



Market Announcement

10 November 2021

Fonterra Capital Structure Review – Update for Unit Holders

The attached communication was provided to Fonterra Shareholders' Fund unit holders by the Chairman, John Shewan on 10 November 2021.

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Fonterra Capital Structure Review

Update for holders of units in the Fonterra Shareholders' Fund

Yesterday, Fonterra Co-operative Group Limited (**Fonterra**) announced its intention to proceed with a shareholder vote on changes to its capital structure. The vote will be held at a Fonterra Special Meeting on Thursday 9 December.

The changes Fonterra is recommending to its farmer shareholders are substantially similar to the capital structure proposal it put forward in September, described as the “Flexible Shareholding” structure, announced here: nzx.com/announcements/379628. A subcommittee comprising the three independent directors of the manager of the Fonterra Shareholders' Fund (**Subcommittee**), considered the implications of the planned changes for the Fund and unit holders in detail, and outlined its views in the 23 September 2021 update to unit holders, found here: nzx.com/announcements/379643.

The two major concerns the Subcommittee expressed in its September update to unit holders were-

1. The Fund has fulfilled the role it was set up for. Given the changes Fonterra is now planning, it is equitable and appropriate that unit holders be given the opportunity to consider an offer to buy the Fund out at fair value; and
2. The proposal to cap the Fund at its current size could have a further negative impact on value for unit holders.

Fonterra has considered the feedback from the Subcommittee and has engaged in discussions with the Chair. In response, Fonterra has advised that it considers the Fund continues to play an important role as part of the Fonterra's capital structure. Fonterra Chairman Peter McBride has noted that “having made the decision to retain the fund, Fonterra's Board is committed to ensuring its strong performance”.

While it is disappointing that no progress has been made on the Subcommittee's buy back recommendation, the Subcommittee welcomes Fonterra's decision to modify its recommendation around the capping of the Fund. In the media statement released yesterday, Fonterra advised that the overall size of the Fund will be capped at 10% of total Fonterra shares on issue rather than at the current size of the Fund, which is around 6.7%.

This change goes part way to addressing the size-related concerns outlined in the September update. Subject to the Fonterra Board's approval, the amended proposal provides the scope for the Fund to be increased in size at a suitable time in the future to address the liquidity and other size-related considerations outlined in the September update.

It is important to note that the capital structure changes will only proceed if they are approved by Fonterra shareholders in December, and that the necessary steps for implementation, including any legislative amendments, have proceeded. Fonterra is aiming for a 1 June 2022 implementation date.

No vote of unit holders in the Fund is required in relation to the proposals set out by Fonterra as unit holders are not Fonterra shareholders. However, unit holders will have the opportunity to discuss the proposed changes, and to ask questions of both Fonterra and the Subcommittee, at the Fund's annual meeting. This is being held online on Monday 13 December.

Yours faithfully

John Shewan
Chair
Capital Review Subcommittee
FSF Management Company Limited

*Members of the Subcommittee and independent directors of FSF Management Company Limited:
Mary-Jane Daly, Kim Ellis, John Shewan*