

# Fonterra Shareholders' Fund

## Results for Announcement to the Market

Results for announcement to the market		
Name of issuer	Fonterra Shareholders' Fund	
Reporting Period	6 months to 31 January 2020	
Previous Reporting Period	6 months to 31 January 2019	
Currency	New Zealand Dollars	
	Amount (m's)	Percentage change
Revenue from continuing operations	\$28	170%
Total Revenue	\$28	170%
Net profit/(loss) from continuing operations	\$nil	-%
Total net profit/(loss)	\$nil	-%
Interim/Final Dividend		
Amount per Quoted Equity Security	No interim 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	\$4.05	\$4.74
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 gain for the current reporting period.	
Authority for this announcement		
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	18/03/2020	

Interim financial statements accompany this announcement.

# Fonterra Shareholders' Fund Interim Report

2020

FONTERRA  
SHAREHOLDERS'  
FUND.





# Chairman's Report

## Dear Investors

It is pleasing to see Fonterra's financial performance improve in the first half of the 2020 financial year, with an increase in underlying earnings, stronger cashflows and reduction in leverage.

Fonterra CEO, Miles Hurrell, set four priorities for the Co-operative in its first year of the new strategy. These priorities are to hit the financial targets, build a great team, support regional New Zealand and reduce their environmental footprint. These interim results show good momentum towards achieving these priorities.

In this letter I will take the opportunity to recap Fonterra's new strategy, and comment on its financial performance in the first half of the 2020 financial year and the outlook for the remainder of the year.

## New strategy

The new strategy is about prioritising New Zealand milk and focusing on Fonterra's strengths.

As a result, Fonterra is focusing on being globally competitive in Core Dairy (base and advanced ingredients), growing its sales of Sports and Active, Medical and Aging and Paediatric ingredients, developing new Foodservice markets and taking a more targeted approach to opportunities in consumer brands. Fonterra is also aiming to differentiate itself through innovation, sustainability and efficiency.

While it is still early days, the focus that the Fonterra Board and Management team are giving to the new strategy, along with the importance they continue to place on financial discipline, is showing signs that it is resetting Fonterra.

## Financial performance

With a relatively strong forecast Farmgate Milk Price range of \$7.00 to \$7.60 per kgMS, Fonterra delivered reported Total Group Earnings Before Interest and Tax (EBIT) of \$806 million in the first half of the 2020 financial year, up \$494 million compared to the same period last year. This includes a net positive amount of \$222 million from one-off items relating to the asset portfolio review and from other normalisations. Total Group normalised EBIT is \$584 million, an increase of \$272 million compared to the same period last year and excludes the one-off items in order to give a better comparative view of underlying earnings.

This improvement in normalised earnings has been achieved through stable underlying earnings from Ingredients, and a significant improvement in the Foodservice and Consumer businesses.

Fonterra has continued to reduce its leverage and is targeting a Debt to Earnings ratio of less than 3.75x and gearing at the

lower end of the 40% to 45% range by the end of the financial year. It has completed the sale of DFE Pharma and foodspring® with cash proceeds of \$624 million, which helped increase free cash flow in the first half of the 2020 financial year by \$1.2 billion and reduce net debt by \$1.6 billion. These asset sales have resulted in a total gain on sale of \$469 million, plus the receipt of \$26 million in dividends from DFE Pharma in the first half of this year.

Fonterra has said that it will continue to review its asset portfolio to ensure its assets are aligned to its strategy. Key developments in the portfolio review are that strategic reviews of its China Farms and DPA Brazil joint venture have been completed and sales processes for both businesses are well under way.

Based on the additional information and further insights gained through the sales processes, Fonterra has reduced the valuation of these two assets and its China Farming joint venture by a total of \$199 million.

Fonterra's reported Net Profit After Tax (NPAT) was \$501 million, up \$429 million over the comparable period last year. After adjusting for the one-off items, the normalised NPAT is \$293 million, an increase of \$221 million over the same period last year. This normalised NPAT, and after minority interests, represents 18 cents per unit.

## Outlook

Despite this significant improvement in its first half earnings, Fonterra has highlighted the risks it faces in the second half. In particular, these are the potential impact of COVID-19 on global demand, geo-political risks in key markets such as Hong Kong and Chile, and ongoing dry weather conditions here in New Zealand which could impact collections and potentially input costs. As a result, Fonterra has held its forecast earnings range at 15-25 cents per share.

Fonterra has decided not to make an interim distribution, with any distribution decisions to be made with a complete picture of its full year earnings performance and financial position.



## 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 2020

Manager's Statement	02
Statement of Comprehensive Income	03
Statement of Changes In Amounts Attributable to Unit Holders	03
Statement of Financial Position	04
Cash Flow Statement	04
Statement of Significant Accounting Policies	05
Notes to the Financial Statements	06
Independent Review Report	08
Directory	09

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## Manager's Statement

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

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 2020.

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 2020 presented on pages 3 to 7.

For and on behalf of the Board of the Manager:



**John Shewan**

Chairman  
FSF Management Company Limited  
17 March 2020



**Kim Ellis**

Director  
FSF Management Company Limited  
17 March 2020

# Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

	\$ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED	31 JUL 2019 AUDITED
Net fair value gain/(loss) on revaluation of Economic Rights of Fonterra shares	28	(40)	(144)
Dividend income	-	-	-
<b>Investment income/(expense)</b>	<b>28</b>	<b>(40)</b>	<b>(144)</b>
Net change in fair value of liability to unit holders	<b>(28)</b>	40	144
Distributions to unit holders	-	-	-
<b>Finance (cost)/income</b>	<b>(28)</b>	40	144
<b>Profit before tax</b>	<b>-</b>	<b>-</b>	<b>-</b>
Tax expense	-	-	-
<b>Profit for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>

There are no items of other comprehensive income.

# Statement of Changes in Amounts Attributable to Unit Holders

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

	\$ MILLION
Amounts attributable to unit holders at 1 August 2019	388
<b>Movements:</b>	
Revaluation of liability to unit holders	28
Issue of units	17
Redemption of units	(27)
<b>Amounts attributable to unit holders at 31 January 2020 (unaudited)</b>	<b>406</b>
Amounts 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>Amounts attributable to unit holders at 31 January 2019 (unaudited)</b>	<b>524</b>
Amounts 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>Amounts attributable to unit holders at 31 July 2019 (audited)</b>	<b>388</b>

The accompanying notes form part of these interim financial statements.

# Statement of Financial Position

AS AT 31 JANUARY 2020

	NOTES	\$ MILLION		
		31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED	31 JUL 2019 AUDITED
<b>Assets</b>				
Economic Rights of Fonterra shares	2	406	524	388
<b>Total assets</b>		<b>406</b>	<b>524</b>	<b>388</b>
<b>Liabilities</b>				
Amounts attributable to unit holders	3	406	524	388
<b>Total liabilities</b>		<b>406</b>	<b>524</b>	<b>388</b>

# Cash Flow Statement

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

	\$ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED	31 JUL 2019 AUDITED
<b>Cash flows from operating activities</b>			
Cash was provided from:			
– Sale of Economic Rights of Fonterra shares	27	77	120
– Dividends' received (net of dividends reinvested)	–	–	–
Cash was applied to:			
– Purchase of Economic Rights of Fonterra shares	(17)	(71)	(82)
<b>Net cash flows from operating activities</b>	<b>10</b>	<b>6</b>	<b>38</b>
<b>Cash flows from financing activities</b>			
Cash was provided from:			
– Proceeds from issue of units	17	71	82
Cash was applied to:			
– Outflows on redemption of units	(27)	(77)	(120)
– Distributions paid to unit holders (net of distributions reinvested)	–	–	–
<b>Net cash flows from financing activities</b>	<b>(10)</b>	<b>(6)</b>	<b>(38)</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 period</b>	<b>–</b>	<b>–</b>	<b>–</b>

The accompanying notes form part of these interim financial statements.

# Statement of Significant Accounting Policies

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

## 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 17 March 2020.

### 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 2020, and are unaudited. They should be read in conjunction with the financial statements for the year ended 31 July 2019.

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 2019.

## 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 2020

## 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 2020 UNAUDITED	31 JAN 2019 UNAUDITED	31 JUL 2019 AUDITED
Value of Economic Rights (\$ million)	406	524	388
Number of Economic Rights	100,187,385	110,573,858	102,934,582

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 2020 UNAUDITED	31 JAN 2019 UNAUDITED	31 JUL 2019 AUDITED
Opening value of Economic Rights	388	570	570
<b>Movements:</b>			
Purchase of Economic Rights <sup>1</sup>	17	71	82
Sale of Economic Rights	(27)	(77)	(120)
Revaluation of Economic Rights	28	(40)	(144)
<b>Closing value of Economic Rights</b>	<b>406</b>	<b>524</b>	<b>388</b>

<sup>1</sup> Purchase of Economic Rights includes \$nil Economic Rights acquired in conjunction with Fonterra's Dividend Reinvestment Plan (31 January 2019: \$nil; 31 July 2019: \$nil).

# Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2020

## 3. LIABILITY TO UNIT HOLDERS

	31 JAN 2020 UNAUDITED	31 JAN 2019 UNAUDITED	31 JUL 2019 AUDITED
Value of unit holder liability (\$ million) <sup>1</sup>	406	524	388
Opening number of units on issue <sup>2</sup>	102,934,582	111,423,603	111,423,603
Number of units issued <sup>3</sup>	4,410,779	14,923,010	17,769,331
Number of units redeemed	(7,157,976)	(15,772,755)	(26,258,352)
Closing number of units on issue	100,187,385	110,573,858	102,934,582

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 January 2020 of \$4.05 (31 January 2019: \$4.74; 31 July 2019: \$3.77).

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 six months ended 31 January 2020 (31 January 2019: nil; 31 July 2019: nil).

## 4. NET TANGIBLE ASSETS PER SECURITY

As at 31 January 2020, the net tangible assets per unit on issue was \$4.05 (31 January 2019: \$4.74; 31 July 2019: \$3.77).

## 5. COMMITMENTS AND CONTINGENT LIABILITIES

The Fund has no material commitments or contingent liabilities as at 31 January 2020 (31 January 2019: nil; 31 July 2019: 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 MEMBERS OF FONTERRA SHAREHOLDERS' FUND



## REPORT ON THE INTERIM FINANCIAL STATEMENTS

### CONCLUSION

We have completed a review of the accompanying interim financial statements which comprise:

- the statement of financial position as at 31 January 2020;
- the statements of comprehensive income, changes in amounts attributable to unit holders and the cash flow statement for the 6 month period then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements on pages 3 to 7 do not present fairly in all material respects, the Fund's financial position as at 31 January 2020 and its financial performance and cash flows for the 6 month period ended on that date in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting.

### BASIS FOR CONCLUSION

A review of interim financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of Fonterra Shareholders' Fund, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

### OTHER MATTER

The financial statements of the Fund for the year ended 31 July 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 25 September 2019.

### USE OF THIS INDEPENDENT REVIEW REPORT

This report is made solely to the members as a body. Our review work has been undertaken so that we might state to the members those matters we are required to state to them in the Independent 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 members as a body for our review work, this report, or any of the opinions we have formed.

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

The Manager, on behalf of the Fund, are responsible for:

- the preparation and fair presentation of the interim financial statements in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting;
- implementing necessary internal control to enable the preparation of interim financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

### AUDITOR'S RESPONSIBILITIES FOR THE REVIEW OF THE INTERIM FINANCIAL STATEMENTS

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with 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 are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting.

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). Accordingly, we do not express an audit opinion on these interim financial statements.

This description forms part of our Independent Review Report.

KPMG

Auckland

17 March 2020

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

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

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## **SHARE REGISTRAR – AUSTRALIA**

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**Dairy for life**