

2017
**INTERIM
REPORT**
FONTERRA SHAREHOLDERS' FUND

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CHAIRMAN'S REPORT

DEAR INVESTORS

I am pleased to present the Fonterra Shareholders' Fund (the Fund) Interim Report for the six months ending 31 January 2017.

Global conditions have been challenging, however Fonterra has produced a strong result for the first half, which builds on the progress made last financial year.

As the return on a unit is driven by the underlying performance of Fonterra, I encourage you to read Fonterra's 2017 Interim Report, available online at www.fonterra.com/our-financials to gain a good understanding of the Co-operative's results.

Unit holders will receive an interim distribution of 20 cents per unit¹. The record date for the Interim distribution is 5 April 2017 and the payment date is 20 April 2017.

The Distribution Reinvestment Plan (DRP) continues to operate at a discount of 2.5 per cent to the strike price. Eligible shareholders who would like to participate for the interim distribution need to submit a notice of participation by 6 April 2017.

More details on the DRP can be found in the offer document, which is available in hard copy from Computershare or online at www.investorcentre.com/nz and www.fonterra.com/our-financials/dividends.



Unit trading remains strong with the Fund ranked consistently one of the most liquid on the NZX50. On average, 511,294 units were traded on a daily basis over the past six months².

Analysis of the unit register shows that New Zealand and Australian unit holders are the largest group by region, holding more than 88 per cent of units on issue³.

I would once again like to thank you for your continued support of, and investment in, the Fonterra Shareholders' Fund.

A handwritten signature in black ink, appearing to read 'John Shewan', with a small dot at the end.

JOHN SHEWAN
CHAIRMAN
FSF MANAGEMENT COMPANY LIMITED

*(Australian Registered Body Number 160 539 935,
incorporated in New Zealand)*

¹ Less any PIE (Portfolio Investment Entity) tax or any other adjustments for tax in relation to that unit.

² Liquidity has been calculated as median daily value (6 months) / Average Daily New Zealand Free Float Cap (6 months).

³ Merlin Consulting Shareholder Identification Report January 2017.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 JANUARY 2017

	\$ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2017 UNAUDITED	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED
Net fair value gain on revaluation of Economic Rights of Fonterra shares	59	124	101
Dividend income	12	14	46
Investment income	71	138	147
Net change in fair value of liability to unit holders	(59)	(124)	(101)
Distributions to unit holders	(12)	(14)	(46)
Finance cost	(71)	(138)	(147)
Profit before tax	-	-	-
Tax expense	-	-	-
Profit for the period	-	-	-

There are no items of other comprehensive income.

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS

FOR THE SIX MONTHS ENDED 31 JANUARY 2017

	\$ MILLION
Net assets attributable to unit holders at 1 August 2016	637
Movements:	
Revaluation of liability to unit holders	59
Issue of units	132
Redemption of units	(64)
Net assets attributable to unit holders at 31 January 2017 (unaudited)	764
Net assets attributable to unit holders at 1 August 2015	494
Movements:	
Revaluation of liability to unit holders	124
Issue of units	91
Redemption of units	(94)
Net assets attributable to unit holders at 31 January 2016 (unaudited)	615
Net assets attributable to unit holders at 1 August 2015	494
Movements:	
Revaluation of liability to unit holders	101
Issue of units	152
Redemption of units	(110)
Net assets attributable to unit holders at 31 July 2016 (audited)	637

The accompanying notes form part of these interim financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 JANUARY 2017

	NOTES	\$ MILLION		
		31 JAN 2017 UNAUDITED	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED
Assets				
Economic Rights of Fonterra shares	2	764	615	637
Total assets		764	615	637
Total liabilities (excluding net assets attributable to unit holders)		-	-	-
Net assets attributable to unit holders – liability	3	764	615	637

CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 JANUARY 2017

	\$ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2017 UNAUDITED	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED
Cash flows from operating activities			
Cash was provided from:			
– Sale of Economic Rights of Fonterra shares	64	94	110
– Dividends received (net of dividends reinvested)	10	12	38
Cash was applied to:			
– Purchase of Economic Rights of Fonterra shares	(130)	(89)	(144)
Net cash flows from operating activities	(56)	17	4
Cash flows from financing activities			
Cash was provided from:			
– Proceeds from issue of units	130	89	144
Cash was applied to:			
– Outflows on redemption of units	(64)	(94)	(110)
– Distributions paid to unit holders (net of dividends reinvested)	(10)	(12)	(38)
Net cash flows from financing activities	56	(17)	(4)
Net (decrease)/increase in cash and cash equivalents	-	-	-
Cash and cash equivalents at the beginning of the year	-	-	-
Cash and cash equivalents at the end of the period	-	-	-

The accompanying notes form part of these interim financial statements.

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE SIX MONTHS ENDED 31 JANUARY 2017

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.

The Fund is listed on the NZX Main Board operated by NZX Limited and as an exempt foreign entity on the Australian Securities Exchange operated by ASX Limited. The Manager is an FMC reporting entity under the Financial Markets Conduct Act 2013.

These condensed interim financial statements were authorised for issue by the Manager on 21 March 2017.

Fonterra interim financial statements

Investors are encouraged to read the interim financial statements of Fonterra Co-operative Group Limited (Fonterra), together with the interim financial statements of the Fund, given that the performance of the Fund is driven by the performance of Fonterra. The Fonterra interim financial statements can be found at www.fonterra.com/our-financials.

Activities

The principal activity of the Fund is to acquire Economic Rights and issue units to investors. It allows investors in the Fund an opportunity to earn returns based on the financial performance of Fonterra.

B) BASIS OF PREPARATION

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34: Interim Financial Reporting and New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting. They have also been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They should be read in conjunction with the financial statements for the year ended 31 July 2016. These interim financial statements are as at and for the six months ended 31 January 2017, and are unaudited.

These interim financial statements are presented in New Zealand dollars (\$), which is the Fund's functional and presentation currency, and rounded to the nearest million, except where otherwise stated.

The same accounting policies are followed in these financial statements as were applied in the financial statements for the year ended 31 July 2016.

Adoption of NZ IFRS 9 Financial Instruments

NZ IFRS 9 Financial Instruments (NZ IFRS 9) addresses the classification, measurement and derecognition of financial assets, financial liabilities and hedge accounting. The Fund elected to adopt NZ IFRS 9 from 1 August 2016. The changes required by NZ IFRS 9 do not impact the financial position or performance of the Fund.

C) OPERATING SEGMENTS

The Fund's investments only include Economic Rights assets and the Fund's performance is evaluated on an overall basis. Therefore the Fund is a single-segment entity. All of the Fund's income is from investments in the Economic Rights.

The internal reporting provided to the Board of the Manager, which is the Fund's chief operating decision maker, for the Fund's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of NZ IFRS. The Board of the Manager reviews the Fund's internal reporting in order to assess the performance and position of the Fund.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 JANUARY 2017

1 FAIR VALUE MEASUREMENT

The Fund measures fair values for recognition of both Economic Rights assets and unit holder liabilities.

The Fund uses the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques for which all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. The Fund has no Level 3 instruments.

The Fund's liability to unit holders is a Level 1 instrument as the unit price is quoted on the NZX Main Board, which is considered to be an active market. The Manager considers market prices to be the most representative measure of fair value as they are used by market participants as a practical expedient for fair value measurement. The market will be monitored on an on-going basis to confirm that it remains active for the purposes of establishing fair value.

Economic Rights are Level 2 instruments as Economic Rights are not listed and there is no active market for Economic Rights assets. Economic Rights are valued using the quoted price of units (which are considered to be a materially comparable instrument) in the Fund listed on the NZX Main Board. The on-going validity of that assumption is regularly reviewed to support this area of significant judgement.

There have been no transfers between the categories in the fair value hierarchy during any of the periods presented.

2 ECONOMIC RIGHTS OF FONTERRA SHARES

The Economic Rights are held on trust for the Fund by the Custodian under the Fonterra Economic Rights Trust.

	31 JAN 2017 UNAUDITED	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED
Value of Economic Rights (\$ million)	764	615	637
Number of Economic Rights	123,422,471	103,926,303	111,991,937

The Economic Rights are measured at fair value, calculated as the number of Economic Rights held multiplied by the established fair value for each Economic Right.

	\$ MILLION		
	31 JAN 2017 UNAUDITED	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED
Opening value of Economic Rights	637	494	494
Movements:			
Purchase of Economic Rights ¹	132	91	152
Sale of Economic Rights	(64)	(94)	(110)
Revaluation of Economic Rights	59	124	101
Closing value of Economic Rights	764	615	637

¹ Purchase of Economic Rights includes \$2.4 million for Economic Rights acquired in conjunction with Fonterra's Dividend Reinvestment Plan (31 January 2016: \$2.3 million, 31 July 2016: \$7.8 million).

3 LIABILITY TO UNIT HOLDERS

	31 JAN 2017 UNAUDITED	31 JAN 2016 UNAUDITED	31 JUL 2016 AUDITED
Value of unit holder liability (\$ million) ¹	764	615	637
Opening number of units on issue ²	111,991,937	105,480,366	105,480,366
Number of units issued ³	22,222,597	16,374,976	27,137,036
Number of units redeemed	(10,792,063)	(17,929,039)	(20,625,465)
Closing number of units on issue	123,422,471	103,926,303	111,991,937

¹ The liability to unit holders is measured at fair value, calculated as the number of units on issue multiplied by the unit market price of \$6.19 (31 January 2016: \$5.92; 31 July 2016: \$5.69).

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

³ Included in the number of units issued are 419,397 units with a total value of \$2.4 million that were issued under the Distribution Reinvestment Plan (31 January 2016; 451,285 units with a total value of \$2.3 million; 31 July 2016: 1,400,416 units with a total value of \$7.8 million).

4 NET TANGIBLE ASSETS PER SECURITY

As at 31 January 2017, the net tangible assets per unit on issue was \$6.19 (31 January 2016: \$5.92; 31 July 2016: \$5.69).

5 COMMITMENTS AND CONTINGENT LIABILITIES

The Fund has no material commitments or contingent liabilities as at 31 January 2017 (31 January 2016: nil; 31 July 2016: nil).

6 SUBSEQUENT EVENTS

Declaration of interim distribution

On 21 March 2017, the Board of Directors of Fonterra declared an interim dividend of 20 cents per share. Following Fonterra's dividend declaration, the Board of the Manager declared an interim distribution of 20 cents per unit. This distribution, will be paid on 20 April 2017 to the unit holders on the register at 5 April 2017.

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. Full details of the Distribution Reinvestment Plan are available in the 'Investors' 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.

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