

Fonterra Shareholders' Fund Annual Report 2021

FONTERRA
SHAREHOLDERS'
FUND.



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Chairman’s Report

Dear unit holders,

For the Fonterra Shareholders’ Fund, and the Manager that oversees it, FSF Management Company Limited, the past few months have been dominated by consideration of the potential changes arising from the Capital Structure Review being undertaken by Fonterra. A Subcommittee comprising the three independent directors of the Manager’s Board has met 12 times and has spent considerable time considering the implications of the review on the Fund and in representing unit holders’ interests.

Simultaneous with the release of its annual results Fonterra is issuing details of the capital structure proposals it will discuss with farmers over the coming weeks before deciding whether to proceed to a shareholder vote later this year. The Subcommittee of the Manager will be issuing an update to unit holders shortly after Fonterra’s release. That update will be available via the *Investor Relations* section of Fonterra’s website.

Business Performance for the 2021 Financial Year

Neither the Fund nor the Board of the Manager has direct involvement in Fonterra’s operations. However, as a holder of Economic Rights in Fonterra, the performance of the Fund is tied directly to Fonterra’s performance.

Against the backdrop of COVID-19, market uncertainty and global supply chain disruption, Fonterra has built on last year’s performance with a strong financial result. Fonterra’s reported profit after tax was \$599 million. Normalised earnings per share came in at the top end of the forecast range, at 34 cents per share.

Fonterra has declared a final dividend of 15 cents per share. As a result, unit holders will receive a final distribution of 15 cents per unit. This brings total distributions for the 2021 financial year to 20 cents per unit.

The record date for the final distribution is 30 September 2021 and the payment date is 15 October 2021.

Fonterra’s underlying performance improved \$190 million on last year, with normalised profit after tax of \$588 million. The improved underlying performance was driven by Fonterra’s diversified portfolio across channels and regions, coupled with lower interest expense from lower debt and interest rates. Fonterra’s reported profit after tax of \$599 million is \$60 million lower than last year, with the 2020 financial year benefiting from larger gains from the sale of non-core assets.

Strong operational earnings combined with the \$748 million in proceeds from the sale of the two China farming hubs, Ying and Yutian, the China Farms joint venture, Agrifeeds joint venture and the remaining Beingmate shares enabled Fonterra to reduce net debt by \$872 million during the year. Net debt is now \$3.8 billion, and Fonterra’s leverage metrics are now within their long-term target ranges.

Fonterra’s Total Group normalised EBIT increased \$73 million to \$952 million. The results reflect good growth in several areas and were predominantly driven by changing consumption trends during COVID-19, most notably in the Foodservice and Consumer channels within Asia Pacific and Greater China’s Foodservice channel. The Ingredients channel was adversely impacted by reduced margins on bulk liquid milk sales and the sales price lag of longer-term contracts. For its continuing operations:

- Asia Pacific normalised EBIT increased 28% to \$305 million, due to significant improvements in the Foodservice and Consumer channels as they benefited from the stay-at-home culinary trend.
- Greater China normalised EBIT increased 10% to \$403 million, driven by the strength of the Foodservice channel, China’s continued economic recovery from the impact of COVID-19 and its increasing demand for dairy.
- AMENA (Africa, Middle East, Europe, North Asia and Americas) normalised EBIT was down 28% to \$336 million. Improvements in AMENA’s Foodservice and Consumer channels, including a turnaround in their Chilean business, were more than offset by lower earnings in its Ingredients channel. This was due to lower sales volumes and the impact of sales price lags on longer-term contracts. Lower sales volumes were a result of Fonterra allocating more milk to Greater China and parts of Asia Pacific where demand was the strongest.

2022 Outlook and Fonterra’s Long-Term Strategy

Fonterra has noted there is always a high level of uncertainty this early in the financial year when operating within a globally traded market and believes it is appropriate to start with an earnings guidance range that reflects this. Fonterra has announced an earnings guidance for FY22 of 25 to 40 cents per share.

In providing this guidance Fonterra has considered the impact of raw milk costs, which are currently higher relative to FY21, on their value-add businesses while also acknowledging the potential impact of recent favourable movements in Ingredients’ price relativities. There are also ongoing risks associated with COVID-19, particularly where economic disruption may cause adverse movements in markets and currencies that Fonterra operates in.

Fonterra has also released its long-term strategy, providing greater transparency on where it wants to be by 2030. Fonterra has made three strategic choices – continue to focus on New Zealand milk, be a leader in sustainability and be a leader in dairy innovation and science.

I encourage you to read this document. However, key highlights are:

Refining its asset portfolio to focus on New Zealand milk.

- This includes the intention to divest its integrated investment in Chile, comprising of Soprole a leading Chilean dairy brand, and Prolesur a subsidiary of Soprole focused on sourcing milk and manufacturing products in Southern Chile.
- Fonterra is also considering the most appropriate ownership structure for Fonterra Australia One option includes an IPO, with the intention that Fonterra retains a significant stake.

Fonterra sees both moves as consistent with enabling greater focus on its New Zealand milk and, importantly, allowing Fonterra to free up capital, much of which is intended to be returned to shareholders and unit holders.

Overall, Fonterra has outlined four key value targets it’s aiming to achieve by 2030:

- An average Farmgate Milk Price range for the decade of \$6.50-\$7.50 per kgMS

- A 40-50% increase in operating profit from FY21 and, with the reduced interest from having less debt, this should translate into an approximately 75% increase in earnings, giving Fonterra the ability to steadily increase dividends to around 40-45 cents per share by FY30
- A Group Return on Capital of 9-10%, up from 6.6% in FY21
- Through planned divestments and improved earnings, an intended return of about \$1 billion to shareholders and unit holders by FY24, and around \$2 billion of additional capital generated for a mix of investment in further growth and return to shareholders and unit holders. This is in addition to the approximately \$2 billion expected to be invested in sustainability and moving milk into higher margin products.

For further information on Fonterra’s 2021 financial performance, long-term strategy and capital structure proposals I encourage you to visit Fonterra’s *investor relations* webpage.



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 Board of Munich Reinsurance Australasia and is a Director of China Construction Bank (New Zealand) Limited.
John is an Adjunct Professor in the Business School at Victoria University.



Mary-Jane Daly
BCom, MBA
Independent Director appointed by unit holders

Mary-Jane has a strong background in banking and finance in a variety of roles both in New Zealand and the UK.
Mary-Jane is Chair of the Earthquake Commission, and an Independent Director of Kiwibank Limited, Kiwi Property Group Limited and Auckland Transport. Previous governance roles have included Cigna Life Insurance New Zealand, Onepath Life, Airways Corporation and the NZ Green Building Council. Her last corporate executive role was leading State Insurance.



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 Limited and New Zealand Social Infrastructure Fund.
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, where she serves as chair of their Audit and Finance Committee and is a Director of 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. Andy is a Director of ANZCO and 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 and AgResearch. 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 2021

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Manager’s Statement
FOR THE YEAR ENDED 31 JULY 2021

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 2021.

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.



John Shewan
Chairman
FSF Management Company Limited
22 September 2021

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 2021 presented on pages 7 to 14.

For and on behalf of the Board of the Manager:



Kimmitt Ellis
Director
FSF Management Company Limited
22 September 2021

Statement of Comprehensive Income
FOR THE YEAR ENDED 31 JULY 2021

	\$ MILLION	
	31 JULY 2021	31 JULY 2020
Net fair value (loss)/gain on revaluation of Economic Rights of Fonterra shares	(9)	6
Dividend income	11	–
Investment income	2	6
Net decrease/(increase) in fair value of amounts attributable to unit holders	9	(6)
Distributions to unit holders	(11)	–
Finance cost	(2)	(6)
Profit before tax	–	–
Tax expense	–	–
Profit for the year	–	–

There are no items of other comprehensive income.

Statement of Changes in Amounts
Attributable to Unit Holders
FOR THE YEAR ENDED 31 JULY 2021

	\$ MILLION
Amounts attributable to unit holders at 1 August 2020	400
Movements:	
Revaluation of amounts attributable to unit holders	(9)
Issue of units	51
Redemption of units	(40)
Amounts attributable to unit holders at 31 July 2021	402
Amounts attributable to unit holders at 1 August 2019	388
Movements:	
Revaluation of amounts attributable to unit holders	6
Issue of units	65
Redemption of units	(59)
Amounts attributable to unit holders at 31 July 2020	400

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

Statement of Financial Position

AS AT 31 JULY 2021

	NOTES	\$ MILLION	
		31 JULY 2021	31 JULY 2020
Assets			
Economic Rights of Fonterra shares	2	402	400
Total assets		402	400
Liabilities			
Amounts attributable to unit holders	3	402	400
Total liabilities		402	400

Cash Flow Statement

FOR THE YEAR ENDED 31 JULY 2021

	NOTES	\$ MILLION	
		31 JULY 2021	31 JULY 2020
Cash flows from operating activities			
Cash was provided from:			
– Sale of Economic Rights of Fonterra shares		40	59
– Dividends received (net of dividends reinvested)		10	–
Cash was applied to:			
– Purchase of Economic Rights of Fonterra shares		(50)	(65)
Net cash flows from operating activities	4	–	(6)
Cash flows from financing activities			
Cash was provided from:			
– Proceeds from issue of units		50	65
Cash was applied to:			
– Outflows on redemption of units		(40)	(59)
– Distributions paid to unit holders (net of distributions reinvested)		(10)	–
Net cash flows from financing activities		–	6
Net change in cash and cash equivalents		–	–
Cash and cash equivalents at the beginning of the year		–	–
Cash and cash equivalents at the end of the year		–	–

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

Significant Accounting Policies

FOR THE YEAR ENDED 31 JULY 2021

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 the 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 22 September 2021.

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 in the 'Investors/Results & Reporting' section.

Fonterra's capital structure review

At 31 July 2021 Fonterra was undertaking a review of its capital structure. The size of the Fund was temporarily capped by suspending the ability for Fonterra farmer shareholders to exchange Fonterra shares for units in the Fund. The temporary cap was announced on 6 May 2021 and is expected to remain in effect until Fonterra completes its consultation on its capital structure options.

Information about Fonterra's capital structure review is available in the 'Investors/Capital Structure' section of Fonterra's website.

At the date of these financial statements no final decision has been made on the future of the Fund. These financial statements have been prepared on a going concern basis.

Activities

The principal activity of the Fund is to acquire Economic Rights and issue units to investors to allow investors in the Fund an opportunity to earn returns based on the financial performance of Fonterra. Since Fonterra's capital review was announced on 6 May 2021 the ability for the Fund to acquire Economic Rights has been temporarily suspended.

The units continue to be available on the NZX or ASX to buy and sell and unit holders continue to be eligible to receive distributions.

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.

Significant Accounting Policies (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2021

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 2020.

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 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 2021

1 Financial Risk Management

The Fund was 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 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 validity of assumptions relating to the comparability between a unit and an Economic Right has been considered in the context of Fonterra's capital structure review and remains appropriate.

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.

Following the introduction of the temporary cap on the Fund size, Fonterra will not need to actively manage the Fund size other than to redeem units at the discretion of Fonterra farmer shareholders.

As at 31 July 2021, 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. The Fund size cannot increase while the temporary cap is in place.

Notes to the Financial Statements (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

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 2021	31 JULY 2020
Value of Economic Rights (\$ million)	402	400
Number of Economic Rights	107,420,162	104,581,516
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 2021	31 JULY 2020
Opening value of Economic Rights	400	388
Movements:		
Purchase of Economic Rights ¹	51	65
Sale of Economic Rights	(40)	(59)
Revaluation of Economic Rights	(9)	6
Closing value of Economic Rights	402	400

1 Purchase of Economic Rights include \$0.6 million for Economic Rights acquired in conjunction with Fonterra's Dividend Reinvestment Plan (31 July 2020: \$nil).

3 Amounts Attributable to Unit Holders

	31 JULY 2021	31 JULY 2020
Value of amounts attributable to unit holders (\$ million) ¹	402	400
Opening number of units on issue ²	104,581,516	102,934,582
Movements:		
Number of units issued ³	11,794,492	17,298,927
Number of units redeemed	(8,955,846)	(15,651,993)
Closing number of units on issue	107,420,162	104,581,516

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 2021 of \$3.74 (31 July 2020: \$3.82).
2 Included in the total number of units is one Fonterra unit, held by the Fonterra Farmer Custodian Trust, which was issued at inception of the Fund.
3 Included in the number of units issued are 145,300 units with a total value of \$0.6 million that were issued under the Distribution Reinvestment Plan for the year ended 31 July 2021 (31 July 2020: nil).

4 Reconciliation of Net Cash Flow from Operating Activities to Profit

	\$ MILLION	
	31 JULY 2021	31 JULY 2020
Reconciliation of profit for the year to net cash flows from operating activities		
Profit for the year	-	-
Adjustments for:		
- Fair value loss/(gain) on revaluation of Economic Rights of Fonterra shares	9	(6)
- Net (decrease)/increase in fair value of amounts attributable to unit holders	(9)	6
- Distributions to unit holders	11	-
- Non-cash dividend income	(1)	-
Changes in assets:		
Net purchase of Economic Rights of Fonterra shares	(10)	(6)
Net cash flows from operating activities	-	(6)

5 Net Assets per security

As at 31 July 2021, the net assets per unit on issue was \$3.74 (31 July 2020: \$3.82).

6 Commitments and Contingent Liabilities

The Fund has no material commitments or contingent liabilities as at 31 July 2021 (31 July 2020: nil).

7 Related Parties

FSF Management Company Limited

FSF Management Company Limited is the Fund's Manager whose sole role 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

Key Management Personnel (KMP) 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.

As at 31 July 2021 192,192 units with a value of \$718,798 were held by KMP (31 July 2020: 181,783 units with a value of \$694,411). The change in number of units held by KMP relates to the following transactions:

- An acquisition of 642 units under the Contract Fee for Units Scheme (31 July 2020: 1,124 units);
- An acquisition of 1,574 units under the Distribution Reinvestment Plan (31 July 2020: nil);
- An acquisition of 9,317 units through a new investment (31 July 2020: nil); and
- A disposal of 1,124 units from a conversion of units to shares (31 July 2020: 3,063 units).

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.

Contract Fee for Units Scheme

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. The purchase of units under the Contract Fee for Units Scheme has been put on hold from 6 May 2021 as part of Fonterra's capital structure review.

During the year ended 31 July 2021 on behalf of Fonterra's contract milk suppliers participating in Fonterra's Contract Fee for Units Scheme, The New Zealand Guardian Trust Company Limited, as trustee:

- Purchased 498,163 units for \$2.2 million (31 July 2020: 739,793 units for \$2.9 million);
- Sold 10,962 units for \$0.05 million due to forfeiture (31 July 2020: 54,012 units for \$0.2 million);
- Received 8,366 units from the Distribution Reinvestment Plan (31 July 2020: nil) and;
- Distributed 409,586 units to contract milk suppliers (31 July 2020: 351,975 units).

As at 31 July 2021, The New Zealand Guardian Trust Company Limited, as trustee of The Contract Fee Trust holds 933,291 units for participating contract milk suppliers (31 July 2020: 847,310 units).

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2021

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.

As at 31 July 2021, the Custodian holds 107,420,162 (31 July 2020: 104,581,516) Fonterra shares on trust for 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.

On 9 February 2021, DCT made a net sale of 30,145 units for \$0.1 million on behalf of Fonterra Farmer shareholders participating in the 2021 season Delegated Compliance Trading Scheme. In the prior year 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. 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.

As part of Fonterra's capital structure review, delegated compliance trading has been put on hold for farmers holding a minimum of 1,000 shares. Delegated compliance trading has not been offered for the 2021/22 season.

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 2021 with respect to the Fund are the following amounts paid to KPMG, appointed as auditor of the Fund:

- Fees for the annual audit of the financial statements of \$24,000 (31 July 2020: \$24,000);
- Fees for the review of the interim financial statements of \$10,000 (31 July 2020: \$10,000); and
- Fees for other audit related services comprising agreed upon procedures for Annual Meeting voting of \$3,500 (31 July 2020: \$3,500).

KPMG has not provided any non-audit related services during the year ended 31 July 2021 (31 July 2020: nil).

Dividends received from Fonterra

The following dividends were received during the year ended 31 July 2021 (31 July 2020: nil).

	\$ MILLION	
	YEAR ENDED 31 JULY 2021	YEAR ENDED 31 JULY 2020
DIVIDENDS		
2020 Final dividend received – 5.0 cents per Economic Right ¹	5.3	–
2021 Interim dividend received – 5.0 cents per Economic Right ²	5.3	–

- 1 This was distributed on to unit holders on 15 October 2020 and represented a cash distribution of 5.0 cents per unit. The Distribution Reinvestment Plan applied to this distribution.
- 2 This was distributed on to unit holders on 15 April 2021 and represented a cash distribution of 5.0 cents per unit. The Distribution Reinvestment Plan did not apply to this distribution.

8 Subsequent Events

Declaration of distribution

On 22 September 2021, the Board of Directors of Fonterra declared a dividend of 15 cents per share. Following Fonterra's dividend declaration, the Board of the Manager declared a distribution of 15 cents per unit for the year ended 31 July 2021. The distribution will be paid on 15 October 2021 to the unit holders on the register at 30 September 2021.

The Distribution Reinvestment Plan does not apply to this distribution.

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

FOR THE YEAR ENDED 31 JULY 2021



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 7 to 14:

- i. present fairly in all material respects the Fund's financial position as at 31 July 2021 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 2021;
- the statements of comprehensive income, changes in amounts 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.

Emphasis of matter

We draw attention to the significant accounting policies on page 9 of the financial statements which describes that the financial statements have been prepared on a going concern basis. Fonterra Co-operative Group Limited is undertaking a review of its capital structure, including a review of the future of the Fund. At the date of this report no final decision has been made on the future of the Fund. The financial statements of the Fund are prepared on a going concern basis. Our opinion is not modified in respect of this matter.

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 the 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, Statutory information and Directory. 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.

Independent Auditor’s Report (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

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

22 September 2021

Statutory Information
FOR THE YEAR ENDED 31 JULY 2021

Twenty Largest Unit Holders
AS AT 31 JULY 2021

UNIT HOLDER	NUMBER OF UNITS	% OF TOTAL ISSUED UNITS
Accident Compensation Corporation	3,786,189	3.52
Citibank Nominees (New Zealand) Limited	3,416,350	3.18
New Zealand Depository Nominee Limited	2,557,572	2.38
HSBC Nominees (New Zealand) Limited	2,435,206	2.27
Custodial Services Limited <A/C 4>	2,280,441	2.12
Craigsmore Dairy II Services Limited	2,069,508	1.93
BNP Paribas Nominees (NZ) Limited - NZCSD <BPSS40>	1,020,142	0.95
The New Zealand Guardian Trust Company Limited	933,291	0.87
Michael Douglas Hammond & Helen Mavis Hammond & Leigh Joseph Horton	770,270	0.72
BNP Paribas Nominees (NZ) Limited – NZCSD	732,454	0.68
Ingleton Properties Limited	675,380	0.63
JBWere (NZ) Nominees Limited	584,177	0.54
FNZ Custodians Limited	551,779	0.51
Peter Thomas Borrie & Adrienne Helen Borrie	528,304	0.49
Richard Wallace Shapero	480,000	0.45
ANZ Custodial Services New Zealand Limited	478,013	0.44
Heathton Farms Limited	467,442	0.44
North Branch Farms Limited	445,801	0.42
HSBC Nominees (New Zealand) Limited A/C State Street	406,331	0.38
Leo Francis Dooley & Peter John Dooley	400,000	0.37
	25,018,650	23.29
Total quoted units on issue	107,420,161	100.00

Spread of Unit Holders
AS AT 31 JULY 2021

SIZE OF HOLDING	NUMBER OF HOLDERS	NUMBER OF UNITS	% OF TOTAL ISSUED UNITS
1 – 1,000	2,723	1,350,232	1.26
1,001 – 5,000	2,747	6,842,866	6.37
5,001 – 10,000	733	5,586,082	5.20
10,001 – 100,000	1,087	40,013,579	37.25
100,001 and over	195	53,627,403	49.92
Total ¹	7,485	107,420,162	100.00

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

Substantial Product Holders

As at 31 July 2021 no unit holders had filed substantial product holder notices in accordance with the Financial Markets Conduct Act 2013.

As at 31 July 2021 the Fund had 107,420,161 quoted units, and one Fonterra unit, on issue.

Statutory Information (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

Holdings of Directors of the Manager
AS AT 31 JULY 2021

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)	9,317	Trustee and discretionary beneficial interest held by Hobson Wealth Custodian Limited
	6,363	Trustee and non-beneficial interest held by Hobson Wealth Custodian Limited
	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
Kimmitt 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
	642	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	123,724	Power to control and exercise a right to vote and to control the acquisition and disposal of these units held by Pencarrow Farm Limited
	10,000	Trustee and non-beneficial interest held by Stonylea Trust
	4,000	Trustee and beneficial interest held by GW and MA Macfarlane Family Trust
	9,317	Partner in Deebury Pastoral Partnership

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 new 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)	<i>Chair, Wellington Regional Stadium Trust (ceased June 2021)</i>
Mary-Jane Daly	Director, Kiwi Property Group Limited
	Director, Kiwibank Limited
	Director, Auckland Transport
	Chair, Earthquake Commission
	Shareholder of Medbury Farm Limited as non-beneficial trustee of the M.F. Daly Family Trust
	Trustee, M.F. Daly Family Trust
	Trustee, W Marshall Trust
	Trustee, M J Daly Trust
Philippa Jane Dunphy (<i>resigned November 2020</i>)	Chair and Director, ANZ New Zealand Investments Limited
Kimmitt Rowland Ellis	<i>Chair, Metlifecare Limited (ceased November 2020)</i>
Andrew Webster Macfarlane	<i>Director, ANZCO Farmer Nominee Limited (ceased August 2020)</i>
	<i>Director, MRB Securities Limited (ceased July 2020)</i>

Specific disclosures of interest

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

NZX TRADING HALTS

On 5 May 2021 NZX Regulation Limited (NZ RegCo) and ASX, at the request of Fonterra, placed a trading halt on Fonterra shares and units in the Fund. On 6 May 2021, Fonterra commenced a comprehensive consultation process to seek shareholder feedback on potential options to change its capital structure. The trading halt continued in effect until the market opened on 7 May 2021 to provide Fonterra shareholders and unit holders of the Fund a full day to review and consider the materials before trading commenced.

DONATIONS

No donations were made by the Fund or the Manager during the financial year ended 31 July 2021 (31 July 2020: nil).

NZX DIVERSITY REPORTING REQUIREMENTS

As at 31 July 2021, the gender composition of the Board of the Manager comprised two female and three male Directors. As at 31 July 2020, the gender composition of the Board of the Manager comprised two female and three male Directors. The Manager does not have any employees.

NZX WAIVERS

A summary of waivers and approvals granted by NZ RegCo in relation to the NZX Listing Rules, which have been relied upon by the Fund in the year ended 31 July 2021, can be found at 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 a 'Non-Standard' ("NS") designation by NZ RegCo. 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 2021, the Manager has determined that a number of the recommendations in the NZX Code and the ASX Principles are not appropriate for the Fund or are not relevant.

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

References to 'Board' and 'Directors' in this statement are to the Board and Directors of the Manager. The Board of the Manager has approved this corporate governance statement.

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 in the 'Investors/Fonterra Shareholders' Fund' section under the heading 'Charters and policies'.

While the Manager has no employees, Fonterra has Whistleblower procedures in place which apply to Fonterra employees who provide services to the Fund.

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 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 who 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.

Statutory Information (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

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 in the ‘Investors/ Fonterra Shareholders’ Fund’ section under the heading ‘Charters and policies’.

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, Mary-Jane Daly 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.

In November 2020, Pip Dunphy retired from the Board and Mary-Jane Daly was elected to the Board.

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. Each Director on the Board in the 2021 year possesses these skills and experience.

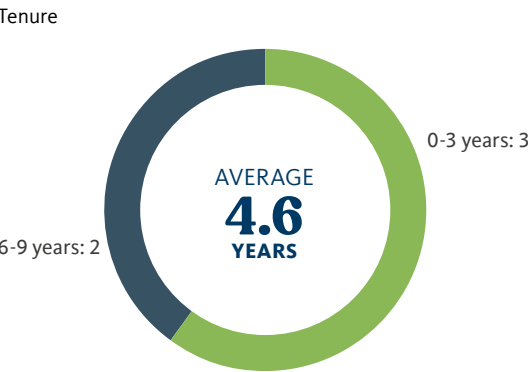
The Manager has written agreements with each of its Directors.

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.



Board and Audit Committee Attendance

The table below reports attendance of Directors at Board and Audit Committee meetings during the 2021 reporting period. Board and Audit Committee meetings are held together.

Board/Audit Committee Meetings 1 August 2020 – 31 July 2021

	BOARD		AUDIT COMMITTEE	
	MEETINGS	ATTENDED	MEETINGS	ATTENDED
John Shewan	3	3	3	3
Pip Dunphy (<i>resigned November 2020</i>)	1	1	1	1
Kim Ellis	3	3	3	3
Mary-Jane Daly (<i>appointed November 2020</i>)	2	2	2	2
Donna Smit	3	3	3	3
Andy MacFarlane	3	3	3	3

In addition to the above, all members of the Board attended the Annual Meeting of unit holders, held on 9 November 2020.

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	2018	2019	2020	2021
No. of Board (female: male)	2:3	2:3	2:3	2:3

Statutory Information (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

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.

Company Secretary

The Company Secretary for the Manager is currently Fonterra’s Director of Legal and has a direct line of communication with the Chair of the Board (and by default, the Audit Committee (which is the Board)).

The Company Secretary is not paid by the Manager.

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 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 the external auditor to attend the annual unit holder meeting and be available to answer questions relevant to the financial statements.

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.

The Board did establish a subcommittee, on 6 May 2021, comprising solely of its Independent Directors to consider the implications of Fonterra’s capital structure review, and to provide feedback to, and engage with, Fonterra and its management in relation to the review. The subcommittee met three times between 6 May 2021 and the financial year end of 31 July 2021, and all Independent Directors have attended each of these meetings. The subcommittee will continue to be constituted for so long as Fonterra’s capital structure review continues.

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.

Statutory Information (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

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 relating to its governance:

- 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.

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.

Neither the Manager nor Fonterra award options and/or provide for retirement benefits to accrue for directors. No special exertion benefits, additional to director fees, are or will be paid without unit holder approval.

As the Manager does not have any employees, it cannot provide any golden parachutes/golden handshakes to executives. The Manager also does not provide any special retirement allowances or the likes to departing directors .

Remuneration Policy

Given the small size of the Board, the fact that the Fund has no employees or CEO, and in light of the arrangements with Fonterra around director remuneration, the Manager has 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
- 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.

KPMG has been appointed the external auditor for two consecutive years. The lead audit partner has served for two consecutive years.

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.

Statutory Information (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

Principle 8: Unit Holder Rights and Relations

Investor Centre Website

Fonterra maintains a dedicated investor webpage at 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 releasing 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; and
- notices of meetings which are sent to unit holders at least 20 working days before a meeting and can be found at www.fonterra.com in the ‘Investors/Fonterra Shareholders’ Fund’ section under the heading ‘Related documents’.

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, at the expense of the Fund, to give notice of the unit holder proposal and to provide 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).

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**FONTERRA
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