOPERS

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Auditors' Report

To the shareholders of Fonterra Co-operative Group Limited

We have audited the summary financial statements for the year ended 31 July 2010 on pages 1 to 20.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the summary financial statements in accordance with generally accepted accounting practice in New Zealand.

Auditors' responsibilities

We are responsible for expressing an independent opinion on the summary financial statements presented by the Directors and reporting our opinion to you.

Basis of opinion

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our procedures to ensure the summary financial statements are consistent with the full financial statements on which the summary financial statements are based. We also evaluated the overall adequacy of the presentation of information in the summary financial statements against the requirements of Financial Reporting Standard No.43 - Summary Financial Statements.

We carry out other assignments on behalf of the Company and Group in the areas of taxation compliance, transaction services, financial assurance, and international accounting standard advisory services. Partners and employees of our firm may deal with the Company and Group on normal terms within the ordinary course of trading activities of the Company and Group. The firm has no other relationship with, or interest in, the Company and Group.

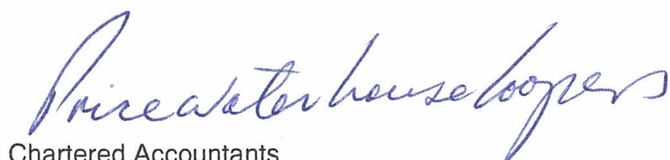
Unqualified opinion

In our opinion:

(a) the amounts set out in the summary financial statements have been correctly extracted from the full financial statements of the Group and are consistent in all material respects with the full financial statements, upon which we expressed an unqualified audit opinion in our report to the shareholders dated 22 September 2010; and

(b) the information reported in the summary financial statements complies with Financial Reporting Standard No.43 - Summary Financial Statements.

We completed our work for the purposes of this report on 22 September 2010 and our unqualified opinion is expressed as at that date.



Chartered Accountants

Auckland

CURRENT CREDIT RATING STATUS

Standard & Poor's has rated the Company A+ with a rating outlook of stable. Fitch has rated the Company AA- with a rating outlook of stable. Retail Bonds have been rated the same as the Company by both Standard & Poor's and Fitch. Capital Notes which are subordinate to other Fonterra debt issued are rated A by Standard & Poor's and A+ by Fitch. The ratings were last affirmed in December 2009 by Standard & Poor's and in March 2010 by Fitch.

EXCHANGE RULINGS AND WAIVERS

NZX Limited (NZX) has ruled that Capital Notes do not constitute "equity securities" under its Listing Rules (Rules). This means that where Capital Notes are quoted on NZX's debt market (NZDX), the Company is not required to comply with certain Rules which apply to an issuer of quoted equity securities.

NZX has granted waivers from NZDX Rule 11.1.1 to enable Fonterra to decline to accept or register transfers of Capital Notes or Retail Bonds (NZDX listed debt securities FCGHA, FCG010 and FCG020) if such transfer would result in the transferor holding or continuing to hold Capital Notes or Retail Bonds with a face value or principal amount of less than $5,000 or if such transfer is for an amount of less than $1,000 or multiple thereof. The effect of these waivers is that the minimum holding amount in respect of the Capital Notes and Retail Bonds will at all times be $5,000 in aggregate and that Retail Bonds can only be transferred in multiples of $1,000.

NZX has also granted a waiver from NZDX Rule 5.2.3 in respect of Retail Bond FCG020 to enable that Bond to be quoted on the NZDX market even though it did not meet the requirement that at least 500 members of the public held at least 25% of the Bonds being issued.

FIVE YEAR SUMMARY

	MAY 2010	MAY 2009	MAY 2008	MAY 2007	MAY 2006
SEASON STATISTICS[1]					
Total NZ milk collected (million litres)	**14,746**	**14,764**	**13,862**	**14,340**	**14,051**
Highest daily volume collected (million litres)	72.3	73.7	71.6	70.5	68.5
NZ Shareholder supply milksolids collected (million kgMS)	1,256	1,227	1,183	1,243	1,210
NZ contract and tactical supply milksolids collected (million kgMS)	30	54	9	3	–
NZ milksolids collected (million kgMS)	**1,286**	**1,281**	**1,192**	**1,246**	**1,210**
Total number of Shareholders at 31 May	10,463	10,537	10,724	10,921	11,286
Total number of sharemilkers at 31 May	3,733	3,990	3,946	3,857	3,962
Total number of shares at 31 May (million)	1,343	1,216	1,261	1,280	1,208

	JULY 2010[2]	JULY 2009[2]	JULY 2008[2,3]	MAY 2007[2]	MAY 2006[2]
SHAREHOLDER RETURNS					
Payout ($ per kgMS)					
Milk Price[4]	6.10	4.72	7.59	3.87	3.85
Distributable Profit[5]	0.60	0.49	0.31	0.59	0.25
Payout (before retentions)	6.70	5.21	7.90	4.46	4.10
Less retentions	(0.33)	(0.01)	(0.24)	–	–
Payout[6, 7]	**6.37**	**5.20**	**7.66**	**4.46**	**4.10**
Fair Value Share price ($) set for the next season	**4.52**	**4.52**	**5.57**	**6.79**	**6.56/5.80**[8]
Total shareholder return	**6.0%**	**(10.2%)**	**(16.9%)**	**12.5%**	**9.6%**
STAFF EMPLOYED					
Total staff employed (000s, permanent full time equivalents)	**15.8**	**15.6**	**15.9**	**16.4**	**17.4**
New Zealand	9.8	9.5	9.5	10.0	11.0
Overseas	6.0	6.1	6.4	6.4	6.4
OPERATING PERFORMANCE					
Average commodity prices (US$ per MT FOB)					
Whole Milk Powder	3,313	2,379	4,605	2,687	2,220
Skim Milk Powder	3,020	2,205	4,325	2,748	2,192
Butter	3,573	2,343	3,755	1,848	2,004
Cheese	3,819	3,114	4,894	2,806	2,802
Source: Oceania Export Series, Agricultural Marketing Service, US Department of Agriculture					
Average NZD/USD spot exchange rate applying throughout the year[9]	**0.71**	**0.60**	**0.77**	**0.68**	**0.68**
Fonterra's average NZD/USD conversion rate[10]	0.67	0.67	0.74	0.67	0.66
Revenue ($ million)					
Ingredients and other revenue	11,818	10,987	14,267	9,755	9,211
Consumer revenue	4,908	5,048	5,245	3,932	3,790
Total revenue	**16,726**	**16,035**	**19,512**	**13,687**	**13,001**

FIVE YEAR SUMMARY (continued)

	JULY 2010[2]	JULY 2009[2]	JULY 2008[2,3]	MAY 2007[2]	MAY 2006[2]
OPERATING PERFORMANCE (continued)					
Dairy ingredients manufactured in New Zealand (000s MT)	2,058	2,021	2,021	2,082	2,031
Total ingredients sales volume (000s MT)	2,392	2,310	2,633	2,458	2,149
Segment profit ($ million)[11]					
Commodities & Ingredients	529	584	340	918	–
ANZ	286	240	220	200	–
Asia/AME	157	63	(39)	49	–
Latam	106	106	129	58	–
Eliminations	–	(3)	(36)	41	–
Segment profit	**1,078**	**990**	**614**	**1,266**	**702**
Profit for the year attributable to Shareholders ($ million)[12]	**669**	**599**	**272**	**862**	–
CAPITAL EMPLOYED ($ million)					
Total assets employed	14,169	14,117	14,439	13,494	13,080
Average net assets	10,433	10,975	10,702	10,333	9,553
Equity attributable to Shareholders[13]	5,518	4,635	4,357	4,829	5,145
Net interest bearing debt	4,268	5,166	5,860	4,971	5,600
Economic net interest bearing debt[14]	4,494	5,221	5,931	5,250	5,663
Return on net assets[15]	8.7%	9.2%	7.4%	12.7%	4.3%
Headline debt to debt plus equity ratio[16]	**43.6%**	**52.7%**	**57.4%**	**50.7%**	**52.1%**
Economic debt to debt plus equity ratio[16]	**44.9%**	**53.0%**	**57.6%**	**52.1%**	**52.4%**

1 All Season statistics are based on the 12 month milk Season of 1 June – 31 May.
2 2010, 2009, 2008 and 2007 figures are prepared under NZ IFRS with 2006 figures prepared under previous NZ GAAP.
3 On 24 January 2008 Fonterra's Board resolved to change the Company's balance date to 31 July from 31 May, consequently the financial period for 2008 was a 14 month period to 31 July 2008.
4 The Milk Price for the 2006 season is based on the Historical Commodity Milk Price (HCMP). At the beginning of the 2007 season Fonterra replaced the HCMP with the Milk Price. From the beginning of the 2009 season the Milk Price has been determined in accordance with the Milk Price manual and is independently audited.
5 On 18 November 2009 Shareholders approved stages one and two of the capital structure changes. As a result of the changes to the capital structure all shares are eligible to receive a dividend if declared by the Board. Previously in addition to the Milk Price, returns to Shareholder Suppliers were by way of the Value Return payment. Distributable Profit per share for the year ended 31 July 2010 has been calculated as Distributable Profit divided by the number of shares on issue as at 31 May 2010. For the years ended 31 July 2009 and prior Distributable Profit was calculated per kgMS.
6 Average Payout for a 100% share-backed supplier.
7 Payout to Shareholder Suppliers for 2007 is based on the actual Payout calculation and does not incorporate subsequent adjustments relating to the transition to New Zealand Equivalents to International Financial Reporting Standards.
8 At May 2006 the Fair Value Share price was set at $5.80 subsequently revised to $6.56 in September 2007 following the redemption of peak notes and conversion of supply redemption rights into additional shares.
9 Average spot exchange rate is the average of the daily spot rates for the financial period.
10 Fonterra's average conversion rate is the rate that Fonterra has converted net foreign currency receipts into NZ dollars based on the hedge cover in place.
11 Represents segment profit before unallocated finance income, finance costs and tax. The segment information was not available in this format for the 2006 year. 2007 and 2008 have been restated to be on a consistent basis with 2009 and 2010.
12 Profit after tax attributable to Shareholders for 2009, 2008 and 2007 has been restated to recognise the tax effects of distributions to Shareholders within tax expense in the income statement. This was previously recorded directly in equity.
13 Equity attributable to Shareholders excludes cash flow hedge reserve.
14 Economic net interest bearing debt reflects the effect of debt hedging in place at balance date.
15 Return on net assets (RONA) is derived by dividing profit before non-recurring items, finance costs and tax (as reported in financial statements, with exception of the 14 month period ended 31 July 2008) by 13 month average net assets (excluding net debt and deferred tax). 2008 RONA is based on unaudited management results for the 12 months to 31 July 2008.
16 Headline debt to debt plus equity ratio is before taking account of the effect of debt hedging. Economic debt to debt plus equity includes the effect of debt hedging.

EMBARGOED UNTIL 12:00PM MIDDAY NZT, 23 September 2010

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

For the Year Ended 31 July 2010

Confidential to Fonterra Co-operative Group Ltd

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 JULY 2010

a) General information

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

The consolidated financial statements are for the Company, its subsidiaries (together referred to as the Group) and the Group's interests in its equity accounted investees.

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

At Fonterra's Annual Meeting on 18 November 2009, Shareholders approved the first two stages of changes to the Company's capital structure. As a result of these changes, all shares, whether supply backed or not, are now eligible to receive a dividend if declared by the Board. Previously, a Value Return payment was made in respect of supply backed shares only.

On 30 June 2010, Shareholders approved changes to the Company's constitution that will allow the Board to take steps to implement a third stage of changes to Fonterra's capital structure that would permit trading of shares among Shareholders. Refer to Note 7 for further information.

b) Change in accounting policy

As a result of the changes to capital structure during the year, Fonterra has commenced payment of dividends. Previously, in addition to the Milk Price, returns to Shareholder Suppliers were by way of the Value Return payment.

In March 2010 the International Financial Reporting Interpretations Committee recommended that the recognition of tax credits on distributions to holders of equity instruments in the income statement should be permitted. The Board has concluded that the recognition of tax credits in the income statement provides more relevant information to the users of the financial statements as it reflects Fonterra's actual tax position. Therefore Fonterra has changed its accounting policy to now recognise the tax consequences of distributions to Shareholders within tax expense in the income statement.

This change in accounting policy has been applied retrospectively and the tax effect of distributions to Shareholders of $177 million recognised in equity for the year ended 31 July 2009 is now presented in the income statement. There is no impact on the comparative balance sheet as a result of this change. The tax effect of distributions to Shareholders of $109 million has been recognised in the income statement for the year ended 31 July 2010.

c) Basis of preparation

These financial statements comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP), and have been prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for profit-oriented entities. These financial statements also comply with International Financial Reporting Standards (IFRS).

These financial statements are prepared on a historical cost basis except for derivative financial instruments and the hedged risks on certain debt instruments, which are recognised at their fair values.

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions of accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty, requiring judgement in applying accounting policies, that have the most significant effect on the amounts recognised in the financial statements, are described in the following notes:

- Note 14 Provisions
- Note 19 Financial risk management – fair value of certain financial instruments

d) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date that control is transferred to the Group. They are de-consolidated from the date control ceases.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition-related costs are expensed as incurred. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the income statement. Non-controlling interests are allocated their share of profit for the year in the income statement and are presented within equity in the balance sheet, separately from equity attributable to Shareholders.

Equity accounted investees (associates and jointly controlled entities)

Associates are those entities in which the Group has significant influence but not control over the financial and operating policies. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. Equity accounted investees are initially recognised at cost (including any goodwill identified on acquisition). Subsequent to initial recognition they are accounted for using the equity method in the consolidated financial statements.

The consolidated financial statements include the Group's share of the profit or loss after tax of equity accounted investees, after adjustments to align to the accounting policies of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and no further losses are recognised except to the extent the Group has an obligation or has made payments on behalf of the investee. Dividends receivable from equity accounted investees reduce the carrying amount of the investment.

Transactions eliminated on consolidation

Intra-group transactions, balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

e) Foreign currency

Foreign currency transactions

Foreign currency transactions are translated into the respective functional currencies of Group entities using the exchange rate at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation, using the exchange rates at the reporting date, of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow or qualifying net investment hedges.

Translation of the financial statements into the presentation currency

Where the Company's presentation currency differs from the functional currency of an entity, the assets and liabilities of the operation are translated from the functional currency into the presentation currency at the exchange rates at the reporting date. The income and expenses of these entities are translated at rates approximating the exchange rates at the dates of the transactions. Exchange differences arising on the translation of the financial statements of these entities and of borrowings and other currency instruments designated as hedges of such investments are recognised directly in

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)
FOR THE YEAR ENDED 31 JULY 2010

the foreign currency translation reserve (FCTR). When an entity is partially disposed of or sold, the exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

f) Financial assets and liabilities

A financial asset or liability is recognised if the Group becomes a party to the contractual provisions of the asset or liability. A financial asset or liability is recognised initially (at trade date) at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Financial assets and liabilities carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

After initial recognition, financial assets are measured at their fair values except for loans and receivables and held-to-maturity investments, which are measured at amortised cost. After initial recognition, financial liabilities are measured at amortised cost method except for financial liabilities at fair value through profit or loss.

In the separate financial statements of the Parent, investments in subsidiaries are stated at cost, less any impairment.

Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Financial assets are classified on initial recognition into the following categories: at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale. Financial liabilities are classified as either fair value through profit or loss, or financial liabilities measured at amortised cost. The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of its financial assets and liabilities at initial recognition. The Group has not had any held-to-maturity investments or available-for-sale financial assets in the periods covered by these financial statements.

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and liabilities in this category are either designated as fair value through profit or loss, or classified as held for trading. All derivatives are classified as held for trading except when they are in cash flow, fair value, or net investment hedge relationships (refer to accounting policy k) below). Other financial assets and financial liabilities may be designated at fair value through profit or loss where this eliminates an accounting mismatch, or where they are managed on a fair value basis.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity for which there is a positive intention and ability to hold to maturity, other than those that are designated on initial recognition as either fair value through profit or loss or available-for-sale, or meet the definition of loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade and other receivables are classified as loans and receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Fair value changes are recognised directly in other comprehensive income until the investment is either derecognised or determined to be impaired, at which time the cumulative gain or loss that was reported in equity is recognised in the income statement.

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. Trade and other payables, and debt instruments are classified as financial liabilities measured at amortised cost.

Financial guarantee contracts

Financial guarantee contracts are those contracts that require the issuer to make specific payments to reimburse the holder for a loss it incurs if a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are only recognised upon the failure of the debtor to make payment, but the full potential exposure is disclosed.

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)
FOR THE YEAR ENDED 31 JULY 2010

g) Cash balances

Cash balances include cash and cash equivalents comprising cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

h) Trade receivables

Trade receivables are carried at their net realisable value.

i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method, with the hedged risks on certain debt instruments measured at fair value. Changes in fair value of those hedged risks are recognised in the income statement, except borrowings classified as net investment hedges.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

j) Trade and other payables

Trade and other payables are carried at amortised cost.

k) Derivative financial instruments and hedging activities

The Group uses derivative financial instruments within predetermined policies and limits in order to reduce its exposure to fluctuations in foreign currency exchange rates, and interest rates.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into (the trade date) and transaction costs are expensed immediately. They are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities, or a firm commitment (fair value hedges);
- hedges of a particular risk associated with a recognised liability or a highly probable forecast transaction (cash flow hedges); or
- hedges of a net investment in a foreign operation (net investment hedges).

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when maturity of the hedged item exceeds 12 months. It is classified as a current asset or liability when the maturity of the hedged item is less than 12 months.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement, together with any changes in the fair value of the hedged asset or liability attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised and recognised in the income statement over the period to maturity.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised directly in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are transferred to the income statement when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is recognised immediately in the income statement.

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)
FOR THE YEAR ENDED 31 JULY 2010

When the forecast transaction that is hedged results in the recognition of a non-financial asset (e.g. inventory or property, plant and equipment) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset.

Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when all or part of a foreign operation is disposed of or sold.

l) Inventories

Inventories are stated at the lower of cost and net realisable value on a first in first out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

The cost of dairy product manufactured from milk supplied in New Zealand is established by using the monthly Milk Price as the cost for raw milk supplied. In the case of manufactured inventories and work in progress, cost includes all direct costs plus that portion of the fixed and variable production overhead incurred in bringing inventories into their present location and condition.

m) Property, plant and equipment

Owned assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the purchase consideration and those costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Costs cease to be capitalised when substantially all the activities necessary to bring an asset to the location and condition for its intended use are complete. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each financial year end.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and are recognised in the income statement.

Depreciation

Depreciation is calculated on a straight line basis to allocate the cost of the asset, less any residual value, over its estimated useful life. The range of estimated useful lives for each class of property, plant and equipment is as follows:

– Land	Indefinite
– Buildings and leasehold improvements	15 – 50 years
– Plant, vehicles and equipment	3 – 25 years

Leased assets

Leases of property, plant and equipment where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

Assets under finance leases are recognised as property, plant and equipment in the balance sheet. They are recognised initially at their fair value, or if lower, at the present value of the minimum lease payments. A corresponding liability is established and each lease payment allocated between the liability and interest expense using the effective interest method. The assets recognised are depreciated on the same basis as equivalent property, plant and equipment.

Leases that are not finance leases are classified as operating leases and the assets are not recognised on the Group's balance sheet. Operating lease payments are recognised as an expense on a straight line basis over the term of the lease.

**STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)
FOR THE YEAR ENDED 31 JULY 2010**

n) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or equity accounted investee at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of equity accounted investees is included in equity accounted investments and is tested for impairment as part of the overall balance. Any negative goodwill arising on an acquisition is recognised immediately in the income statement.

Goodwill is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Goodwill is tested annually for impairment or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Brands and other identifiable intangible assets

Brands and other intangible assets purchased by the Group are recognised if the asset is controlled through custody or legal rights and could be sold separately from the rest of the business. Brands and other intangible assets have a combination of both indefinite and finite useful lives. Items with indefinite useful lives are tested for impairment annually or whenever there is an indication that an asset may be impaired and carried at cost less accumulated impairment losses. Items with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses, and are amortised on a straight line basis to allocate the cost over their licence period (18 – 25 years). Assets that have been impaired are reviewed for possible reversal of impairment at each balance date.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software licences and development costs recognised as assets are amortised over their estimated useful lives, being three to ten years.

Research and development expenditure

All research expenditure is recognised in the income statement as incurred. Significant development expenditure is recognised as an asset when it can be demonstrated that the commercial production of the material or product, or use of the process, will commence.

Development expenditure recognised as an asset is stated at cost and amortised over the period of expected benefits on a straight line basis, not exceeding five years. Amortisation begins at the time that commercial production or use of the process commences. All other development expenditure is recognised in the income statement as incurred.

o) Impairment of financial assets

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)
FOR THE YEAR ENDED 31 JULY 2010

- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  (i) Adverse changes in the payment status of borrowers in the portfolio; and
  (ii) National or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate and is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

p) Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually or whenever there is an indication that an asset may be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the income statement. The recoverable amount of an asset is the higher of its fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows (cash-generating units).

Non-financial assets, other than goodwill, that have been impaired are reviewed for possible reversal of the impairment at each reporting date.

q) Provisions

Provisions are recognised only in those circumstances where the Group has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost in the income statement.

r) Co-operative shares

Co-operative shares are classified as equity. Incremental costs directly attributable to the issue of co-operative shares are recognised as a deduction from equity.

s) Revenue recognition

Revenue from the sale of goods is recognised at the fair value of the consideration received or receivable, net of returns, discounts and allowances. Revenue is recognised when the amount of revenue can be reliably measured, significant risks and rewards of ownership of the inventory items have passed to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Dividend income is recognised when the right to receive payment is established.

**STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)
FOR THE YEAR ENDED 31 JULY 2010**

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t) Payout

Payout comprises Cost of Milk, and dividends (2010 and subsequent years) or Value Return (2009 and prior periods).

Cost of Milk

The Cost of Milk comprises the volume of milksolids supplied by Shareholders at the Milk Price for the season. The Milk Price for the season is calculated in accordance with the principles set out in the Milk Price Manual and is independently audited. The Milk Price broadly represents the maximum sustainable amount a New Zealand based manufacturer of milk powders could afford to pay for milk and still make an adequate return on capital. Milk Price is recognised within cost of goods sold.

Dividends

As a result of the change to the capital structure, Value Return payments are no longer made. All shares are eligible to receive dividends if declared by the Board. Dividends are recognised as a liability in the Group's financial statements in the period in which they are declared by the Board.

Value Return

Value Return attributable to Shareholder Suppliers was the component of Payout that remained after deducting the Cost of Milk and retentions. The Value Return payment was recognised directly in equity.

For accounting purposes the Value Return attributable to Shareholder Suppliers was treated as a transaction with Shareholder Suppliers in their capacity as Shareholders. For presentation in the financial statements, the Value Return attributable to Shareholders was presented as a deduction directly from equity.

Supplier Premiums and Contract Milk

Supplier Premiums are paid for specialty milks, such as winter milk and colostrum. Supplier Premiums are recognised within cost of goods sold.

Payment for contract milk supplied is included in other purchases within cost of goods sold.

u) Employee benefits

Employee benefits primarily include short term employee benefits and defined contribution pension plans.

Short term employee benefits include salaries, wages, annual leave and sick leave, and are expensed on an undiscounted basis as the relevant service is provided.

Contributions to defined contribution pension plans are recognised as an expense in the period they are due. The Group has no further payment obligations once the contributions have been paid.

v) Finance income and costs

Finance income comprises interest income on funds on deposit. Interest income is recognised as it accrues using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, gains and losses on the revaluation of debt hedges and the hedged risks on certain debt instruments, and gains and losses relating to translation forward points on forward exchange contracts where revaluation gains and losses on those contracts are included within finance costs. Interest expense and the unwinding of the discount on provisions are recognised in the income statement using the effective interest method. Finance costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

w) Tax

Tax expense comprises current and deferred tax. Tax expense, including the tax consequences of distributions to Shareholders is recognised in the income statement. The tax consequences of distributions to Shareholders are recognised in the year to which the distribution relates. Other than distributions to Shareholders, tax consequences of items recognised directly in equity are also recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years.

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued) FOR THE YEAR ENDED 31 JULY 2010

Deferred tax is recognised, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is measured at the tax rate that is expected to apply to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is not recognised on the following temporary differences:

- the initial recognition of goodwill;
- the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and
- differences relating to investments in subsidiaries and equity accounted investees to the extent that the timing of the reversal is controlled by the Group and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the temporary differences can be utilised.

x) Comparative figures

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

y) New and amended International Financial Reporting Standards

Except for the changes explained below and the change in accounting policy outlined in b) above, the accounting policies used are consistent with those used to prepare the consolidated financial statements for the year ended 31 July 2009. The Group has adopted the following new and amended NZ IFRSs and NZ IASs during the year which had an impact on the financial statements:

NZ IFRS 3 (revised): Business Combinations requires all payments to purchase a business to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement and all acquisition related costs expensed. The change has not impacted reported earnings but can reasonably be expected to impact future business combinations.

NZ IFRS 7: Financial Instruments – Disclosures requires in particular, the disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy is presentational, there has been no impact on reported earnings as a result of adoption of this amendment.

NZ IAS 1 (revised): Presentation of Financial Statements requires that a statement of changes in equity and a statement of comprehensive income be presented as primary financial statements. As the change in the accounting policy is only presentational, there has been no impact on reported earnings as a result of adoption of this standard.

NZ IAS 27 (revised): Consolidated and Separate Financial Statements requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. Where control is lost, the remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in the income statement. The acquisition of non-controlling interests since 1 August 2009, has resulted in a $41 million reduction in retained earnings.

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

NZ IFRS 7: Financial Instruments – Disclosures requires qualitative disclosures to be made which better enable users to evaluate an entity's exposure to risks arising from financial instruments. The disclosure of past due or impaired financial assets has been removed, and clarification provided in relation to credit risk disclosures. As the change in accounting policy is only presentational, there will be no impact on reported earnings as a result of the adoption of this standard.

NZ IFRS 9: Financial Instruments: Classification and Measurement is the first phase of the NZ IAS 39 replacement project and specifies how an entity should classify and measure financial assets, including some hybrid contracts. NZ IFRS 9 uses a single approach based on how an entity manages and the contractual cash flow characteristics of its financial instruments, to determine whether a financial asset is measured at amortised cost or fair value and a single impairment method. At this time it is not possible to reasonably estimate the impact of adoption.