



Market Announcement

21 July 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 21 July 2021.

For further information contact:

John Shewan

027 450 7831



21 July 2021

Fonterra Capital Structure Review – further update for unit holders

Background

FSF Management Company Limited (NZX, ASX: FSF), manager of the Fonterra Shareholders' Fund (the **Manager**, and the **Fund**), notes that Fonterra has provided a further update to farmers and the market on Fonterra's Capital Structure Review. This follows the conclusion of the first stage of its farmer consultation process.

The Fonterra update provides a summary of feedback from farmers and outlines next steps. See www.fonterra.com/capitalstructure or <https://www.nzx.com/companies/FCG/announcements>.

No further clarity on the future of the Fund

While Fonterra has outlined some changes the Board is considering to the preferred option put forward in May, these do not directly impact the future of the Fund. Fonterra's summary of farmer feedback says: *"There's no clear preference from farmers on the future of the Fund. There have been suggestions that instead of buying back the Fund, Fonterra should consider buying back shares [in the Fonterra Shareholders' Market] to reduce the overall shares in Fonterra on issue."*

Next steps on Fonterra Capital Review process

Fonterra is drawing up a more detailed proposal, that aims to reflect farmers' views, to present to farmers in late September for further consultation. At this stage, Fonterra is aiming for a farmer vote at its 2021 Annual Meeting, which will be held in December.

If farmers vote to support the proposal, implementation is expected to be conditional on necessary changes to the Dairy Industry Restructuring Act 2001 (DIRA) being passed, which would likely take several months.

Fonterra long-term strategy update

Importantly for investors in FSF Units, Fonterra has signalled that in August and September it intends to share more information on its long-term strategy. This will include the types of activities Fonterra will invest in, the returns it is targeting and the measures against which it will track its progress.

Fonterra's audited financial results for the year ended 31 July 2021, and its annual report for that period, are also expected to be published in late September 2021.

Unit holders can review Fonterra's business and financial update announcements at <https://www.nzx.com/companies/FCG/announcements>. Fund updates, including the Fund financial results, can be accessed at <https://www.nzx.com/companies/FSF/announcements>.

Further actions of Manager of the Fund and its independent director subcommittee

The Manager's capital review subcommittee, which comprises its independent directors, will continue to discuss the capital structure proposals in confidence with Fonterra and with advisers.

The Manager anticipates that the detailed proposal expected in late September will include Fonterra's preference on whether the Fund should be removed, or permanently capped. The possibility of the status quo also remains, which would involve Fonterra again allowing economic rights in Fonterra shares to be exchanged for units in the Fund.

The Manager expects that the package that will be recommended for farmer voting in December this year will state a clear position on the future of the Fund.

Removing the Fund would involve an offer by Fonterra to unit holders to purchase their units at a fixed price. The approval of at least 75% of unit holders entitled to vote and voting would be needed for the offer to be accepted. There can be no assurance that a purchase offer will be made. Given the need for DIRA amendments, it seems unlikely that any approved purchase would result in payments to unit holders until mid to late 2022 at the earliest.

The Manager is not able to provide unitholders with any assurance about the price or liquidity of trading in the Fund as these are matters the Manager does not control or influence. Investment in the Fund gives unitholders access to the economic rights (such as distributions) like those of a share in Fonterra. The Manager's role is to manage compliance with regulatory requirements and ensure that unit holders' interests are managed in accordance with the constituent documents that underpin the Fund.

The Manager subcommittee will review developments, consult with advisers, and continue to provide feedback on unit holder interests as the Fonterra Capital Structure proposals evolve over the coming months.

Yours faithfully.



John Shewan
Chair

FSF Management Company Limited Manager of the Fonterra Shareholders' Fund