

# Fonterra Shareholders' Fund

## Results for Announcement to the Market

Results for announcement to the market		
Name of issuer	Fonterra Shareholders' Fund	
Reporting Period	12 months to 31 July 2020	
Previous Reporting Period	12 months to 31 July 2019	
Currency	New Zealand Dollars	
	Amount (m's)	Percentage change
Revenue from continuing operations	\$6	N/A
Total Revenue	\$6	N/A
Net profit/(loss) from continuing operations	\$nil	-%
Total net profit/(loss)	\$nil	-%
Interim/Final Dividend		
Amount per Quoted Equity Security	Final dividend (distribution) of 5 cents per unit	
Imputed amount per Quoted Equity Security	Not Applicable	
Record Date	25 September 2020	
Dividend Payment Date	15 October 2020	
	Current period	Prior comparable period
Net tangible assets per Quoted Equity Security	\$3.82	\$3.77
A brief explanation of any of the figures above necessary to enable the figures to be understood	<p>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 (if any) received during the period year.</p> <p>Revenue from continuing operations has moved from a loss in the prior year of \$(144,000,000) to a gain for the current reporting period. Therefore, the percentage change is not considered meaningful.</p>	
Authority for this announcement		
Name of person authorised to make this announcement	Andrew Cordner	
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Date of release through MAP	18/09/2020	

Audited financial statements accompany this announcement.

# Fonterra Shareholders' Fund

ANNUAL  
REPORT  
2020

FONTERRA  
SHAREHOLDERS'  
FUND.



Dairy for life

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# Chairman's Report

Dear Investors,

Fonterra's performance has improved this year, and as a result so has the position of the Fonterra Shareholders' Fund. 2020 has been a challenging year for businesses around the world as markets contended with the impact of Covid-19. It was no different for Fonterra, with Covid-19 bringing increased volatility and uncertainty to the global dairy market, but despite this, Fonterra has achieved the priorities it set itself for the year.

Normalised earnings per share came in at the top of the range at 24 cents per share, and with these improved earnings and a stronger balance sheet, Fonterra has recommenced paying a dividend, which was one of the Fonterra Board's priorities for the 2020 financial year.

Fonterra declared a final dividend of 5 cents per share. As a result, unit holders will receive a final distribution of 5 cents per unit. The record date for the final distribution is 25 September 2020 and the payment date is 15 October 2020.

The Fund, and the Board of FSF Management Company Limited that oversees it, have no direct involvement in Fonterra's operations. However, as a holder of Economic Rights in Fonterra Co-operative Group Limited (Fonterra) the performance of the Fund is tied directly to Fonterra's performance. The Board of FSF Management liaises regularly with Fonterra in raising issues relevant to the interests of the Fund.

## BUSINESS PERFORMANCE FOR THE 2020 FINANCIAL YEAR

Fonterra's reported Profit After Tax was \$659 million, up \$1.3 billion on last year. Debt was reduced significantly, down \$1.1 billion.

The underlying business performance improved. Fonterra's foodservice business had a significantly better first half of the year, in particular in Greater China, but this was partially offset by the disruption of Covid-19 during the second half. Conversely, Fonterra Ingredients' earnings were down for the first six months relative to the prior year. However, the second half of the year the Ingredients business benefited from favourable product price movements and its offshore Ingredients business benefited from continued implementation of cost efficiencies.

Fonterra's consumer business performance was down compared to the prior year. This was mainly due to business disruptions in Hong Kong and Chile plus impairments to the value of its Chesdale brand and goodwill in the New Zealand Consumer business.

It is positive to see Fonterra has continued to focus on financial discipline. In the financial year this resulted in improved cash flows and improved gearing and debt payback ratios. Fonterra's free cash flow, being the cash flow that is available to pay interest and dividends and to reduce debt, increased by \$733 million to \$1.8 billion. Fonterra achieved this significant increase through a combination of improved earnings, lower capital expenditure, the sale proceeds from divesting DFE Pharma and foodspring® and reducing its Beingmate shareholding.

## PRIORITIES FOR 2021

Looking to the 2021 financial year, there is a high level of uncertainty as to how the global recession and new waves of Covid-19 may impact dairy demand globally. It is something Fonterra's management team will be monitoring closely throughout the financial year.

Fonterra's CEO, Miles Hurrell, believes the best way of coping with uncertainty is to stay on strategy and focus on what is within its control. He addresses these priorities in Fonterra's annual report.

The Board of FSF Management Company Limited is pleased with the improved performance from Fonterra this year and hopes to see it build on this positive result during the coming financial year.



John Shewan

# Our Board

**JOHN SHEWAN**

*CNZM BCA (Hons), FCA*  
**Independent Director appointed by unit holders**

John Shewan was appointed Chairman of the FSF Board in November 2012.

John currently chairs the Boards of Munich Reinsurance Australasia and Wellington Regional Stadium Trust. He is a Director of China Construction Bank (New Zealand) Limited.

John is an Adjunct Professor in the Business School at Victoria University.



**PIP DUNPHY**

*B.Horti.Sci, CFA*  
**Independent Director appointed by unit holders**

Pip Dunphy has worked as a non-executive director for the last 14 years in a variety of different industries and companies.

Pip currently chairs the Boards of Transpower New Zealand Limited and Abano Healthcare Group Limited. She was previously the Chair of First Gas Limited and its associated companies.



**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 Green Cross Health, New Zealand Social Infrastructure Fund and Metlifecare Limited.

Kim also holds directorships in Freightways, Ballance Agri-Nutrients and the Port of Tauranga.



**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 built and owns five dairy farms in Eastern Bay of Plenty and 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. Donna's strong focus on financial and risk management has been built through her extensive business and manufacturing experience and financial background, and complements her deep dairy farming experience.



**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 is an active member of the International Farm Management Association (IFMA), Global Dairy Farmers and New Zealand Institute of Primary Industry Management (NZIPIM). Andy was previously a Director of Ngai Tahu Farming Limited. 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. Andy has a strong understanding of the governance of research and development and innovation, and has a particular interest in the strategic use of technology in the dairy industry.

# Financial Statements

FOR THE YEAR ENDED 31 JULY 2020

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## Manager's Statement

FOR THE YEAR ENDED 31 JULY 2020

### MANAGER'S STATEMENT

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 2020.

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 2020 presented on pages 6 to 13.

For and on behalf of the Board of the Manager:



**John Shewan**  
Chairman  
FSF Management Company Limited  
17 September 2020



**Kimmitt Ellis**  
Director  
FSF Management Company Limited  
17 September 2020

## Statement of Comprehensive Income

FOR THE YEAR ENDED 31 JULY 2020

	\$ MILLION	
	31 JULY 2020	31 JULY 2019
Net fair value gain/(loss) on revaluation of Economic Rights of Fonterra shares	6	(144)
<b>Investment income/(expense)</b>	<b>6</b>	<b>(144)</b>
Net change in fair value of amounts attributable to unit holders	(6)	144
<b>Finance (cost)/income</b>	<b>(6)</b>	<b>144</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 Amounts Attributable to Unit Holders

FOR THE YEAR ENDED 31 JULY 2020

	\$ MILLION	
	31 JULY 2020	31 JULY 2019
Amounts attributable to unit holders at 1 August 2019	388	
<b>Movements:</b>		
Revaluation of amounts attributable to unit holders	6	
Issue of units	65	
Redemption of units	(59)	
<b>Amounts attributable to unit holders at 31 July 2020</b>	<b>400</b>	
<b>Amounts attributable to unit holders at 1 August 2018</b>	<b>570</b>	
<b>Movements:</b>		
Revaluation of amounts attributable to unit holders	(144)	
Issue of units	82	
Redemption of units	(120)	
<b>Amounts attributable to unit holders at 31 July 2019</b>	<b>388</b>	

The accompanying significant accounting policies and notes form part of these financial statements.

## Statement of Financial Position

AS AT 31 JULY 2020

	NOTES	\$ MILLION	
		31 JULY 2020	31 JULY 2019
<b>Assets</b>			
Economic Rights of Fonterra shares	2	400	388
<b>Total assets</b>		<b>400</b>	<b>388</b>
<b>Liabilities</b>			
Amounts attributable to unit holders	3	400	388
<b>Total liabilities</b>		<b>400</b>	<b>388</b>

## Cash Flow Statement

FOR THE YEAR ENDED 31 JULY 2020

	NOTES	\$ MILLION	
		31 JULY 2020	31 JULY 2019
<b>Cash flows from operating activities</b>			
Cash was provided from:			
- Sale of Economic Rights of Fonterra shares		59	120
Cash was applied to:			
- Purchase of Economic Rights of Fonterra shares		(65)	(82)
<b>Net cash flows from operating activities</b>	4	<b>(6)</b>	<b>38</b>
<b>Cash flows from financing activities</b>			
Cash was provided from:			
- Proceeds from issue of units		65	82
Cash was applied to:			
- Outflows on redemption of units		(59)	(120)
<b>Net cash flows from financing activities</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 year</b>		<b>-</b>	<b>-</b>

The accompanying significant accounting policies and notes form part of these financial statements.

# Significant Accounting Policies

FOR THE YEAR ENDED 31 JULY 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 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 Manager is 109 Fanshawe Street, Auckland Central, Auckland 1010, New Zealand.

The financial statements were authorised for issue by the Manager on 17 September 2020.

## 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 amounts attributable 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 2019.

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.

The judgement that has the most significant effect on the amounts recognised in the financial statements relates to the valuation of the Economic Rights of Fonterra Shares. The valuation approach used for the Economic Rights is described in Note 1.

## 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.

## 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, when it is probable that the economic benefits will flow to the Fund and the amount of the dividend can be reliably measured.

## 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.

## 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. The Economic Rights are a current asset.

## Amounts attributable to unit holders

The Fund has an obligation to repurchase units from Farmers, the Registered Volume Provider and Fonterra, therefore the amounts attributable 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 amounts attributable to unit holders is a current liability.

The Fund manages its amounts attributable to unit holders on a fair value basis. Therefore, the Fund has elected to measure the amounts attributable 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 2019

The Fund adopted NZ IFRS 16 *Leases* from 1 August 2019. As the Fund has not entered into any lease arrangements, the adoption of this accounting standard had no impact on the Fund.

### Standards issued but not yet effective

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 2020

## 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 amounts attributable 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 the Economic Rights and amounts attributable to unit holders at fair value.

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 amounts attributable 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 is 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 amounts attributable to unit holders as capital, notwithstanding that amounts 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, the Registered Volume Provider, 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 2020, 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.

## 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 2020	31 JULY 2019
Value of Economic Rights (\$ million)	400	388
Number of Economic Rights	104,581,516	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 JULY 2020	31 JULY 2019
<b>Opening value of Economic Rights</b>	<b>388</b>	570
<b>Movements:</b>		
Purchase of Economic Rights	65	82
Sale of Economic Rights	(59)	(120)
Revaluation of Economic Rights	6	(144)
<b>Closing value of Economic Rights</b>	<b>400</b>	388

## 3 AMOUNTS ATTRIBUTABLE TO UNIT HOLDERS

	31 JULY 2020	31 JULY 2019
<b>Value of amounts attributable to unit holders (\$ million)<sup>1</sup></b>	<b>400</b>	388
<b>Opening number of units on issue<sup>2</sup></b>	<b>102,934,582</b>	111,423,603
Number of units issued	17,298,927	17,769,331
Number of units redeemed	(15,651,993)	(26,258,352)
<b>Closing number of units on issue</b>	<b>104,581,516</b>	102,934,582

1 The amounts attributable 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 2020 of \$3.82 (31 July 2019: \$3.77).

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



# Notes to the Financial Statements CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

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

	\$ MILLION	
	31 JULY 2020	31 JULY 2019
<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 (gain)/loss on revaluation of Economic Rights of Fonterra shares	(6)	144
- Net change in fair value of amounts attributable to unit holders	6	(144)
<i>Changes in assets:</i>		
Net (purchase)/sale of Economic Rights of Fonterra shares	(6)	38
<b>Net cash flows from operating activities</b>	<b>(6)</b>	<b>38</b>

## 5 NET ASSETS PER SECURITY

As at 31 July 2020, the net assets per unit on issue was \$3.82 (31 July 2019: \$3.77).

## 6 COMMITMENTS AND CONTINGENT LIABILITIES

The Fund has no material commitments or contingent liabilities as at 31 July 2020 (31 July 2019: nil).

## 7 RELATED PARTIES

### FSF Management Company Limited

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

As at 31 July 2020 181,783 units with a value of \$694,411 were held by Key Management Personnel (31 July 2019: 183,722 units with a value of \$692,632). The change in number of units held by Key Management Personnel is due to the conversion of units to shares and a distribution of units under the Contract Fee Trust.

### Fonterra Co-operative Group Limited

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 Limited, 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 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 2020 with respect to the Fund are the following amounts paid to KPMG, appointed as auditor of the Fund for the year ended 31 July 2020:

- Fees for the annual audit of the financial statements of \$34,000,
- Fees for the review of the interim financial statements of \$10,000, and
- Fees for other audit related services comprising agreed upon procedures for Annual Meeting voting of \$3,500.

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, the auditor of the Fund for the year ended 31 July 2019:

- Fees for the annual audit of the financial statements of \$33,780,
- Fees for the review of the interim financial statements of \$10,000, and
- Fees for other audit related services comprising agreed upon procedures for Annual Meeting voting of \$4,000.

### Fund unit and Fonterra share transactions

As at 31 July 2020, the Custodian holds 104,581,516 (31 July 2019: 102,934,582) Fonterra shares on trust for the Fund.

### Delegated Compliance Trading Scheme

On 12 February 2020, DCT made a net sale of 71,175 units for \$0.3 million on behalf of Fonterra Farmer shareholders participating in the 2020 season Delegated Compliance Trading Scheme. In the prior year 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. 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.

### Contract Fee for Units Scheme

During the year ended 31 July 2020 a net purchase of 685,781 units for \$2.7 million was made on behalf of Fonterra's contract milk suppliers participating in Fonterra's Contract Fee for Units Scheme (31 July 2019: a net purchase of 667,123 units for \$3.3 million). During the year ended 31 July 2020 351,975 units were distributed to contract suppliers (31 July 2019: 153,619 units were distributed).

As at 31 July 2020, 847,310 units were held on trust for the participating contract suppliers (31 July 2019: 513,504 units).

### Dividends received from Fonterra

No dividends were received during the year ended 31 July 2020 (31 July 2019: nil).

## 8 SUBSEQUENT EVENTS

### Declaration of distribution

On 17 September 2020, the Board of Directors of Fonterra declared a dividend of 5 cents per share. Following Fonterra's dividend declaration, the Board of the Manager declared a distribution of 5 cents per unit for the year ended 31 July 2020. The distribution will be paid on 15 October 2020 to the unit holders on the register at 25 September 2020.

The Manager has a Distribution Reinvestment Plan, where eligible unit holders can choose to reinvest all or part of their future distribution in additional units. The Distribution Reinvestment Plan will apply to this distribution. Participation in the Distribution Reinvestment Plan requires unit holders to submit an election notice for participation by 28 September 2020. Full details of the Distribution Reinvestment Plan are available in the 'Investors/Dividends' section of Fonterra's website.

### 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 REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

In our opinion, the accompanying financial statements of Fonterra Shareholders' Fund (the 'fund') on pages 6 to 13:

- i. present fairly in all material respects the fund's financial position as at 31 July 2020 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 July 2020;
- the statements of comprehensive income, changes in net assets attributable to unit holders and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). 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 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Other than in our capacity as auditor we have no relationship with, or interests in, the fund.

### Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$4 million determined with reference to a benchmark of fund total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

### Key audit matters

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

### Other information

The Manager, on behalf of the fund, are responsible for the other information included in the entity's Annual Report. Other information includes the Chairman's report. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

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 materially misstated. If, based on the work we have performed, 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.

### Other matter

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

### Use of this independent auditor's report

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

### Responsibilities of the Manager for the financial statements

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

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is 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 audit of the financial statements

Our objective is:

- 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 independent 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 will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 these financial statements is located at the External Reporting Board (XRB) website at: <http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

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

For and on behalf of

KPMG  
Auckland

17 September 2020

# Statutory Information

FOR THE YEAR ENDED 31 JULY 2020

## TWENTY LARGEST UNIT HOLDERS AS AT 31 JULY 2020

UNIT HOLDER	NUMBER OF UNITS	% OF TOTAL ISSUED UNITS
Citibank Nominees (New Zealand) Limited	3,067,296	2.93
HSBC Nominees (New Zealand) Limited	2,481,077	2.37
Craigsmore Dairy II Services Limited	2,100,000	2.01
New Zealand Depository Nominee Limited	1,576,518	1.51
National Nominees Limited	1,346,422	1.29
JPMorgan Chase Bank NA NZ Branch-Segregated Clients Acct	1,009,121	0.96
FNZ Custodians Limited	1,007,168	0.96
The New Zealand Guardian Trust Company Limited	847,310	0.81
JBWere (NZ) Nominees Limited	845,463	0.81
Custodial Services Limited <A/C 4>	808,832	0.77
Michael Douglas Hammond & Helen Mavis Hammond & Leigh Joseph Horton	770,270	0.74
Ingleton Properties Limited	675,380	0.65
BNP Paribas Nominees (NZ) Limited – NZCSD <COGN40>	653,123	0.62
Tea Custodians Limited Client Property Trust Account	592,572	0.57
Peter Thomas Borrie & Adrienne Helen Borrie	528,304	0.51
HSBC Nominees (New Zealand) Limited A/C State Street	526,751	0.50
BNP Paribas Nominees Pty Ltd	523,453	0.50
Richard Wallace Shapero	480,000	0.46
Accident Compensation Corporation	448,892	0.43
HSBC Custody Nominees (Australia) Limited	428,470	0.41
<b>Total</b>	<b>20,716,422</b>	<b>19.81</b>
<b>Total quoted units on issue</b>	<b>104,581,515</b>	<b>100.00</b>

## SPREAD OF UNIT HOLDERS AS AT 31 JULY 2020

SIZE OF HOLDING	NUMBER OF HOLDERS	NUMBER OF UNITS	% OF TOTAL ISSUED UNITS
1 – 1,000	2,838	1,448,040	1.38
1,001 – 5,000	2,877	7,244,858	6.93
5,001 – 10,000	767	5,915,087	5.65
10,001 – 100,000	1,077	39,141,070	37.43
100,001 and over	202	50,832,461	48.61
<b>Total<sup>1</sup></b>	<b>7,761</b>	<b>104,581,516</b>	<b>100.00</b>

1 Total includes the Fonterra unit (which is not quoted).

## SUBSTANTIAL PRODUCT HOLDERS

As at 31 July 2020 no unit holders had filed substantial product holder notices in accordance with the Financial Markets Conduct Act 2013.

As at 31 July 2020 the Fund had 104,581,515 quoted units, and one Fonterra unit, on issue.

## HOLDINGS OF DIRECTORS OF THE MANAGER AS AT 31 JULY 2020

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 held by 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	1,124	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 held by Stonylea Trust
Andrew Webster Macfarlane	4,000	Trustee and beneficial interest held by GW and MA Macfarlane Family Trust

# Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 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 in *italics*), in the following entities pursuant to section 140 of the Companies Act 1993:

DIRECTOR	NATURE OF INTEREST
John Bruce Shewan (Chairman)	Acting Chair, China Construction Bank (New Zealand) Limited ( <i>ceased December 2019</i> ) (remains a Director)
Philippa Jane Dunphy	Director, Dangerous Goods Compliance Limited <i>Chair and Director, First Gas Limited and its associated companies (ceased June 2020)</i>
Kimmit Rowland Ellis	Chair, Green Cross Health Limited <i>Chair, Turner Family's Sleepyhead Group (ceased March 2020)</i>
Andrew Webster Macfarlane	Trustee, GW and MA Macfarlane Family Trust

### 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

No trading halts were placed by NZX Regulation in the financial year ended 31 July 2020.

## NZX DIVERSITY REPORTING REQUIREMENTS

As at 31 July 2020, the gender composition of the Board of the Manager comprised two female and three male Directors. As at 31 July 2019, 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 2020, 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 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 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 2020 (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 2020, 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.

### Principle 1: Code of Ethical Behaviour

#### Code of Conduct

The Manager has a well-established Code of Conduct that, together with the Board Charter, sets ethical standards for each member of the Board of the Manager. 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.

The Code of Conduct and Board Charter are available on [www.fonterra.com](http://www.fonterra.com) in the 'Investors/Fonterra Shareholders' Fund' section under the heading 'Charters and policies'.

### Securities Trading Policy and Standard

The Manager has adopted Fonterra's Securities Trading Policy and Securities Trading Standard that detail the rules for trading in units and other securities of Fonterra. The Policy and Standard are available on [www.fonterra.com](http://www.fonterra.com) and apply to Directors of the Manager and Directors, officers, employees and contractors of Fonterra in addition to legal prohibitions on insider trading in New Zealand and Australia.

### 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 may acquire units, and to the extent any units are acquired, these acquisitions will be disclosed to the market as required by law.

### Principle 2: Board Composition and Performance

#### Board Charter

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, and ensuring that unitholders' interests are managed and protected in accordance 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 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.

The Board Charter is available on [www.fonterra.com](http://www.fonterra.com) in the 'Investors/Fonterra Shareholders' Fund' section under the heading 'Charters and policies'.

# Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## Board Appointments

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 the 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.

Skills required of a Director on the Board of the Manager include governance experience, preferably of a listed entity, financial and capital markets knowledge, an understanding of co-operatives, and risk management experience.

The Manager has written agreements with each of its Directors.

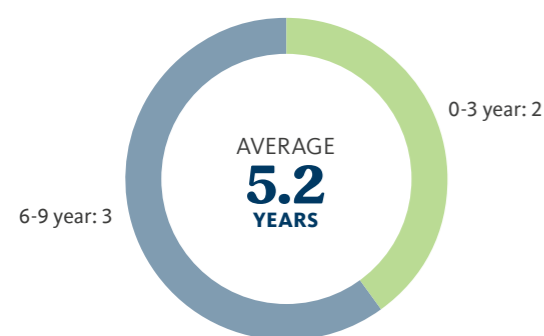
## Disclosure

Information about each Director (including experience, length of service, independence and ownership interests and attendance at Board meetings) is disclosed below or in the 'Our Board' section of this Annual Report.

## Board Tenure

The graphic below shows the tenure of the current Board members including the average length of service on the Board.

Tenure



## Board and Committee Attendance

The table below reports attendance of Directors at Board and Audit Committee meetings during the 2020 reporting period. Board and Committee meetings are held together.

### Board/Committee Meetings 1 August 2019 – 31 July 2020

	BOARD		AUDIT COMMITTEE	
	MEETINGS	ATTENDED	MEETINGS	ATTENDED
John Shewan	3	3	3	3
Pip Dunphy	3	3	3	3
Kim Ellis	3	3	3	3
Donna Smit	3	3	3	3
Andy MacFarlane	3	3	3	3

## 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 of the NZX Code and has not implemented a gender diversity policy for the Board. The table below shows the number of female and male Directors on the Board for the past four years.

AS AT 31 JULY	2017	2018	2019	2020
No. of Board (female: male)	2:3	2:3	2:3	2:3

## Director Training

Directors are expected to keep themselves abreast of changes and trends in the economic, political, social and legal climate generally. Directors are also expected to keep up to date with governance issues.

The Manager on an ad-hoc basis requests the Management of Fonterra to provide Fonterra specific training to remain current on how best to perform their duties as Directors of the Manager.

## 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.

## Division of Roles

In accordance with the Trust Deed the Chair of the Board must be one of the three unit holder Elected Directors, who are required to be independent Directors.

The Manager does not have a CEO, so recommendation 2.9 of the NZX Code that the Chair and CEO must be different people is not applicable.

## Principle 3: Board Committees

### 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 a separate 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 auditor. The Audit Committee Charter is available at [www.fonterra.com](http://www.fonterra.com) in the 'Investors/Fonterra Shareholders' Fund' section under the heading 'Charters and policies'.

Under the Trust Deed that governs the Fund, Fonterra's external auditor is also appointed as auditor of the Fund unless Fonterra requires a different auditor. The Board of the Fund oversees the work of the external auditor and also acts as a forum for communication between the Board and the auditor 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.

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.

### Remuneration Committee

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.

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

### 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 of the NZX Code. 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.

### 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.

### 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).

## Principle 4: Reporting and Disclosure

### 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).

### Website Disclosure

At present the Fund has the following documents available on [www.fonterra.com](http://www.fonterra.com):

- Board Charter
- Audit Committee Charter
- Code of Conduct
- Fonterra Group Securities Trading Policy and Securities Trading Standard
- Trust Deed
- A summary of key entitlements for unit holders and the Maximum Holding Restriction
- Fund Size Risk Management Policy
- Fund Prospectus and Investment Statement
- Summary of NZX Waivers

### Non-Financial Reporting

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.

# Statutory Information CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## Principle 5: Remuneration

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, Fonterra appointed Directors are not paid any remuneration, in addition to their remuneration as Directors of Fonterra, for their service on the Board of the Manager.

## Remuneration Policy

Given the small size of the Board, the fact 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.

## Principle 6: 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. On this basis, the Manager has decided not to follow recommendations 6.1 and 6.2 of the NZX Code.

To the extent that there are risks that specifically impact the operation of the Fund, the Board reviews the management of those risks at quarterly intervals. Specific areas of risk reviewed are:

- Regulatory compliance
- Investor confidence
- Data security
- People (Fonterra employees responsible for day-to-day operations of the Fund)

## Principle 7: Auditors

### External Audit

The Audit Committee Charter provides a framework for the Fund's relationship with its external auditor.

Under the Trust Deed that governs the Fund, Fonterra's external auditor is also appointed as auditor of the Fund unless Fonterra requires a different auditor. The Board of the Fund oversees the work of the external auditor and also acts as a forum for communication between the Board and the auditor where appropriate.

The appointed external auditor has historically attended the annual unit holder meeting, and the lead audit partner is available to answer relevant questions from unit holders at that meeting.

### Internal 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.

## Principle 8: Unit Holder Rights and Relations

### Investor Centre Website

Fonterra maintains a dedicated investor webpage at [www.fonterra.com](http://www.fonterra.com) under 'Investors'. This website is an important part of the Manager's communication with unit holders. It contains financial information, current and historical annual reports and presentations, dividend and distribution information, frequently asked questions and other relevant information pertaining to the Fund. The website is freely accessible to the public and is updated regularly.

### Electronic Communications

The Manager provides an Investor Relations email address which provides unit holders a mechanism by which they can communicate electronically with the Manager on any matters relating to their investment. All unit holder-related enquiries are provided with a response within a reasonable timeframe.

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.

### Voting

Under the Trust Deed the Manager and Fonterra need to comply with the provisions of all applicable Listing Rules before taking action affecting the rights attached to any unit.

### 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.

## 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.

## Unit Holder meetings

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).

# Directory

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

109 Fanshawe Street  
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Telephone: +64 9 374 9000

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## 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

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New Zealand

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

KPMG  
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## LEGAL ADVISERS TO THE MANAGER OF THE FUND

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## SHARE REGISTRAR – AUSTRALIA

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**FONTERRA  
SHAREHOLDERS'  
FUND.**



Dairy for life



# Fonterra Shareholders' Fund

## Results for Announcement to the Market

### Distribution Notice

Section 1: Issuer information				
Name of issuer	Fonterra Shareholders' Fund			
Financial product name/description	Fonterra Shareholders' Fund Units			
NZX ticker code	FSF			
ISIN (If unknown, check on NZX website)	NZFSFE000155			
Type of distribution (Please mark with an X in the relevant box/es)	Full Year	X	Quarterly	
	Half Year		Special	
	DRP applies	X		
Record date	25/09/2020			
Ex-Date (one business day before the Record Date)	24/09/2020			
Payment date (and allotment date for DRP)	15/10/2020			
Total monies associated with the distribution <sup>1</sup>	\$5,250,570			
Source of distribution (for example, retained earnings)	Retained earnings			
Currency	NZD			
Section 2: Distribution amounts per financial product				
Gross distribution <sup>2</sup>	\$5,250,570			
Gross taxable amount <sup>3</sup>	\$5,250,570			
Total cash distribution <sup>4</sup>	\$5,250,570			
Excluded amount (applicable to listed PIEs)	5 cents per unit (further details in the note below)			
Supplementary distribution amount	\$-			

**NOTE:** FSF is a Foreign Investment Variable Rate PIE. The whole distribution is excluded income for NZ resident investors. PIE tax (for resident investors) or NRWT (for non-residents) may be deducted at the rate appropriate for the investor.

<sup>1</sup> Continuous issuers should indicate that this is based on the number of units on issue at the date of the form

<sup>2</sup> "Gross distribution" is the total cash distribution plus the amount of imputation credits, per financial product, before the deduction of Resident Withholding Tax (RWT).

<sup>3</sup> "Gross taxable amount" is the gross distribution minus any excluded income.

<sup>4</sup> "Total cash distribution" is the cash distribution excluding imputation credits, per financial product, before the deduction of RWT. This should include any excluded amounts, where applicable to listed PIEs.

<b>Section 3: Imputation credits and Resident Withholding Tax<sup>5</sup></b>		
Is the distribution imputed	Fully imputed	
	Partial imputation	
	No imputation	
If fully or partially imputed, please state imputation rate as % applied <sup>6</sup>	N/A	
Imputation tax credits per financial product	N/A	
Resident Withholding Tax per financial product	\$nil	
<b>Section 4: Distribution re-investment plan (if applicable)</b>		
DRP % discount (if any)	2.5%	
Start date and end date for determining market price for DRP	24/09/2020	30/09/2020
Date strike price to be announced (if not available at this time)	01/10/2020	
Specify source of financial products to be issued under DRP programme (new issue or to be bought on market)	New issue	
DRP strike price per financial product	N/A – available on 01/10/2020	
Last date to submit a participation notice for this distribution in accordance with DRP participation terms	28/09/2020	
<b>Section 5: 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	18/09/2020	

Audited financial statements accompany this announcement.

<sup>5</sup> The imputation credits plus the RWT amount is 33% of the gross taxable amount for the purposes of this form. If the distribution is fully imputed the imputation credits will be 28% of the gross taxable amount with remaining 5% being RWT. This does not constitute advice as to whether or not RWT needs to be withheld.

<sup>6</sup> Calculated as (imputation credits/gross taxable amount) x 100. Fully imputed dividends will be 28% as a % rate applied.