

# Fonterra Shareholders' Fund

## Results for Announcement to the Market

<b>Results for announcement to the market</b>		
Name of issuer	Fonterra Shareholders' Fund	
Reporting Period	12 months to 31 July 2019	
Previous Reporting Period	12 months to 31 July 2018	
Currency	New Zealand Dollars	
	Amount (m's)	Percentage change
Revenue from continuing operations	\$(144)	(69)%
Total Revenue	\$(144)	(69)%
Net profit/(loss) from continuing operations	\$nil	-%
Total net profit/(loss)	\$nil	-%
<b>Interim/Final Dividend</b>		
Amount per Quoted Equity Security	No final dividend is to be paid	
Imputed amount per Quoted Equity Security	Not Applicable	
Record Date	Not Applicable	
Dividend Payment Date	Not Applicable	
	Current period	Prior comparable period
Net tangible assets per Quoted Equity Security	\$3.77	\$5.12
A brief explanation of any of the figures above necessary to enable the figures to be understood	Fonterra Shareholders' Fund financial statements are prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards. Revenue from continuing operations comprises net fair value movements of Economic Rights of Fonterra Shares, and dividend income. This is a loss for the current reporting period.	
<b>Authority for this announcement</b>		
Name of person authorised to make this announcement	Andrew Cordner	
Contact person for this announcement	Simon Till	
Contact phone number	+64 21 777 807	
Contact email address	Investor.relations@fonterra.com	
Date of release through MAP	26/09/2019	

Audited financial statements accompany this announcement.

# Fonterra Shareholders' Fund Annual Report

2019

FONTERRA  
SHAREHOLDERS'  
FUND.



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# Chairman's Report

## Dear Investors

The Fonterra Shareholders' Fund (the Fund) underperformed this year. The unit price is down markedly and no distribution was paid. This is disappointing and frustrating for the Fund's unit holders. Fonterra's farmer shareholders have experienced the same unsatisfactory result from their shares in Fonterra.

The Fund, and the Board of FSF Management Company Limited, which oversees it, have no direct involvement in Fonterra's operations. However, as holder of Economic Rights in the Fonterra Co-operative Group Limited (Fonterra) the performance of the Fund is tied directly to Fonterra's performance.

Fonterra's financial performance has continued to be very poor in 2019. A series of significant steps are being taken to right this but the turn-a-round will take time. The plan to reset the business has seen the Board and management take an end-to-end look at the entire operations, including re-evaluating all investments, major assets and partnerships.

This process resulted in the sale of Tip Top for \$380 million and the start of the sale process for DFE Pharma. Fonterra has wound back its relationship with Beingmate and announced its intention to sell part of its financial stake in the company. Fonterra also commenced strategic reviews of its two wholly-owned farms in China and stake in DPA Brazil, as well as exited Venezuela and closed the Dennington manufacturing site in Australia.

## Business performance for FY19

Performance was mixed. New Zealand Ingredients and the Foodservice businesses were up on last year. However, there were challenges in Australia Ingredients, the ingredients and consumer businesses in Latin America and the consumer businesses in Sri Lanka, Hong Kong and New Zealand. As a result, the normalised Net Profit After Tax was \$280 million, down 31% from last year.

Significant one-off items, including the asset valuation write-downs, totalled \$885 million. While these items do not impact the day to day operations of the business, they are reported in the Income Statement and as a result Fonterra reported a Net Loss After Tax of \$605 million, representing 35 cents per share.

Good progress has been made on reducing operating and capital expenditure, improving cash flow and reducing debt.

Fonterra's disappointing earnings and the one-off items led to the decision not to pay a distribution this year.

## Plans to improve performance

Fonterra has released its new strategy which will see it be a more focused business that prioritises New Zealand milk and is closer to its customers.

Fonterra intends to focus on four ingredient categories that reflect the way consumers enjoy dairy as part of their lifestyles: Core Dairy, Paediatrics, Medical and Ageing, Sports and Active. It also plans to create new opportunities in foodservice and take a more targeted approach to opportunities in consumer brands.

## Priorities for FY20

FY20 will be the first year of Fonterra delivering the new strategy. It has outlined four key priorities, which are: shift to a new market-led operating model, meet financial targets, support regional New Zealand, and reduce environmental footprint.

These priorities are intended to help Fonterra achieve its strategic goals of healthy people, healthy environment and healthy business.

CEO Miles Hurrell has set milestones and targets for the year against this strategy which can be viewed in Fonterra's annual report.

The Board of FSF Management Company Limited hopes to see better financial performance from Fonterra and progress against the new strategy.



## John Shewan

Chairman  
FSF Management Company Limited

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

# Our Board



1. John Shewan
2. Pip Dunphy
3. Kim Ellis
4. Donna Smit
5. Andrew Macfarlane



## 1. John Shewan

*CNZM BCA (Hons), FCA*

**Independent Director appointed by unit holders**

John Shewan was appointed Chairman of the FSF Board in November 2012. He is an independent director, and currently chairs the Boards of Munich Reinsurance Australasia, China Construction Bank and Wellington Regional Stadium Trust. John is an Adjunct Professor in the Business School at Victoria University.

## 2. Pip Dunphy

*B.Horti.Sci, CFA*

**Independent Director appointed by unit holders**

Pip Dunphy has worked as a non-executive director for the last 12 years in a variety of different industries and companies. Pip currently chairs the Boards of First Gas Limited and associated companies, Transpower New Zealand Limited and Abano Healthcare Group Limited.

## 4. Donna Smit

*FCA*

**Appointed to the Board of the Manager by Fonterra**

Donna Smit was elected to the Fonterra Board in December 2016. Donna lives and farms at Edgecumbe, and has dairy farms in Oamaru. Donna is a Director of EastPack Limited and Kiwifruit Equities Limited and a Trustee of the Dairy Women's Network. Donna is a Fellow Chartered Accountant and was a company administrator at kiwifruit Co-operative EastPack for 24 years.

## 3. Kim Ellis

*BCA (Hons), BE (Hons)*

**Independent Director appointed by unit holders**

Kim Ellis was the Chief Executive Officer of listed company Waste Management NZ for 13 years, until its sale in 2006. Kim currently chairs the Boards of New Zealand Social Infrastructure Fund, Turner Family's Sleepyhead Group Limited and Metlifecare Limited. Kim also holds directorships in Freightways, Ballance Agri-Nutrients and the Port of Tauranga.

## 5. Andrew Macfarlane

*B.Agr.Sc*

**Appointed to the Board of the Manager by Fonterra**

Andy Macfarlane was elected to the Fonterra Board in 2017. Andy was a farm management consultant for 38 years. He is a Councillor of Lincoln University and a Director of ANZCO. Andy was previously a Director of Ngai Tahu Farming Limited. Andy is an active member of the International Farm Management Association (IFMA), Global Dairy Farmers and New Zealand Institute of Primary Industry Management (NZIPIM). He is the past President of the NZIPIM and chaired Deer Industry New Zealand for seven years. Andy began farming in 1989 and lives near Ashburton. He has shareholding interests in the South Island.

# Financial Statements

FOR THE YEAR ENDED 31 JULY 2019

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## Manager's Statement

FOR THE YEAR ENDED 31 JULY 2019

FSF Management Company Limited (the Manager) presents to the unit holders the financial statements for the Fonterra Shareholders' Fund (the Fund) for the year ended 31 July 2019.

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

The Manager considers the 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 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 financial statements for the year ended 31 July 2019 presented on pages 5 to 12.

For and on behalf of the Board of the Manager:



**John Shewan**

Chairman  
FSF Management Company Limited  
25 September 2019



**Kim Ellis**

Director  
FSF Management Company Limited  
25 September 2019

# Statement of Comprehensive Income

FOR THE YEAR ENDED 31 JULY 2019

	\$ MILLION	
	31 JULY 2019	31 JULY 2018
Net fair value loss on revaluation of Economic Rights of Fonterra shares	(144)	(124)
Dividend income	-	39
<b>Investment expense</b>	<b>(144)</b>	<b>(85)</b>
Net change in fair value of liability to unit holders	144	124
Distributions to unit holders	-	(39)
<b>Finance income</b>	<b>144</b>	<b>85</b>
<b>Profit before tax</b>	<b>-</b>	<b>-</b>
Tax expense	-	-
<b>Profit for the year</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 YEAR ENDED 31 JULY 2019

	\$ MILLION
Net assets attributable to unit holders at 1 August 2018	570
<b>Movements:</b>	
Revaluation of liability to unit holders	(144)
Issue of units	82
Redemption of units	(120)
<b>Net assets attributable to unit holders at 31 July 2019</b>	<b>388</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</b>	<b>570</b>

The accompanying notes form part of these financial statements.



# Statement of Financial Position

AS AT 31 JULY 2019

	NOTES	\$ MILLION	
		31 JULY 2019	31 JULY 2018
<b>Assets</b>			
Economic Rights of Fonterra shares	2	388	570
<b>Total assets</b>		<b>388</b>	<b>570</b>
<b>Total liabilities (excluding net assets attributable to unit holders)</b>		<b>-</b>	<b>-</b>
<b>Net assets attributable to unit holders – liability</b>	3	<b>388</b>	<b>570</b>

# Cash Flow Statement

FOR THE YEAR ENDED 31 JULY 2019

	NOTES	\$ MILLION	
		31 JULY 2019	31 JULY 2018
<b>Cash flows from operating activities</b>			
Cash was provided from:			
– Sale of Economic Rights of Fonterra shares		120	198
– Dividends received (net of dividends reinvested)		-	31
Cash was applied to:			
– Purchase of Economic Rights of Fonterra shares		(82)	(121)
<b>Net cash flows from operating activities</b>	4	<b>38</b>	<b>108</b>
<b>Cash flows from financing activities</b>			
Cash was provided from:			
– Proceeds from issue of units		82	121
Cash was applied to:			
– Outflows on redemption of units		(120)	(198)
– Distributions paid to unit holders (net of distributions reinvested)		-	(31)
<b>Net cash flows from financing activities</b>		<b>(38)</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>

The accompanying notes form part of these financial statements.

# Statement of Significant Accounting Policies

FOR THE YEAR ENDED 31 JULY 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 activities of the Fund and the issue of units to the public are managed by FSF Management Company Limited (the Manager). The immediate and ultimate parent of the Fund is Fonterra Co-operative Group Limited (Fonterra).

The New Zealand Guardian Trust Company Limited (the Trustee) acts as the trustee for the Fund. The Economic Rights assets are held on trust for the Trustee under the Fonterra Economic Rights Trust by Fonterra Farmer Custodian Limited (the Custodian). The trustees of the Fonterra Farmer Custodian Trust also hold one unit known as the Fonterra unit.

The Manager is an FMC reporting entity under the Financial Markets Conduct Act 2013. The registered office of the Fund is 109 Fanshawe Street, Auckland Central, Auckland 1010, New Zealand.

The financial statements were authorised for issue by the Manager on 25 September 2019.

### Fonterra financial statements

Investors are encouraged to read the financial statements of Fonterra, together with the financial statements of the Fund, given that the performance of the Fund is driven by the performance of Fonterra. The Fonterra 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.

### Economic Rights and units

One Economic Right represents the right to receive dividends and other economic benefits derived from a fully paid share in Fonterra. This does not include the right to hold legal title to the share or to exercise voting rights in Fonterra.

A unit constitutes an undivided interest in the Fund. The Fund is designed to have the effect that each unit on issue in the Fund will represent the Economic Right derived from a single share in Fonterra.

### Key attributes of Economic Rights

- The right to receive a distribution equivalent to any dividend declared by the Fonterra Board (before PIE tax, withholding tax or other tax on distribution).
- The right to participate in other transactions in respect of Fonterra shares such as bonus issues, rights issues or buy-backs.
- The right to share in any surplus on liquidation of Fonterra.

### Key rights and restrictions of unit holders

- Unit holders will be entitled to have passed through to them an amount equal to any dividend payable in relation to a share in Fonterra (less any PIE tax, withholding tax or any other adjustments for tax in relation to that unit holder).
- If Fonterra reconstructs or adjusts its shares, an equivalent reconstruction or adjustment will be made in respect of units.

- If Fonterra makes bonus issues or rights issues of shares to its shareholders, corresponding issues of units will be made to unit holders.
- If there is an offer to acquire shares held by the Custodian, the Fund will seek instructions from unit holders as to whether the offer should be accepted. If a unit holder directs the Fund to accept the offer, the Fund will redeem units from such unit holder and accept the offer for shares in proportion to that direction. The amount received from the sale of the shares will be paid by the Fund to the unit holder.
- Unit holders are entitled to attend and vote at unit holder meetings and to elect three Directors of the Manager of the Fund. The additional two Directors of the Manager of the Fund are appointed by Fonterra.
- Unit holders do not have any right to attend or vote, or request the Custodian to attend or vote, at any meeting of Fonterra farmer shareholders.

### Key rights of the Fonterra unit holder

The Trust Deed cannot be amended without the prior approval of the holder of the Fonterra unit if that amendment would change the governance structure of the Board of the Manager, the scope and role of the Fund, the exchange mechanism for units and Economic Rights and the individual fund size restrictions.

In other respects, the holder of the Fonterra unit has the same rights as any other unit holder.

## B) BASIS OF PREPARATION

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

These financial statements are prepared on a historical cost basis, except for Economic Rights and liabilities to unit holders which have been measured at fair value.

These 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 financial statements as were applied in the financial statements for the year ended 31 July 2018.

The preparation of financial statements requires the Manager 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.

## 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.

# Statement of Significant Accounting Policies CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

## D) DIVIDEND INCOME

Dividend income from investments in Economic Rights is recognised in profit or loss on the date that the right to receive payment of the dividend is established.

## E) DISTRIBUTIONS TO UNIT HOLDERS

Distributions payable to unit holders are recognised in profit or loss as finance costs in the period in which they are declared by the Board of the Manager.

## F) FINANCIAL ASSETS AND FINANCIAL LIABILITIES

A financial asset or liability is recognised when the Fund becomes a party to the contractual provisions of the asset or liability (i.e. trade date).

Financial assets are derecognised if the Fund's contractual rights to the cash flows from the financial assets expire or if the Fund 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 Fund's obligations specified in the contract expire or are discharged or cancelled.

### i) Economic Rights of Fonterra shares

The Economic Rights of Fonterra shares are measured at fair value. Changes in fair value are recognised as investment income in profit or loss.

### ii) Liability to unit holders

The Fund has an obligation to repurchase units from Farmers, the Registered Volume Provider and Fonterra, therefore the liability to unit holders is a financial liability. It is presented as a financial liability because it does not meet the limited set of criteria that would allow it to be presented as equity.

The Fund manages its liability to unit holders on a fair value basis. Therefore, the Fund has elected to measure the liability to unit holders at fair value. Changes in fair value are recognised as finance costs in profit or loss.

## G) TAX

The Fund has elected to be a 'foreign investment variable-rate Portfolio Investment Entity' for New Zealand income tax purposes. Due to this election, income is effectively taxed in the hands of the unit holders and therefore the Fund has no tax expense, current tax payable or deferred tax assets or liabilities.

The Fund will attribute PIE income (being Fonterra dividends) to unit holders and pay tax on that income at each relevant unit holder's nominated prescribed investor rate (PIR), being their applicable tax rate, subject to the option to apply the non-resident withholding tax rules in respect of Notified Foreign Investors. When the Fund receives Fonterra dividends the Fund will retain an amount from dividends distributed to a unit holder to satisfy the PIE (or withholding) tax liability in relation to that unit holder and pay amounts owing direct to the IRD. It is not anticipated that the Fund will have a PIE tax loss or excess tax credits which will be attributed to unit holders.

## H) NEW STANDARDS AND INTERPRETATIONS

### Standards effective from 1 August 2018

The Fund adopted NZ IFRS 15 *Revenue from Contracts with Customers* from 1 August 2018. As the Fund does not earn revenue from customers, the adoption of this accounting standard had no impact on the Fund.

### Standards issued but not yet effective

NZ IFRS 16 *Leases* is effective for the Fund from 1 August 2019. As the Fund has not entered into any lease arrangements the impact of this accounting standard on the Fund will not be material.

A number of amendments to standards and interpretations have been issued which were available for early adoption but have not been adopted. None of these will have a material impact on the financial statements of the Fund.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2019

## 1. FINANCIAL RISK MANAGEMENT

The Fund is primarily established to invest in Economic Rights and issue units to investors. As such its only investment comprises of Economic Rights. Through the holding of this investment and issuing units to unit holders, the Fund has limited net exposure to market price risk and liquidity risk. The Fund has no direct exposure to interest rate, foreign exchange or credit risk. The risk management policies employed by the Fund are discussed in the notes below.

### Market price risk

Market price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual instrument, its issuer or factors affecting all instruments traded in the market.

The Fund's financial instruments primarily comprise of investments in the Economic Rights and liabilities to unit holders which are both carried at fair value with fair value changes recognised in profit or loss. Both of these instruments are exposed to market price risk. Any change in the market price of the units will result in an equal and opposite change in the market price of the Economic Rights. Hence, no impact on profit or loss in the Statement of Comprehensive Income is expected due to changes in market prices.

### Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund is not exposed to cash redemptions and only certain parties are permitted to redeem their units. Where permitted parties redeem units, the Fund will transfer one Economic Right for each unit redeemed to meet the redemption. Unit holders will not otherwise have the ability to redeem their units or exchange them for shares. Hence, the Fund does not have significant liquidity risk.

### Financial instruments fair value

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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.

Where there is a bid and ask price, the Fund uses the price within that range that is most representative of fair value. Where the last traded price is within that range, the Fund uses the last traded price as fair value. Where the last traded price falls outside that range the Fund uses the mid-point between the bid and ask prices.

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.

### Capital risk management

The Fund manages its net assets attributable to unit holders as capital, notwithstanding that net assets attributable to unit holders is classified as a financial liability. The amount of unit holders' funds can change on a daily basis as the Fund is subject to the issue and redemption of units at the discretion of Fonterra and Fonterra farmer shareholders. Fonterra has an interest in ensuring the stability of the Fund and has established a Fund Size Risk Management Policy which requires that the number of units on issue remain within specified limits and that, within these limits, the number of units is managed appropriately. Fonterra can use a range of measures to ensure the Fund size remains within the specified limits, including: introducing or cancelling a distribution reinvestment plan, operating a unit repurchase programme and introducing new units.

As at 31 July 2019, the Actual Fund Size relative to total Fonterra shares on issue is below the target range specified in the Fund Size Risk Management Policy. Fonterra has taken no specific actions to address this as it expects the Fund size to increase over time as Fonterra's performance improves.

# Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

## 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 JULY 2019	31 JULY 2018
Value of Economic Rights (\$ million)	388	570
Number of Economic Rights	102,934,582	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 JULY 2019	31 JULY 2018
Opening value of Economic Rights	570	763
<b>Movements:</b>		
Purchase of Economic Rights <sup>1</sup>	82	129
Sale of Economic Rights	(120)	(198)
Revaluation of Economic Rights	(144)	(124)
<b>Closing value of Economic Rights</b>	<b>388</b>	<b>570</b>

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

## 3. LIABILITY TO UNIT HOLDERS

	31 JULY 2019	31 JULY 2018
Value of unit holder liability (\$ million) <sup>1</sup>	388	570
Opening number of units on issue <sup>2</sup>	111,423,603	126,047,304
Number of units issued <sup>3</sup>	17,769,331	20,946,170
Number of units redeemed	(26,258,352)	(35,569,871)
<b>Closing number of units on issue</b>	<b>102,934,582</b>	<b>111,423,603</b>

1 The liability to unit holders is measured at fair value, calculated as the number of units on issue multiplied by the unit market price at 31 July 2019 of \$3.77 (31 July 2018: \$5.12).

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

3 There were no units issued under the Distribution Reinvestment Plan for the year ended 31 July 2019 (31 July 2018: 1,447,736 units with a total value of \$8.4 million).

## 4. RECONCILIATION OF NET CASH FLOW FROM OPERATING ACTIVITIES TO PROFIT

	\$ MILLION	
	31 JULY 2019	31 JULY 2018
<b>Reconciliation of profit for the year to net cash flows from operating activities</b>		
Profit for the year	-	-
<i>Adjustments for:</i>		
- Fair value loss on revaluation of Economic Rights of Fonterra shares	144	124
- Net change in fair value of liability to unit holders	(144)	(124)
- Distributions to unit holders	-	39
- Non-cash dividend income	-	(8)
<i>Changes in assets:</i>		
Net sale of Economic Rights of Fonterra shares	38	77
<b>Net cash flows from operating activities</b>	<b>38</b>	<b>108</b>

# Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

## 5. NET TANGIBLE ASSETS PER SECURITY

As at 31 July 2019, the net tangible assets per unit on issue was \$3.77 (31 July 2018: \$5.12).

## 6. COMMITMENTS AND CONTINGENT LIABILITIES

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

## 7. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions, or if they are members of the same group.

### FSF Management Company Limited (the Manager)

FSF Management Company Limited is the Fund's Manager whose sole objective is to manage the Fund and its property as a passive investment vehicle under the Trust Deed. Under the Trust Deed, the Manager is not entitled to any fees in respect of its services.

Key Management Personnel are those people with the responsibility and authority for planning, directing and controlling the activities of an entity. As the Fund does not have any employees or directors, Key Management Personnel are considered to be the Directors of the Manager.

### Unit transactions and balances with Key Management Personnel

	\$ MILLION	
	YEAR ENDED 31 JULY 2019	YEAR ENDED 31 JULY 2018
Purchased	–	0.06
Sold	–	–
Value at the end of the year	<b>0.68</b>	0.24

At 31 July 2019 179,722 (31 July 2018: 46,192) units were held by Key Management Personnel. The change in the number of units held by Key Management Personnel is due to the inclusion of units held by the two Directors appointed during the year, and removal of the units held by the retiring Director.

### Fonterra Co-operative Group Limited (Fonterra)

Under the Authorised Fund Contract, Fonterra provides administrative services in relation to the Fund for the Manager and meets the operating expenses of the Fund, including the fees of the Directors of the Manager.

The Manager and the Trustee have agreed that Fonterra will meet the day-to-day operating costs of the Fund. In addition, the Fund will use corporate facilities, support functions and services provided by Fonterra. All of these services will be provided at no cost to the Fund.

There are some costs that will not be covered by Fonterra. These principally relate to circumstances where the Manager has breached certain obligations or seeks to bring claims outside the ambit of those which Fonterra has undertaken to pay. In these circumstances, the Manager would have to seek funding from other sources. This could include seeking a resolution of unit holders that they agree to bear the relevant costs through a deduction from distributions that would otherwise be made by the Fund.

Under Fonterra's Contract Fee for Units scheme, Fonterra provides services and financial assistance to The New Zealand Guardian Trust Company, as trustee of The Contract Fee Trust, to acquire, on market, and hold units on behalf of Fonterra's contract milk suppliers participating in the scheme.

### Fonterra Farmer Custodian Limited (the Custodian)

The Fund has appointed Fonterra Farmer Custodian Limited, a subsidiary of Fonterra, to provide custodian services. The Economic Rights are held on trust for the Trustee by the Custodian under the Fonterra Economic Rights Trust. Custodian services are provided at no cost to the Fund.

### Fonterra (Delegated Compliance Trading Services) Limited (DCT)

DCT is a wholly owned subsidiary of Fonterra which undertakes delegated compliance trading in the Fund on behalf of Fonterra's farmer shareholders.

### Fund expenses

Fonterra, the Manager, the Trustee and the Custodian have entered into the Authorised Fund Contract, which authorises the Fund to operate as an Authorised Fund and regulates the relationship between Fonterra and the Fund.

Under the Authorised Fund Contract all expenses relating to the Fund are incurred and paid by either Fonterra or the Manager. The costs of running the Fund include services by Fonterra for which there is no payment made, as well as services for which the Fund contracts to third parties.

Included within the total expenses incurred and paid by Fonterra during the year ended 31 July 2019 with respect to the Fund are the following amounts paid to PricewaterhouseCoopers:

- Fees for the annual audit of the financial statements of \$33,780 (31 July 2018: \$32,780),
- Fees for the review of the interim financial statements of \$10,000 (31 July 2018: \$nil) and
- Fees for other audit related services comprising agreed upon procedures on Prescribed Investor Rates of \$nil (31 July 2018: \$7,000), and Annual Meeting voting of \$4,000 (31 July 2018: \$3,500)

# Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

## Fund unit and Fonterra share transactions

As at 31 July 2019, the Custodian holds 102,934,582 (31 July 2018: 111,423,603) Fonterra shares on trust for the Fund.

On 10 October 2018, DCT made a net purchase of 45,164 units for \$0.2 million on behalf of Fonterra farmer shareholders participating in the 2019 season Delegated Compliance Trading Scheme. In the prior year on 9 October 2017, DCT made a net sale of 173,568 units for \$1.1 million on behalf of Fonterra farmer shareholders participating in the 2018 season Delegated Compliance Trading Scheme. The sale or purchase of units with the Fonterra farmer shareholders are transacted on the same day. Therefore, no units are held by DCT on behalf of Fonterra's farmer shareholders at the close of trading.

The closing date for the 2020 season applications under the Delegated Compliance Trading Scheme is 1 February 2020.

During the year 513,504 units were purchased for \$3.3 million on behalf of Fonterra's contract suppliers participating in Fonterra's Contract Fee for Units scheme. As at 31 July 2019, 513,504 units were held on trust for the participating contract suppliers. There were no transactions in the prior year.

## Dividends received from Fonterra

No dividends were received during the year ended 31 July 2019. The following dividends were received during the year ended 31 July 2018:

DIVIDENDS	\$ MILLION	
	YEAR ENDED 31 JULY 2019	YEAR ENDED 31 JULY 2018
2018 Interim dividend received – 10.0 cents per Economic Right <sup>1</sup>	–	13
2017 Final dividend received – 20.0 cents per Economic Right <sup>2</sup>	–	26

1 This was distributed on to unit holders on 20 April 2018 and represented a cash distribution of 10.0 cents per unit.

2 This was distributed on to unit holders on 20 October 2017 and represented a cash distribution of 20.0 cents per unit.

## 8. 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 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 Auditor's Report

TO THE UNIT HOLDERS OF FONTERRA SHAREHOLDERS' FUND



We have audited the financial statements which comprise:

- the statement of financial position as at 31 July 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in net assets attributable to unit holders for the year then ended;
- the cash flow statement for the year then ended;
- the statement of significant accounting policies; and
- the notes to the financial statements.

## OUR OPINION

In our opinion, the accompanying financial statements of Fonterra Shareholders' Fund (the Fund), present fairly, in all material respects, the financial position of the Fund as at 31 July 2019, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Fund in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

## OUR AUDIT APPROACH



### Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall materiality: \$3.9 million, which represents approximately 1% of net assets attributable to unit holders. We used this benchmark because, in our view, this is an appropriate benchmark for a fund.

We agreed with the Board of the Manager that we would report to them misstatements identified during our audit above \$190,000 as well as misstatements below that amount that in our view, warranted reporting for qualitative reasons.

We have not identified any key audit matters from our audit given the nature of the entity. Refer to the Key audit matters section of our report.

### Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

### Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Fund, the accounting processes and controls, and the industry in which the Fund operates.

## KEY AUDIT MATTERS

Key audit matters are those that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. The Fund only invests in Economic Rights of Fonterra Shares (Economic Rights). The value of the Economic Rights are based on the price of the Units in the Fund which are quoted on the NZX Main Board. Our audit focussed on the valuation of the Units and the application of this to the Economic Rights. Given the nature of the Fund's operations, we determined that there were no key audit matters to communicate in our report.



# Independent Auditor's Report CONTINUED

## **INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT**

The Manager of the Fund is responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not, express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **RESPONSIBILITIES OF THE MANAGER FOR THE FINANCIAL STATEMENTS**

The Manager of the Fund is responsible, on behalf of the Fund, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

## **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-2/>

This description forms part of our auditor's report.

## **WHO WE REPORT TO**

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

The engagement partner on the audit resulting in this independent auditor's report is Richard Day.

For and on behalf of:



## **Chartered Accountants**

Auckland  
25 September 2019

# Statutory Information

FOR THE YEAR ENDED 31 JULY 2019

## TWENTY LARGEST UNIT HOLDERS

As at 31 July 2019

UNIT HOLDER	NUMBER OF UNITS	% OF TOTAL ISSUED UNITS
Accident Compensation Corporation	3,770,471	3.66
Citibank Nominees (New Zealand) Limited	3,149,463	3.06
National Nominees Limited	3,080,189	2.99
HSBC Nominees (New Zealand) Limited	2,403,081	2.33
Craigsmore Dairy II Services Limited	2,100,000	2.04
FNZ Custodians Limited	1,233,499	1.20
New Zealand Depository Nominee Limited	1,113,145	1.08
JPMorgan Chase Bank NA NZ Branch-Segregated Clients Acct	1,017,015	0.99
JBWere (NZ) Nominees Limited	989,811	0.96
HSBC Custody Nominees (Australia) Limited	892,955	0.87
Michael Douglas Hammond & Helen Mavis Hammond & Leigh Joseph Horton	770,270	0.75
HSBC Nominees (New Zealand) Limited A/C State Street	754,769	0.73
Custodial Services Limited <A/C 4>	693,188	0.67
Ingleton Properties Limited	675,380	0.66
BNP Paribas Nominees (NZ) Limited – NZCSD <COGN40>	672,238	0.65
Broad Acres Farms Limited	644,609	0.63
Custodial Services Limited <A/C 3>	541,363	0.53
Fonterra Farmer Custodian Limited <Contract Fee Trust>	513,504	0.50
BNP Paribas Nominees Pty Ltd	504,959	0.49
Richard Wallace Shapero	480,000	0.47
<b>Total</b>	<b>25,999,909</b>	<b>25.26</b>
<b>Total quoted units on issue</b>	<b>102,934,581</b>	<b>100.00</b>

## SPREAD OF UNIT HOLDERS

As at 31 July 2019

SIZE OF HOLDING	NUMBER OF HOLDERS	NUMBER OF UNITS	% OF TOTAL ISSUED UNITS
1 – 1,000	2,972	1,503,889	1.46
1,001 – 5,000	3,038	7,665,305	7.45
5,001 – 10,000	807	6,186,311	6.01
10,001 – 100,000	1,005	34,938,520	33.94
100,001 and over	168	52,640,557	51.14
<b>Total<sup>1</sup></b>	<b>7,990</b>	<b>102,934,582</b>	<b>100.00</b>

<sup>1</sup> Total includes the Fonterra unit (which is not quoted).

## SUBSTANTIAL PRODUCT HOLDERS

As at 31 July 2019 no unit holders had filed substantial product holder notices in accordance with the Financial Markets Conduct Act 2013.

As at 31 July 2019 the Fund had 102,934,581 quoted units, and one Fonterra unit, on issue.

# Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

## HOLDINGS OF DIRECTORS OF THE MANAGER

As at 31 July 2019

The following Directors of the Manager have disclosed relevant interests in units of the Fund:

DIRECTOR	NUMBER OF UNITS	NATURE OF INTEREST
John Bruce Shewan (Chairman)	15,680	Trustee and discretionary beneficial interest through Investment Custodial Services Limited
John Bruce Shewan (Chairman)	4,512	Power to control and exercise a right to vote and to control the acquisition and disposal of these units held on behalf of his wife by Private Nominees Limited
Kimmit Rowland Ellis	15,000	Trustee and discretionary beneficial interest held by Custodial Services Limited
Donna Maree Smit	9,317	Power to control and exercise a right to vote and to control the acquisition and disposal of these units held by Corona Farms Limited
Donna Maree Smit	3,063	Power to control and exercise a right to vote and to control the acquisition and disposal of these units held by Seven Mile Farms Limited
Andrew Webster Macfarlane	122,150	Power to control and exercise a right to vote and to control the acquisition and disposal of these units held by Pencarrow Farm Limited
Andrew Webster Macfarlane	10,000	Trustee and non-beneficial interest through Stonylea Trust

## INTERESTS REGISTER

The Manager is required to maintain an interests register in which the particulars of certain transactions and matters involving the Directors of the Manager must be recorded. The interests register is available for inspection on request.

### General disclosures of interest

During the financial year, Directors of the Manager disclosed interests (including changes to previously disclosed interests), or a cessation of interests (indicated by an asterisk (\*)), in the following entities pursuant to section 140 of the Companies Act 1993:

DIRECTOR	NATURE OF INTEREST
John Bruce Shewan (Chairman)	Appointed Chair of Munich Reinsurance Company of Australasia Pty Limited, Munich Holdings of Australasia Pty Limited and Corion Pty Limited. Appointed acting Chair of China Construction Bank (New Zealand) Limited. Ceased to be Chair of Corion Pty Limited*.
Philippa Jane Dunphy	Appointed Chair of Abano Healthcare Group Limited and Transpower New Zealand Limited.
Donna Maree Smit	Director of Fonterra Co-operative Group Limited, Fonterra Farmer Custodian Limited, KEL Woodlands Orchard Limited and KEL Rangiuoru Orchard Limited. Shareholder and Director of Corona Farms Limited, Seven Mile Farms Limited, Kiwifruit Equities Limited, Corona Kiwi Limited and Eastpack Limited. Shareholder of Ballance Agri-Nutrients Limited, Ravensdown Limited, Farmlands Co-operative Society Limited and Livestock Improvement Corporation Limited. Trustee of Fonterra Farmer Custodian Trust and Dairy Womens Network.
Andrew Webster Macfarlane	Director of Fonterra Co-operative Group, Ngai Tahu Farming Limited, Riverbank Farm (Ashburton) Limited, Broadfields Farm (Ash) Limited, MRB Securities Limited, ANZCO Foods Limited, ANZCO Farmer Nominee Limited, Melior Genetics Limited (previously Deer Improvement Limited) and Kintore Farms Limited. Relevant interest in the Deebury Partnership and its associated entities. Director and shareholder of Pencarrow Farm Limited, Windwhistle Pastoral Limited and M.R.B Trustees Limited. Shareholder of Macfarlane Rural Business Limited. Councillor at Lincoln University. Trustee and non-beneficiary of Stonylea Trust. Ceased to be a Director of Ngai Tahu Farming Limited*.

### Specific disclosures of interest

During the financial year, no Director of the Manager specifically disclosed any transaction in which that director had entered into with the Manager.

## NZX TRADING HALTS

On 9 August 2018 NZX Regulation (NZXR), at the request of Fonterra Co-operative Group Limited (Fonterra) and Fonterra Shareholders' Fund (FSF), placed a trading halt on Fonterra and its debt securities (FCG030, FCG040, & FCGHA), and FSF. Fonterra was preparing its annual financial statements for the financial year ended 31 July 2018 and as a result there was potential for a variation from the earnings guidance previously given by Fonterra to the market. The trading halt had been requested to allow Fonterra to determine this and to make any required announcement to the market. On 10 August 2018 Fonterra shared a revision to its forecast 2017/18 Farmgate Milk Price, and updated its normalised earnings per share and dividend guidance. The trading halt was lifted on 10 August 2018 following this announcement.

# Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

## NZX DIVERSITY REPORTING REQUIREMENTS

As at 31 July 2019, the gender composition of the Board of the Manager comprised two female and three male Directors. As at 31 July 2018, the gender composition of the Board of the Manager comprised two female and three male Directors. The Manager does not employ any person.

## NZX WAIVERS

A summary of waivers and approvals granted by NZX Regulation in relation to the NZX Main Board Listing Rules (NZX Listing Rules), which have been relied upon by the Fund in the year ended 31 July 2019, can be found at [www.fonterra.com](http://www.fonterra.com) in the 'Investors/Fonterra Shareholders' Fund' section under the heading 'Exchange Waivers'.

## NZX NON-STANDARD DESIGNATION

The Fonterra Shareholders' Fund has been granted Listing with a 'Non-Standard' ("NS") designation by NZX Regulation. This designation was granted because of the unique governance arrangements and unit holder restrictions.

## ASX LISTING

The Fund has an ASX Foreign Exempt Listing with ASX Limited which means the Fund is primarily regulated by the NZX Listing Rules and is to be exempt from complying with most of the ASX Listing Rules.

## CORPORATE GOVERNANCE

### Background

The Fund is a registered managed investment scheme under the Financial Markets Conduct Act 2013. The Fund is required to have a supervisor (trustee) and a manager. The role of the trustee is to hold the economic benefit of shares held by the Fonterra Farmer Custodian for the benefit of the trustee of the Fund. The role of the Manager is to issue or offer units in the Fund and to manage the property of the Fund.

The Trust Deed defines a narrow function of the Fund which is, in summary to:

- issue units when new Economic Rights of Fonterra shares are held for the benefit of the Fund;
- redeem units when required by a farmer shareholder, Fonterra or the registered volume provider and direct that the Fonterra Farmer Custodian transfers Fonterra shares to the farmer shareholder, Fonterra or the Fonterra Farmer Custodian on behalf of the registered volume provider seeking that redemption; and
- not undertake other trading activities.

The Fund is to be 'passive', i.e., it does not actively solicit Economic Rights or the redemption of units except for undertaking the initial supply offer.

### Corporate Governance Principles

The Board's corporate governance framework takes into consideration contemporary standards in New Zealand and Australia, incorporating principles and guidelines issued by the Financial Markets Authority, the NZX Corporate Governance Code 2017 (NZX Code) and the ASX Corporate Governance Council Principles and Recommendations (ASX Principles).

The corporate governance framework adopted by the Board reflects its role as a manager of a fund with limited operational activity, which in several ways is different to the corporate governance structure appropriate for a traditional listed company carrying on an operating business.

Given the special purpose nature of the Fund, as at 31 July 2019, the Manager has determined that a number of the recommendations in the NZX Code and the ASX Principles are not appropriate for the Fund or are not relevant.

In accordance with the NZX Listing Rules, the Manager has disclosed

in this corporate governance statement a summary of the corporate governance policies, practices and processes adopted or followed at the date of this annual report or explained why the Manager has decided to not comply with any recommendation of the NZX Code.

References to 'Board' and 'Directors' in this statement are to the Board and Directors of the Manager.

### The Board

The Board has statutory responsibilities for the affairs and activities of the Manager and the Fund.

The roles and responsibilities of the Board are set out in its Board Charter. Its roles and responsibilities include:

- monitoring the performance of the Fund and the implementation of its objectives;
- monitoring compliance with the regulatory requirements and ethical standards; and
- monitoring compliance with the constituent documents for Trading Among Farmers as they relate to the Fund.

Given the Fund's limited operational activity, the Manager has limited discretion in respect of the day-to-day management of the Fund.

To the extent that any material exercise of discretion or other decision-making authority is required, that discretion or authority is exercised by the Board.

The Manager does not have any employees. Under the Authorised Fund Contract, Fonterra has agreed to provide the Fund with administrative services and to meet the costs of the general business of the Fund, including paying the fees and expenses of the Directors. The Manager does not have a CEO so recommendation 2.8 that the Chair and CEO must be different people is not applicable.

The Manager has written agreements with each of its Directors.

A copy of the Board Charter can be found at [www.fonterra.com](http://www.fonterra.com) in the 'Investors/Fonterra Shareholders' Fund' section under the heading 'Charters and policies'.

### Diversity Policy

Given the small size of the Board, and as Directors are either elected by unit holders or appointed by Fonterra, the Manager has not followed recommendation 2.5 and has not implemented a gender diversity policy for the Board.

### Performance Assessment

The Board assesses its performance against its role and the Board Charter and the performance of the Audit Committee against the Audit Committee Charter.

### Board Composition

The constitution of the Manager provides for five Directors and sets out how they are appointed.

In accordance with the procedure set out in the Trust Deed, unit holders are entitled to elect three Directors (Elected Directors) and may remove and replace any Elected Director.

The three Elected Directors must be 'Independent Directors' for the purposes of the NZX Listing Rules. At the date of this statement the three Elected Directors are John Shewan, Pip Dunphy and Kim Ellis. One Elected Director is required to retire at each annual meeting of the Fund. The Chair of the Board must be one of the three Elected Directors. John Shewan is Chair.

The remaining two Directors are appointed, and can be replaced, by Fonterra. There is no requirement as to who the Fonterra-appointed Directors must be. While they need not be Directors of Fonterra, the current people that Fonterra has appointed (Andrew Macfarlane and Donna Smit) are both Directors of Fonterra.

Due to the limited nature of the Fund's operations, the Manager does not consider it necessary to comply with recommendations 2.4 and 2.6 of the NZX Code.

# Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

## Nominations Committee

Given the small size of the Board, the Manager has not established a separate Nominations Committee to recommend director appointments to the Board and therefore has decided not to follow recommendation 3.4. The Board is appointed in accordance with the Trust Deed and the constitution of the Manager. The Board is responsible for establishing the criteria for determining the suitability of potential Elected Directors and recommending persons suitable for appointment to the Board.

## Independent Professional Advice

The Board seeks independent professional advice when it considers that appropriate. Fonterra pays the costs of independent professional advice in accordance with the Authorised Fund Contract.

## Code of Conduct

The Manager has adopted the Code of Conduct. The Code of Conduct guides the Directors on:

- the practices necessary to maintain confidence in the Manager's integrity; and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

A copy of the Code of Conduct can be found at [www.fonterra.com](http://www.fonterra.com) in the 'Investors/Fonterra Shareholders' Fund' section under the heading 'Charters and policies'.

## Securities Trading Policy

The Manager and Fonterra have adopted trading policies that detail the policy on, and rules for, trading in units. The policies each apply to Directors of the Manager and Directors, officers, employees and contractors of Fonterra and are in addition to legal prohibitions on insider trading in New Zealand and Australia.

## Audit Committee

The Board acts as the Audit Committee for the Fund. The Chair of the Audit Committee is the Chair of the Board. Due to the limited nature of the Fund's operations, the Board does not consider it necessary to comply with recommendation 3.1 of the NZX Code to have an independent Chair for the Audit Committee.

The Board acting as Audit Committee is responsible for:

- providing oversight in relation to financial reporting and regulatory compliance; and
- reviewing financial reporting processes, internal controls, the audit process and the process for monitoring legal and regulatory compliance.

The Manager has implemented a formal Audit Committee Charter which sets out the responsibilities of the Audit Committee in full and establishes a framework for the Fund's relationship with its external auditors. A copy of the Audit Committee Charter can be found at [www.fonterra.com](http://www.fonterra.com) in the 'Investors/Fonterra Shareholders' Fund' section under the heading 'Charters and policies'.

The Board acting as Audit Committee selects and appoints the external auditor and determines the rotation of external audit engagement partners. It also acts as a forum for communication between the Board and external auditors where appropriate. The Audit Committee asks that the external auditor attend the annual unit holder meeting and be available to answer questions from unit holders relevant to the audit.

Due to the nature of the Manager's role as a manager of a fund with limited operational activity, recommendation 7.3 of the NZX Code has not been followed and the Manager has no formal or informal internal audit functions.

As the Fund has no employees, the Manager does not consider it necessary to comply with recommendation 3.2 of the NZX Code and specify that employees may only attend meetings by invitation of the audit committee.

## Maximum Holding Restriction

Under the Trust Deed, no Unit Holder and its associates (excluding Fonterra) can hold, or have a "relevant interest" in, more than 15% of the Units on issue or 15% of the voting rights in the Fund, whichever is lower.

The Trust Deed also contains enforcement provisions to ensure compliance by Unit Holders with this restriction. If Fonterra determines that a Unit Holder is in breach of this restriction, Fonterra may determine that the unit holder is not entitled to vote some or all of the units it holds in breach of the restriction and can require that the unit holder dispose of the units held in breach of the restriction. If the Units are not disposed of, the Manager or Fonterra can arrange for their disposal.

## Takeovers Policy

Given the Fund cannot have any controlling interest in Fonterra, the Manager has not established protocols that set out the procedure to be followed if there is a takeover offer for the Fund (as contemplated by recommendation 3.6 of the NZX Code).

## Continuous Disclosure

The Board aims to ensure that unit holders are informed of all major developments affecting the Fund. Information is communicated to unit holders through NZX and ASX announcements, the Fund's annual report and half and full-year results announcements.

Fonterra and the Manager have entered into an arrangement to co-operate with each other and take all steps reasonably required to ensure that information to be disclosed by either of them under the listing rules of the Fonterra Shareholders' Market, the NZX Listing Rules or the ASX Listing Rules (as the case may be) is disclosed simultaneously to the Fonterra Shareholders' Market, the NZX Main Board and ASX in relation to the Fund. It is intended that where NZX, as market operator of the Fonterra Shareholders' Market, receives information provided by Fonterra for release under the Fonterra Shareholders' Market, NZX simultaneously releases the information under the code relating to the Fund. This process is intended to be automatic.

The Manager does not consider it necessary to comply with recommendation 4.1 of the NZX Code and to have its own continuous disclosure policy. Due to the relationship between units and Fonterra shares, the majority of continuous disclosure announcements are made by Fonterra in relation to matters affecting Fonterra and the value of Fonterra shares (and by implication the value of units).

The Manager does not consider it necessary to comply with recommendation 4.3 of the NZX Code and provide non-financial disclosures annually given the Fund's limited operational functions.

## Capital Raising

As the Fund has not sought additional equity capital during the year, the Board has not needed to follow recommendation 8.4 of the NZX Code which recommends the new equity capital raising be undertaken on a pro rata basis.

## Other Committees

Given the Fund's limited operational functions, the Board does not consider it necessary or appropriate to have any other Board Committees as standing committees as required by recommendation 3.5 of the NZX Code.

# Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2019

## Communications with Unit Holders

All external communications by the Fund are:

- subject to internal vetting and authorisation before issue;
- reviewed to ensure that they do not omit material information; and
- timely and expressed in a clear and objective manner.

Mechanisms are in place to promote effective two-way communication with unit holders and to encourage their participation at unit holder meetings, including:

- the Manager will release to the NZX Main Board and ASX market announcements platform respectively all information sent to unit holders, and will comply with the NZX Listing Rules and ASX Listing Rules with respect to unit holder communications.
- notices of meetings are sent to unit holders at least 14 days before a meeting and can be found at [www.fonterra.com](http://www.fonterra.com) in the 'Investors/Fonterra Shareholders' Fund' section under the heading 'Related documents' at least 28 days beforehand.
- a unit holder may raise matters for discussion or resolution at general meetings, by giving written notice to the Manager. If the notice is received more than 25 working days before the last day on which notice of the meeting is due, the Manager is required to, at the expense of the Fund, give notice of the unit holder proposal and the text of any proposed resolution to all unit holders entitled to receive notice of the meeting. The unit holder proposing the resolution has the right to prepare a statement in support of the proposal to include with the notice of meeting (clause 14.1 of the Schedule to the Trust Deed).

Investors who have provided the Manager with an email address will be sent annual and interim reports electronically unless they expressly opt to receive hard copy reports and will receive other communications electronically where requested. Unit holders are strongly encouraged to provide an email address.

## Risk Management

The Board is responsible for the risk management of the Fund, including:

- reviewing the principal risks contained in the risk profile of the Fund on an annual basis;
- ensuring that a risk management framework is established which includes policies and procedures to effectively identify, treat and monitor principal business risks, including consideration of internal audit;
- at least annually assessing the effectiveness of the implementation of the risk management system and reporting back to the Board; and
- monitoring compliance with the risk management framework.

Given the Fund's limited operational functions, its general risk and health and safety risk profiles are limited. The management of risks relating to Fonterra's operations and which may affect the value of Fonterra shares and dividends (and therefore the value of units and distributions flowed through to unit holders) is a matter for the Board and Management of Fonterra and is beyond the control of the Manager Board. To the extent that there are risks that specifically impact the operation of the Fund, the Board periodically reviews the management of those risks. On this basis, the Manager has decided not to follow recommendations 6.1 and 6.2 of the NZX Code.

## Remuneration of Directors

Given the small size of the Board and the fact the Fund has no employees, the Manager has not established a separate Remuneration Committee and therefore has decided not to follow recommendation 3.3 of the NZX Code.

Under the Authorised Fund Contract, Fonterra is responsible for the payment of all director fees payable to the Directors of the Manager. Fonterra has currently approved the following amounts of remuneration for the Directors. These amounts exclude GST, where applicable:

- \$80,000 per year to the Chair of the Board; and
- \$53,000 per year to each independent Director.

Currently, the two Directors of the Manager who have been appointed by Fonterra and who are also Directors of Fonterra are not to be paid any additional remuneration (in addition to their remuneration as Directors of Fonterra) for their service on the Board of the Manager.

The remuneration of the Directors of the Manager may be reviewed and adjusted from time to time.

The Fund has no employees or CEO and due to the arrangements around director remuneration with Fonterra, the Manager has therefore decided not to comply with recommendations 5.1, 5.2 and 5.3 of the NZX Code.

## Directors Unit Holdings

The independent Directors of Fonterra that are also appointed to the Board of the Manager are prohibited from acquiring any relevant interest in units. The other Directors of the Manager (elected by unit holders) may acquire units, and to the extent any units are acquired, these acquisitions will be disclosed to the market as required by law.

# Directory

## **REGISTERED OFFICE OF THE MANAGER OF THE FUND – NEW ZEALAND**

109 Fanshawe Street  
Auckland Central, Auckland 1010  
Telephone: +64 9 374 9000  
Webpage: [www.fonterra.com](http://www.fonterra.com) in the 'Investors/Fonterra Shareholders' Fund' section.

## **REGISTERED OFFICE OF THE MANAGER OF THE FUND – AUSTRALIA**

C/o Fonterra Australia Pty. Ltd  
Level 2, 40 River Boulevard  
Richmond, Victoria 3121  
Telephone: +61 3 8541 1588

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

Philippa Jane Dunphy  
Kimmitt Rowland Ellis  
Andrew Webster Macfarlane  
John Bruce Shewan  
Donna Maree Smit

## **COMPANY SECRETARY**

Andrew Cordner

## **SUPERVISOR**

The New Zealand Guardian Trust Company Limited  
Level 14, 191 Queen Street  
Auckland Central, Auckland 1010  
New Zealand

## **AUDITOR OF THE FUND AND THE MANAGER OF THE FUND**

PricewaterhouseCoopers  
Level 22, PwC Tower  
188 Quay Street, Auckland 1010  
New Zealand

## **LEGAL ADVISERS TO THE MANAGER OF THE FUND**

Chapman Tripp  
Level 35, ANZ Centre  
23 Albert Street, Auckland 1010  
New Zealand

## **SHARE REGISTRAR – NEW ZEALAND**

Computershare Investor Services Limited  
Level 2, 159 Hurstmere Road  
Takapuna, Auckland 0622  
Private Bag 92119, Auckland 1142  
Telephone: +64 9 488 8777

## **SHARE REGISTRAR – AUSTRALIA**

Computershare Investor Services Pty. Limited  
Yarra Falls, 452 Johnston Street  
Abbotsford, Victoria 3067  
GPO Box 3329  
Melbourne, Victoria 3001  
Telephone: 1800 501 366 (within Australia)  
Telephone: +61 3 9415 4083 (outside Australia)



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