

# Fonterra Shareholders' Fund

## Results for Announcement to the Market

<b>Reporting Period</b>	Six months to 31 January 2019
<b>Previous Reporting Period</b>	Six months to 31 January 2018

	<b>Amount (m's)</b>	<b>Percentage Change</b>
(Expense) revenue from ordinary activities	NZ\$(40)	(191)%
Profit (loss) from ordinary activities after tax attributable to security holder <sup>1</sup>	NZ\$-	-%
<b>Net profit (loss) attributable to security holders</b>	<b>NZ\$-</b>	<b>-%</b>

<sup>1</sup> Fonterra Shareholders' Fund financial statements are prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards. Revenue from ordinary activities comprises net fair value movements of Economic Rights of Fonterra Shares, and dividend income. This is a loss for the current reporting period.

<b>Interim/Final Dividend</b>	<b>Amount per Security</b>	<b>Imputed Amount per Security</b>
No interim dividend is to be paid	NZ\$-	\$-

<b>Record Date</b>	-
<b>Dividend Payment Date</b>	-

<b>Comments</b>	-
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To be followed by the balance of the information required in the report pursuant to Appendix 1 – Including the Net Tangible Asset amount per security for the current and previous reporting period.

# Fonterra Shareholders' Fund Interim Financial Statements

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

**FONTERRA  
SHAREHOLDERS'  
FUND.**



# Chairman's Report

## Dear Investors

I am pleased to present the Interim Report for the Fonterra Shareholders' Fund for the first half of FY19.

The Fund's Unit Price has remained under significant pressure over this half year period, reflecting ongoing concern over Fonterra's performance. In its Interim Report Fonterra acknowledges that its earnings performance is not where it needs to be and advises that a full strategic review is underway. Fundamental change will occur and there are no sacred cows.

In February Fonterra announced a reduction in its forecast earnings per share range to 15–25 cents per share and advised that there will be no interim dividend payment. A decision on any full year dividend will be made once the Board has a complete picture of the full year earnings and balance sheet position.

The Interim Results and a summary of progress on the previously announced three-point plan are outlined below but I encourage you to read Fonterra's 2019 Interim Report to gain a full understanding of the Co-operative's results. This is available online in the Investor section at [www.fonterra.com](http://www.fonterra.com).

## Interim financial results

Fonterra's interim results are mixed.

The Co-op returned to profitability in the first half of FY19 with a reported Net Profit After Tax (NPAT) of \$80 million. However, normalised Earnings Before Interest and Tax (EBIT) of \$323 million, down 29% compared to last year, shows clearly that its earnings performance is not where it needs to be.

After three years of growth, the Consumer and Foodservice business had a slower start in the first half of this year with both volumes and earnings down due to market specific challenges. These included: disruptive economic conditions and high input costs in Latin America; demand slowing in China due to higher prices at the end of FY18 and growing in-market inventory levels for butter; and price constraints in Sri Lanka.

## Three-point plan

At Fonterra's Annual Results announcement in September, CEO Miles Hurrell outlined a three-point plan – take stock of the business, get the basics right and ensure more realistic forecasting.

Fonterra has provided the following summary of progress over the past six months:

1. A full portfolio review of all investments, major assets and partnerships is underway. This involves a thorough analysis of whether they give the Co-op a competitive advantage, are hitting their target return on capital and whether they can be scaled up and more value driven from them over the next two to three years.
2. Good progress is being made on asset sales required to reduce Fonterra's debt by \$800 million and bring gearing back within the 40-45% range by the year end.
3. Fonterra is on track to reduce its capital expenditure for the year by \$200 million to \$650 million and is reducing operating expenses to 2016/17 levels within the next two years.

## Strategic Review

These are difficult times for Fonterra and for the Fund. I view the strategic review and the associated steps to address performance positively. It is clear that the Co-op's performance will not be fixed overnight. However, the commitment in the Interim Report to take difficult decisions and to a culture of accountability and performance right across the organisation is welcome.



**John Shewan**  
Chairman  
FSF Management Company Limited

*(Australian Registered Body Number 160 539 935, Incorporated In New Zealand)*

# Interim Financial Statements

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

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## Manager's Statement

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

FSF Management Company Limited (the Manager) presents to the unit holders the interim financial statements for the Fonterra Shareholders' Fund (the Fund) for the six months ended 31 January 2019.

The Manager is responsible for presenting interim financial statements for the six months which fairly present the financial position of the Fund and its financial performance and cash flows for that period.

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

The Manager believes that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Fund and facilitate compliance of the interim financial statements with the Financial Markets Conduct Act 2013 and the Fonterra Shareholders' Fund Trust Deed.

The Manager considers that it has taken adequate steps to safeguard the assets of the Fund, and to prevent and detect fraud and other irregularities.

The Manager approves and authorises for issue the interim financial statements for the six months ended 31 January 2019 presented on pages 3 to 7.

For and on behalf of the Board of the Manager:



**John Shewan**

Chairman  
FSF Management Company Limited  
19 March 2019



**Pip Dunphy**

Director  
FSF Management Company Limited  
19 March 2019

# Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

	\$ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
Net fair value (loss)/gain on revaluation of Economic Rights of Fonterra shares	(40)	18	(124)
Dividend income	–	26	39
<b>Investment (expense)/income</b>	<b>(40)</b>	<b>44</b>	<b>(85)</b>
Net change in fair value of liability to unit holders	40	(18)	124
Distributions to unit holders	–	(26)	(39)
<b>Finance income/(cost)</b>	<b>40</b>	<b>(44)</b>	<b>85</b>
<b>Profit before tax</b>	<b>–</b>	<b>–</b>	<b>–</b>
Tax expense	–	–	–
<b>Profit for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>

There are no items of other comprehensive income.

## Statement of Changes in Net Assets Attributable to Unit Holders

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

	\$ MILLION
Net assets attributable to unit holders at 1 August 2018	570
<b>Movements:</b>	
Revaluation of liability to unit holders	(40)
Issue of units	71
Redemption of units	(77)
<b>Net assets attributable to unit holders at 31 January 2019 (unaudited)</b>	<b>524</b>
Net assets attributable to unit holders at 1 August 2017	763
<b>Movements:</b>	
Revaluation of liability to unit holders	18
Issue of units	122
Redemption of units	(51)
<b>Net assets attributable to unit holders at 31 January 2018 (unaudited)</b>	<b>852</b>
Net assets attributable to unit holders at 1 August 2017	763
<b>Movements:</b>	
Revaluation of liability to unit holders	(124)
Issue of units	129
Redemption of units	(198)
<b>Net assets attributable to unit holders at 31 July 2018 (audited)</b>	<b>570</b>

The accompanying notes form part of these financial statements.

# Statement of Financial Position

AS AT 31 JANUARY 2019

	NOTES	\$ MILLION		
		31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
<b>Assets</b>				
Economic Rights of Fonterra shares	2	524	852	570
<b>Total assets</b>		<b>524</b>	<b>852</b>	<b>570</b>
<b>Total liabilities (excluding net assets attributable to unit holders)</b>		<b>–</b>	<b>–</b>	<b>–</b>
<b>Net assets attributable to unit holders – liability</b>	3	<b>524</b>	<b>852</b>	<b>570</b>

## Cash Flow Statement

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

	\$ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
<b>Cash flows from operating activities</b>			
Cash was provided from:			
– Sale of Economic Rights of Fonterra shares	77	51	198
– Dividends' received (net of dividends reinvested)	–	20	31
Cash was applied to:			
– Purchase of Economic Rights of Fonterra shares	(71)	(116)	(121)
<b>Net cash flows from operating activities</b>	<b>6</b>	<b>(45)</b>	<b>108</b>
<b>Cash flows from financing activities</b>			
Cash was provided from:			
– Proceeds from issue of units	71	116	121
Cash was applied to:			
– Outflows on redemption of units	(77)	(51)	(198)
– Distributions paid to unit holders (net of distributions reinvested)	–	(20)	(31)
<b>Net cash flows from financing activities</b>	<b>(6)</b>	<b>45</b>	<b>(108)</b>
Net (decrease)/increase in cash and cash equivalents	–	–	–
Cash and cash equivalents at the beginning of the year	–	–	–
<b>Cash and cash equivalents at the end of the year</b>	<b>–</b>	<b>–</b>	<b>–</b>

The accompanying notes form part of these financial statements.

# Statement of Significant Accounting Policies

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

## A) GENERAL INFORMATION

The Fonterra Shareholders' Fund (FSF or the Fund) is a New Zealand managed investment scheme established to be the 'Authorised Fund' under Fonterra's Trading Among Farmers scheme. It is registered under the Financial Markets Conduct Act 2013 and its governing document is the Fonterra Shareholders' Fund Trust Deed (the Trust Deed) dated 23 October 2012 (as amended) and has a life of 80 years. Under the Trust Deed, the Fund may invest only in authorised investments, which are Economic Rights of Fonterra shares (Economic Rights), and issue units to investors. It may not invest directly in Fonterra shares (shares).

The Fund is listed on the NZX Main Board operated by NZX Limited and as a Foreign Exempt Listing on the Australian Securities Exchange operated by ASX Limited. The Manager is an FMC reporting entity under the Financial Markets Conduct Act 2013.

These interim financial statements were authorised for issue by the Manager on 19 March 2019.

### Fonterra interim financial statements

Investors are encouraged to read the interim financial statements of Fonterra Co-operative Group Limited (Fonterra), together with the interim financial statements of the Fund, given that the performance of the Fund is driven by the performance of Fonterra. The Fonterra interim financial statements can be found at [www.fonterra.com](http://www.fonterra.com) in the 'Investors/Financial Results' section.

### Activities

The principal activity of the Fund is to acquire Economic Rights and issue units to investors. It allows investors in the Fund an opportunity to earn returns based on the financial performance of Fonterra.

## B) BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with International Accounting Standard 34: Interim Financial Reporting and New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting. They have also been prepared in accordance with Generally Accepted Accounting Practice (GAAP) applicable to for-profit entities. These interim financial statements are as at and for the six months ended 31 January 2019, and are unaudited. They should be read in conjunction with the financial statements for the year ended 31 July 2018.

These interim financial statements are presented in New Zealand dollars (\$), which is the Fund's functional and presentation currency, and rounded to the nearest million, except where otherwise stated.

The same accounting policies are followed in these interim financial statements as were applied in the financial statements for the year ended 31 July 2018.

## C) OPERATING SEGMENTS

The Fund's investments only include Economic Rights assets and the Fund's performance is evaluated on an overall basis. Therefore the Fund is a single-segment entity.

All of the Fund's income is from investments in the Economic Rights.

The internal reporting provided to the Board of the Manager, which is the Fund's chief operating decision maker, for the Fund's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of NZ IFRS. The Board of the Manager reviews the Fund's internal reporting in order to assess the performance and position of the Fund.

# Notes to the Financial Statements

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

## 1. FAIR VALUE MEASUREMENT

The Fund measures fair values for recognition of both Economic Rights assets and unit holder liabilities.

The Fund uses the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques for which all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. The Fund has no Level 3 instruments.

The Fund's liability to unit holders is a Level 1 instrument as the unit price is quoted on the NZX Main Board, which is considered to be an active market. The Manager considers market prices to be the most representative measure of fair value as they are used by market participants as a practical expedient for fair value measurement. The market will be monitored on an on-going basis to confirm that it remains active for the purposes of establishing fair value.

Economic Rights are Level 2 instruments as Economic Rights are not listed and there is no active market for Economic Rights assets. Economic Rights are valued using the quoted price of units (which are considered to be a materially comparable instrument) in the Fund listed on the NZX Main Board. The on-going validity of assumptions relating to the comparability between a unit and an Economic Right is regularly reviewed.

There have been no transfers between the categories in the fair value hierarchy during any of the periods presented.

## 2. ECONOMIC RIGHTS OF FONTERRA SHARES

The Economic Rights are held on trust for the Fund by the Custodian under the Fonterra Economic Rights Trust.

	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
Value of Economic Rights (\$ million)	524	852	570
Number of Economic Rights	110,573,858	137,366,342	111,423,603

The Economic Rights are measured at fair value, calculated as the number of Economic Rights held multiplied by the established fair value for each Economic Right.

	\$ MILLION		
	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
Opening value of Economic Rights	570	763	763
<b>Movements:</b>			
Purchase of Economic Rights <sup>1</sup>	71	122	129
Sale of Economic Rights	(77)	(51)	(198)
Revaluation of Economic Rights	(40)	18	(124)
<b>Closing value of Economic Rights</b>	<b>524</b>	<b>852</b>	<b>570</b>

<sup>1</sup> Purchase of Economic Rights includes \$nil Economic Rights acquired in conjunction with Fonterra's Dividend Reinvestment Plan (31 January 2018: \$5.6 million; 31 July 2018: \$8.4 million).

# Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

## 3. LIABILITY TO UNIT HOLDERS

	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
Value of unit holder liability (\$ million) <sup>1</sup>	524	852	570
Opening number of units on issue <sup>2</sup>	111,423,603	126,047,304	126,047,304
Number of units issued <sup>3</sup>	14,923,010	19,503,561	20,946,170
Number of units redeemed	(15,772,755)	(8,184,523)	(35,569,871)
Closing number of units on issue	110,573,858	137,366,342	111,423,603

<sup>1</sup> The liability to unit holders is measured at fair value, calculated as the number of units on issue multiplied by the unit market price of \$4.74 (31 January 2018: \$6.20; 31 July 2018: \$5.12).

<sup>2</sup> Included in the total number of units is one Fonterra unit which was issued at launch.

<sup>3</sup> There were no units issued under the Dividend Reinvestment Plan for the six months ended 31 January 2019. (31 January 2018: 934,040 units with a total value of \$5.6 million; 31 July 2018: 1,447,736 units with a total value of \$8.4 million).

## 4. NET TANGIBLE ASSETS PER SECURITY

As at 31 January 2019, the net tangible assets per unit on issue was \$4.74 (31 January 2018: \$6.20; 31 July 2018: \$5.12).

## 5. COMMITMENTS AND CONTINGENT LIABILITIES

The Fund has no material commitments or contingent liabilities as at 31 January 2019 (31 January 2018: nil; 31 July 2018: nil).

## 6. SUBSEQUENT EVENTS

### Changes in unit price

Units are traded on the NZX and ASX and accordingly the unit price changes regularly, including during the period between balance date and the date these interim financial statements were authorised for issue. Changes in the market price of the units result in a corresponding change in the value of the Economic Rights asset held by the Fund. Daily unit prices are available on the NZX website.

# Independent Review Report



TO THE UNIT HOLDERS OF FONTERRA SHAREHOLDERS' FUND

## REPORT ON THE INTERIM FINANCIAL STATEMENTS

We have reviewed the accompanying interim financial statements of Fonterra Shareholders' Fund (the Fund) on pages 3 to 7, which comprise the statement of financial position as at 31 January 2019, and the statement of comprehensive income, the statement of changes in net assets attributable to unit holders and the cash flow statement for the period ended on that date and selected explanatory notes.

## RESPONSIBILITIES OF THE MANAGER FOR THE INTERIM FINANCIAL STATEMENTS

The Manager of the Fund is responsible, on behalf of the Fund, for the preparation and fair presentation of these interim financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal control as the Manager determines is necessary to enable the preparation and fair presentation of interim financial statements that are free from material misstatement, whether due to fraud or error.

## OUR RESPONSIBILITY

Our responsibility is to express a conclusion on the accompanying interim financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. As the auditor of the Fund, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these interim financial statements.

We are independent of the Fund. Our firm carries out agreed upon procedures in regards to annual meeting voting for the Fund. The provision of this other service has not impaired our independence.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that these interim financial statements of the Fund do not present fairly, in all material respects, the financial position of the Fund as at 31 January 2019, and of its financial performance and cash flows for the period then ended, in accordance with IAS 34 and NZ IAS 34.

## WHO WE REPORT TO

This report is made solely to the Fund's unit holders, as a body. Our review work has been undertaken so that we might state to the Fund's unit holders those matters which we are required to state to them in our review 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 Fund and the Fund's unit holders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

A handwritten signature in dark ink, appearing to read 'Private &amp; Coopers', written over a horizontal line.

**Chartered Accountants**

Auckland

19 March 2019

# Directory

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## **DIRECTORS OF THE MANAGER OF THE FUND**

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## **COMPANY SECRETARY**

Andrew Cordner

## **SUPERVISOR**

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## **AUDITORS OF THE FUND AND THE MANAGER OF THE FUND**

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## **SHARE REGISTRAR – AUSTRALIA**

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