

2016
**INTERIM
REPORT**

FONTERRA SHAREHOLDERS' FUND

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SHAREHOLDERS'
FUND.**



CHAIRMAN'S REPORT

DEAR INVESTORS

I am pleased to present the Fonterra Shareholders' Fund (Fund) Interim Report for the six months ending 31 January 2016.

International 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 2016 Interim Report, available online at www2.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 8 April 2016 and the payment date is 20 April 2016.

The Distribution Reinvestment Plan (DRP) continues to operate at a discount of 2.5 per cent to the strike price. Eligible unit holders who would like to participate for the interim distribution need to submit a notice of participation by 11 April 2016.

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 www2.fonterra.com/our-financials/dividends.



Unit trading remains strong, with the FSF ranked second on the NZX50 in terms of liquidity over the past six months². On average, over 465,000 units were traded on a daily basis over the same period.

Analysis of the unit register shows that New Zealand and Australian unit holders are the largest group by region, holding more than 90 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'.

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 February 2016.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

	\$ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2016 UNAUDITED	31 JAN 2015 UNAUDITED	31 JUL 2015 AUDITED
Net fair value gain/(loss) on revaluation of Economic Rights of Fonterra shares	124	(43)	(176)
Dividend income	14	6	18
Investment income/(expense)	138	(37)	(158)
Net change in fair value of liability to unit holders	(124)	43	176
Distributions to unit holders	(14)	(6)	(18)
Finance (cost)/income	(138)	37	158
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 2016

	\$ MILLION
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 2014	681
Movements:	
Revaluation of liability to unit holders	(43)
Issue of units	111
Redemption of units	(36)
Net assets attributable to unit holders at 31 January 2015 (unaudited)	713
Net assets attributable to unit holders at 1 August 2014	681
Movements:	
Revaluation of liability to unit holders	(176)
Issue of units	131
Redemption of units	(142)
Net assets attributable to unit holders at 31 July 2015 (audited)	494

The accompanying notes form part of these interim financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 JANUARY 2016

	NOTES	\$ MILLION		
		31 JAN 2016 UNAUDITED	31 JAN 2015 UNAUDITED	31 JUL 2015 AUDITED
Assets				
Economic Rights of Fonterra shares	2	615	713	494
Total assets		615	713	494
Total liabilities (excluding net assets attributable to unit holders)		-	-	-
Net assets attributable to unit holders – liability	3	615	713	494

CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

	\$ MILLION		
	SIX MONTHS ENDED 31 JAN 2016 UNAUDITED	31 JAN 2015 UNAUDITED	YEAR ENDED 31 JUL 2015 AUDITED
Cash flows from operating activities			
Cash was provided from:			
– Sale of Economic Rights of Fonterra shares	94	36	142
– Dividends received (net of dividends reinvested)	12	6	17
Cash was applied to:			
– Purchase of Economic Rights of Fonterra shares	(89)	(111)	(130)
Net cash flows from operating activities	17	(69)	29
Cash flows from financing activities			
Cash was provided from:			
– Proceeds from issue of units	89	111	130
Cash was applied to:			
– Outflows on redemption of units	(94)	(36)	(142)
– Distributions paid to unit holders (net of dividends reinvested)	(12)	(6)	(17)
Net cash flows from financing activities	(17)	69	(29)
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 2016

A) GENERAL INFORMATION

The Fonterra Shareholders' Fund (FSF or the Fund) is a New Zealand unit trust established to be the 'Authorised Fund' under Fonterra's Trading Among Farmers scheme. It has been established under the Unit Trusts Act 1960 and the Fonterra Shareholders' Fund Unit Trust Deed (the Trust Deed) dated 23 October 2012 and has a life of 80 years. Under the Trust Deed, the Fund may invest only in authorised investments, which are Economic Rights of Fonterra shares (Economic Rights), and issue units to investors. It may not invest directly in Fonterra shares (shares).

The Fund is listed on the NZX Main Board operated by NZX Limited and 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 Board of Directors of the Manager on 22 March 2016.

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 www2.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 2015. These interim financial statements are as at and for the six months ended 31 January 2016, 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 interim financial statements as were applied in the financial statements for the year ended 31 July 2015.

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 2016

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 ongoing 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 ongoing 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 Fonterra Farmer Custodian Limited (the Custodian) under the Fonterra Economic Rights Trust.

	31 JAN 2016 UNAUDITED	31 JAN 2015 UNAUDITED	31 JUL 2015 AUDITED
Value of Economic Rights (\$ million)	615	713	494
Number of Economic Rights	103,926,303	121,855,834	105,480,366

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 2016 UNAUDITED	31 JAN 2015 UNAUDITED	31 JUL 2015 AUDITED
Opening value of Economic Rights	494	681	681
Movements:			
Purchase of Economic Rights ¹	91	111	131
Sale of Economic Rights	(94)	(36)	(142)
Revaluation of Economic Rights	124	(43)	(176)
Closing value of Economic Rights	615	713	494

¹ Purchase of Economic Rights includes \$2.3 million for Economic Rights acquired in conjunction with Fonterra's Dividend Reinvestment Plan (31 January 2015: nil; 31 July 2015: \$1.3 million).

3 LIABILITY TO UNIT HOLDERS

	31 JAN 2016 UNAUDITED	31 JAN 2015 UNAUDITED	31 JUL 2015 AUDITED
Value of unit holder liability (\$ million) ¹	615	713	494
Opening number of units on issue ²	105,480,366	109,777,717	109,777,717
Number of units issued ³	16,374,976	17,984,360	21,906,235
Number of units redeemed	(17,929,039)	(5,906,243)	(26,203,586)
Closing number of units on issue	103,926,303	121,855,834	105,480,366

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 \$5.92 (31 January 2015: \$5.85; 31 July 2015: \$4.68).

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 451,285 units with a total value of \$2.3 million that were issued under the Distribution Reinvestment Plan (31 January 2015: nil; 31 July 2015: 249,550 units with a total value of \$1.3 million).

4 NET TANGIBLE ASSETS PER SECURITY

As at 31 January 2016, the net tangible assets per unit on issue was \$5.92 (31 January 2015: \$5.85; 31 July 2015: \$4.68).

5 COMMITMENTS AND CONTINGENT LIABILITIES

The Fund has no material commitments or contingent liabilities as at 31 January 2016 (31 January 2015: nil; 31 July 2015: nil).

6 SUBSEQUENT EVENTS

At 16 March 2016, the unaudited net asset value of the Fund was \$615 million and the unit price was \$5.88.

Declaration of interim distribution

On 22 March 2016, 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. The distribution will be paid on 20 April 2016 to the unit holders on the register at 8 April 2016.

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 on the financial section of Fonterra's website.

INDEPENDENT REVIEW REPORT

TO THE UNIT HOLDERS OF FONTERRA SHAREHOLDERS' FUND



REPORT ON THE INTERIM FINANCIAL STATEMENTS

We have reviewed the financial statements of Fonterra Shareholders' Fund ("the Fund") on pages 3 to 7, which comprise the statement of financial position as at 31 January 2016, the statement of comprehensive income, the statement of changes in net assets attributable to unit holders and the cash flow statement for the period then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Manager's Responsibility for the Financial Statements

The Fund's Manager is responsible for the preparation and fair presentation of these financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34) and for such internal controls as the Manager determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. As the auditors of the Fund, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these financial statements.

We are independent of the Fund. Other than in our capacity as auditors and providers of other related assurance services, we have no relationship with, or interests in, the Fund.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements of the Fund are not prepared, in all material respects, in accordance with IAS 34 and NZ IAS 34.

RESTRICTION ON USE OF OUR REPORT

This report is made solely to the Fund's unit holders, as a body. Our review work has been undertaken so that we might state to the Fund's unit holders those matters which we are required to state to them in our review 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 Fund and the Fund's unit holders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive, stylized font.

Chartered Accountants, Auckland
22 March 2016

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