

2017  
**ANNUAL  
REPORT**  
FONTERRA SHAREHOLDERS' FUND

**FONTERRA  
SHAREHOLDERS'  
FUND.**



# CONTENTS

<b>CHAIRMAN'S REPORT</b>	<b>1</b>
<b>OUR BOARD</b>	<b>2</b>
<b>FINANCIAL STATEMENTS</b>	<b>4</b>
<b>STATUTORY INFORMATION</b>	<b>15</b>
<b>DIRECTORY</b>	<b>19</b>

# CHAIRMAN'S REPORT

## DEAR INVESTORS

I am pleased to present the Annual Report for the Fonterra Shareholders' Fund (the Fund) for the year ending 31 July 2017.

Fonterra has announced a solid result for the year, reflecting its continued focus on driving a value-led strategy. Notable features include:

- The past year has been one of significant rebalance in supply and demand for the global dairy industry, which has been the biggest driver in an increased Farmgate Milk Price (FGMP) of \$6.12.
- Normalised EBIT for the Group was \$1,155 million, delivering a net profit after tax of \$745 million, 11 per cent lower than last year.
- The Co-operative maintained a 40 cents per share dividend despite higher input costs and less favourable stream returns.
- The year saw a significant uplift in the demand-led Consumer and Foodservice portfolios with an additional 576 million LME<sup>1</sup> turned into these higher value products.
- In the Ingredients business Fonterra achieved a nine per cent increase in sales volumes for higher value Advanced Ingredients.
- The result continues to reflect the benefits of an on-going group-wide business transformation that Fonterra advises will become a permanent feature of its annual performance. This is evidenced by the further six per cent decrease in Group operating expenses, on top of last year's eight per cent reduction.

<sup>1</sup> Liquid milk equivalents.

<sup>2</sup> Less any PIE (Portfolio Investment Entity) tax or any other adjustments for tax in relation to that unit.

<sup>3</sup> Liquidity has been calculated as median daily value (12 months) / Average Daily New Zealand Free Float (12 months).



As the return on a unit is driven by the underlying performance of Fonterra, I encourage you to read Fonterra's 2017 Annual Report, available online in the Investor section at [www.Fonterra.com](http://www.Fonterra.com), to gain a good understanding of the Co-operative's results.

Fonterra declared a final dividend of 20 cents per share. As a result, unit holders will receive a final distribution of 20 cents per unit.<sup>2</sup> The record date for the final distribution is 9 October 2017 and the payment date is 20 October 2017. This brings the total distribution for the 2017 financial year to 40 cents per unit.

The Distribution Reinvestment Plan (DRP) continued to operate at a discount of 2.5 per cent to the strike price. More details on the DRP can be found in the offer document, which is available in hard copy from Computershare or online in the Investor section at [www.Fonterra.com](http://www.Fonterra.com) under Dividends.

Unit trading remains strong, with the Fund ranked second on the NZX50 in term of liquidity<sup>3</sup> with a median daily trading value of \$1.95 million.

Thank you again for your continued support and investment in the Fonterra Shareholder's Fund.

**JOHN SHEWAN**  
CHAIRMAN  
FSF MANAGEMENT COMPANY LIMITED  
*(Australian Registered Body Number 160 539 935,  
incorporated in New Zealand)*

# OUR BOARD

1. JOHN SHEWAN
2. PIP DUNPHY
3. KIM ELLIS
4. NICOLA SHADBOLT
5. SCOTT ST JOHN



## 1. JOHN SHEWAN

CNZM BCA (Hons), FCA  
Independent Director appointed by unit holders

John Shewan was appointed Chairman of the FSF Board in November 2012. He is currently an Adjunct Professor of Accounting at Victoria University. He chairs the Wellington Regional Stadium Trust and Munichre New Zealand Service Limited, and is Deputy Chair of

the Partnership Schools Authorisation Board. John is also a Director of Munich Reinsurance Company of Australasia Limited and China Construction Bank (New Zealand) Limited. John was a partner at PricewaterhouseCoopers from 1984 and chaired the firm in New Zealand from 2003 to 2012. John was appointed a Companion of the New Zealand Order of Merit for services to business in 2012.

## 2. PIP DUNPHY

B.Horti.Sci, CFA  
Independent Director appointed by unit holders

Pip Dunphy has worked as a non-executive director for the last 10 years in a variety of different industries and companies.

Pip currently chairs the Boards of First Gas Limited and associated companies and is deputy chair of Abano Healthcare Group Limited. Her other directorships include Chubb Insurance NZ Limited, NZ Superannuation Fund and Transpower.

## 3. 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. He currently chairs the Boards of New Zealand Social Infrastructure Fund and Metlifecare. Kim also holds directorships in Freightways, Ballance Agri-Nutrients and the Port of Tauranga.

## 4. NICOLA SHADBOLT

B.Sc(Hons), M.AgrSc(Hons), DipBusStud (Accountancy), FNZIPIM (Reg), FAICD  
Appointed to the Board of the Manager by Fonterra

Nicola Shadbolt was elected to the Fonterra Board in 2009. Nicola is a Professor of Farm and Agribusiness Management at Massey University, serves on the Board of the Manager of the Fonterra Shareholders' Fund and represents New Zealand in the International Farm Comparison Network in Dairying. Nicola lives in the Pohangina Valley in the Manawatu, which is the base for the five farming and forestry equity partnerships she runs, which include two dairy farms.

## 5. SCOTT ST JOHN

B.Com, Diploma of Business.  
Appointed to the Board of the Manager by Fonterra

Scott St John was appointed to the Fonterra Board in 2016 and serves on the Board of the Manager of the Fonterra Shareholders' Fund. He was the CEO of First NZ Capital (FNZC) for 15 years, stepping down from that role in early 2017. He is now a Non-Executive Director of the FNZC Board, and chairs its Audit and Risk Committee. Scott has served on the Council of the University of Auckland since 2009 and was appointed Chancellor in 2017. He is a director of Fisher and Paykel Healthcare and chairs that Board's Audit and Risk Committee, and was recently appointed to the Board of Mercury NZ Limited. He is also Director of NEXT Foundation. Previous roles have included Chairman of the Securities Industries Association, and membership of both the Capital Markets Development Taskforce, and the Financial Markets Authority Establishment Board.

# FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2017

MANAGER'S STATEMENT .....	4
STATEMENT OF COMPREHENSIVE INCOME .....	5
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS .....	5
STATEMENT OF FINANCIAL POSITION .....	6
CASH FLOW STATEMENT .....	6
STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES .....	7
NOTES TO THE FINANCIAL STATEMENTS .....	9
INDEPENDENT AUDITOR'S REPORT .....	13
STATUTORY INFORMATION .....	15
DIRECTORY .....	19

## MANAGER'S STATEMENT

FOR THE YEAR ENDED 31 JULY 2017

FSF Management Company Limited (the Manager) is pleased to present to the unit holders the financial statements for the Fonterra Shareholders' Fund (the Fund) for the year ended 31 July 2017.

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.

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 2017 presented on pages 5 to 12.

For and on behalf of the Board of the Manager:



**JOHN SHEWAN**  
CHAIRMAN  
FSF MANAGEMENT COMPANY LIMITED  
23 SEPTEMBER 2017



**PIP DUNPHY**  
DIRECTOR  
FSF MANAGEMENT COMPANY LIMITED  
23 SEPTEMBER 2017

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 JULY 2017

	\$ MILLION	
	31 JULY 2017	31 JULY 2016
Net fair value gain on revaluation of Economic Rights of Fonterra shares	42	101
Dividend income	37	46
<b>Investment income</b>	<b>79</b>	<b>147</b>
Net change in fair value of liability to unit holders	(42)	(101)
Distributions to unit holders	(37)	(46)
<b>Finance cost</b>	<b>(79)</b>	<b>(147)</b>
<b>Profit before tax</b>	<b>-</b>	<b>-</b>
Tax expense	-	-
<b>Profit for the year</b>	<b>-</b>	<b>-</b>

There are no items of other comprehensive income.

## STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS

FOR THE YEAR ENDED 31 JULY 2017

	\$ MILLION
<b>Net assets attributable to unit holders at 1 August 2016</b>	<b>637</b>
<b>Movements:</b>	
Revaluation of liability to unit holders	42
Issue of units	179
Redemption of units	(95)
<b>Net assets attributable to unit holders at 31 July 2017</b>	<b>763</b>
<b>Net assets attributable to unit holders at 1 August 2015</b>	<b>494</b>
<b>Movements:</b>	
Revaluation of liability to unit holders	101
Issue of units	152
Redemption of units	(110)
<b>Net assets attributable to unit holders at 31 July 2016</b>	<b>637</b>

The accompanying notes form part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

AS AT 31 JULY 2017

	NOTES	\$ MILLION	
		31 JULY 2017	31 JULY 2016
<b>Assets</b>			
Economic Rights of Fonterra shares	2	763	637
<b>Total assets</b>		<b>763</b>	<b>637</b>
<b>Total liabilities (excluding net assets attributable to unit holders)</b>		<b>-</b>	<b>-</b>
<b>Net assets attributable to unit holders – liability</b>	3	<b>763</b>	<b>637</b>

# CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 JULY 2017

	NOTES	\$ MILLION	
		31 JULY 2017	31 JULY 2016
<b>Cash flows from operating activities</b>			
Cash was provided from:			
– Sale of Economic Rights of Fonterra shares		95	110
– Dividend received (net of dividends reinvested)		30	38
Cash was applied to:			
– Purchase of Economic Rights of Fonterra shares		(172)	(144)
<b>Net cash flows from operating activities</b>	4	<b>(47)</b>	<b>4</b>
<b>Cash flows from financing activities</b>			
Cash was provided from:			
– Proceeds from issue of units		172	144
Cash was applied to:			
– Outflows on redemption of units		(95)	(110)
– Distributions paid to unit holders (net of dividends reinvested)		(30)	(38)
<b>Net cash flows from financing activities</b>		<b>47</b>	<b>(4)</b>
Net (decrease)/increase in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year		-	-
<b>Cash and cash equivalents at the end of the year</b>		<b>-</b>	<b>-</b>

The accompanying notes form part of these financial statements.

# STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 JULY 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 (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 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 Fund is 109 Fanshawe Street, Auckland Central, Auckland 1010, New Zealand.

The financial statements were authorised for issue by the Manager on 23 September 2017.

### 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](http://www.fonterra.com) in the Financial Results section.

## 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.

### 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.

## 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 liabilities 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 2016.

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.

# STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 JULY 2017 CONTINUED

## 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.

## 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.

## i) 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.

## ii) Liability to Unit Holders

The Fund has an obligation to repurchase units from Farmers, the Registered Volume Provider and Fonterra, therefore the liability 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 Fund manages its liability to unit holders on a fair value basis. Therefore the Fund has elected to measure the liability 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

### i) New and amended standards adopted by the Fund

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.

There were no recognition or measurement changes as a result of adopting NZ IFRS 9. The impact of adopting NZ IFRS 9 on the classification of the Fund's financial assets and financial liabilities is summarised below:

- The Fund is now required to classify the Economic Rights assets as held at 'fair value through profit or loss'. Under the accounting standards previously applied the Fund designated the Economic Rights assets to this classification.
- The Fund continues to designate the liability to unit holders as held at 'fair value through profit or loss'. This designation has been made because the Fund manages both its Economic Rights assets and its liability to unit holders on a fair value basis. This assessment has not changed as a result of the adoption of NZ IFRS 9.

Therefore the changes in classification and measurement required by NZ IFRS 9 do not impact the financial position or performance of the Fund.

### ii) Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations have been issued which were available for early adoption but have not been adopted. None of these are expected to have a material impact on the financial statements of the Fund.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2017

## 1 FINANCIAL RISK MANAGEMENT

The Fund is 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 in the notes 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 all factors affecting all instruments traded in the market.

The Fund's financial instruments primarily comprise of investments in the Economic Rights and liabilities 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 fair values for recognition of both Economic Rights assets and unit holder liabilities.

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 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.

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 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 assumptions relating to the comparability between a unit and an Economic Right is regularly reviewed.

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 net assets attributable to unit holders as capital, notwithstanding that net assets 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 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2017 CONTINUED

## 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 2017	31 JULY 2016
Value of Economic Rights (\$ million)	763	637
Number of Economic Rights	126,047,304	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 JULY 2017	31 JULY 2016
Opening value of Economic Rights	637	494
<b>Movements:</b>		
Purchase of Economic Rights <sup>1</sup>	179	152
Sale of Economic Rights	(95)	(110)
Revaluation of Economic Rights	42	101
Closing value of Economic Rights	763	637

<sup>1</sup> Purchase of Economic Rights includes \$6.7 million for Economic Rights acquired in conjunction with Fonterra's Dividend Reinvestment Plan (31 July 2016: \$7.8 million).

## 3 LIABILITY TO UNIT HOLDERS

	31 JULY 2017	31 JULY 2016
Value of unit holder liability (\$ million) <sup>1</sup>	763	637
Opening number of units on issue <sup>2</sup>	111,991,937	105,480,366
Number of units issued <sup>3</sup>	29,932,644	27,137,036
Number of units redeemed	(15,877,277)	(20,625,465)
Closing number of units on issue	126,047,304	111,991,937

<sup>1</sup> 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 \$6.05 (31 July 2016: \$5.69).

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

<sup>3</sup> Included in the number of units issued are 1,148,243 units with a total value of \$6.7 million that were issued under the Distribution Reinvestment Plan (31 July 2016: 1,400,416 units with a total value of \$7.8 million).

## 4 RECONCILIATION OF NET CASH FLOW FROM OPERATING ACTIVITIES TO PROFIT

	\$ MILLION	
	31 JULY 2017	31 JULY 2016
Reconciliation of profit for the year to net cash flows from operating activities		
Profit for the year	-	-
<b>Adjustments for:</b>		
- Fair value gain on revaluation of Economic Rights of Fonterra shares	(42)	(101)
- Net change in fair value of liability to unit holders	42	101
- Distribution to unit holders	37	46
- Non-cash dividend income	(7)	(8)
<b>Changes in assets:</b>		
Net purchase of Economic Rights of Fonterra shares	(77)	(34)
Net cash flows from operating activities	(47)	4

## 5 NET TANGIBLE ASSETS PER SECURITY

As at 31 July 2017, the net tangible assets per unit on issue was \$6.05 (31 July 2016: \$5.69).

## 6 COMMITMENTS AND CONTINGENT LIABILITIES

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

## 7 RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions, or if they are members of the same group.

### FSF Management Company Limited (the Manager)

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

### Unit transactions and balances with Key Management Personnel

	\$ MILLION	
	YEAR ENDED 31 JULY 2017	YEAR ENDED 31 JULY 2016
Purchased	-	-
Sold	-	-
Value at the end of the year	0.21	0.20

At 31 July 2017 35,192 (31 July 2016: 35,192) units were held by Key Management Personnel.

### Fonterra Co-operative Group Limited (Fonterra)

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.

### Fonterra Farmer Custodian Limited (the Custodian)

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.

### 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.

### 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 2017 with respect to the Fund are the following amounts paid to PricewaterhouseCoopers:

- Fees for the annual audit and interim review (2016 only) of the financial statements of \$31,800 (31 July 2016: \$40,800), and
- Fees for other assurance services of \$3,000 (31 July 2016: \$3,000).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2017 CONTINUED

## Fund unit and Fonterra share transactions

As at 31 July 2017, the Custodian holds 126,047,304 (31 July 2016: 111,991,937) Fonterra shares on trust for the Fund.

During the current year, 282,872 units (31 July 2016: 56,892) were purchased for \$1.7 million (31 July 2016: \$0.3 million) by DCT on behalf of Fonterra farmer shareholders. These units were converted to shares and sold to farmers participating in the 2017 season Delegated Compliance Trading Scheme for \$1.7 million (31 July 2016: \$0.3 million).

The closing date for the 2018 season applications under the Delegated Compliance Trading Scheme is 30 September 2017, and as such there were no units held by DCT on behalf of Fonterra's farmer shareholders at 31 July 2017 (31 July 2016: nil).

## Dividends received

The following dividends were received from Fonterra:

DIVIDENDS	\$ MILLION	
	YEAR ENDED 31 JULY 2017	YEAR ENDED 31 JULY 2016
2017 Interim dividend received – 20.0 cents per Economic Right <sup>1</sup>	25	–
2016 Final dividend received – 10.0 cents per Economic Right <sup>2</sup>	12	–
2016 Interim dividend received – 10.0 cents per Economic Right <sup>3</sup>	–	11
2016 Interim dividend received – 20.0 cents per Economic Right <sup>4</sup>	–	21
2015 Final dividend received – 15.0 cents per Economic Right <sup>5</sup>	–	14

<sup>1</sup> This was distributed on to unit holders on 20 April 2017 and represented a cash distribution of 20.0 cents per unit.

<sup>2</sup> This was distributed on to unit holders on 9 September 2016 and represented a cash distribution of 10.0 cents per unit.

<sup>3</sup> This was distributed on to unit holders on 7 June 2016 and represented a cash distribution of 10.0 cents per unit.

<sup>4</sup> This was distributed on to unit holders on 20 April 2016 and represented a cash distribution of 20.0 cents per unit.

<sup>5</sup> This was distributed on to unit holders on 20 October 2015 and represented a cash distribution of 15.0 cents per unit.

## 8 SUBSEQUENT EVENTS

### Declaration of distribution

On 23 September 2017, the Board of Directors of Fonterra declared a dividend of 20 cents per share. Following Fonterra's dividend declaration, the Board of the Manager declared a distribution of 20 cents per unit for the year ended 31 July 2017. The distribution will be paid on 20 October 2017 to the unit holders on the register at 9 October 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. Participation in the Distribution Reinvestment Plan requires unit holders to submit an election notice for participation by 9 October 2017. Full details of the Distribution Reinvestment Plan are available in the 'Dividends' 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.

# INDEPENDENT AUDITOR'S REPORT

TO THE UNIT HOLDERS OF THE FONTERRA SHAREHOLDERS' FUND



The financial statements comprise:

- the statement of financial position as at 31 July 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in net assets attributable to unit holders for the year then ended;
- the cash flow statement for the year then ended;
- the statement of significant accounting policies; and
- the notes to the financial statements.

## OUR OPINION

In our opinion, the financial statements of Fonterra Shareholders' Fund (the Fund), present fairly, in all material respects, the financial position of the Fund as at 31 July 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other assignments for the Fund in relation to other assurance services. The provision of these other services has not impaired our independence as auditor of the Fund.

## OUR AUDIT APPROACH

### Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall materiality: \$7.6 million, which represents approximately 1% of net assets. We chose net assets as the benchmark because in our view, the main objective of the Fund is to provide investors with a total return, both capital and income returns.

We agreed with the Board of Directors that we would report to them misstatements identified during our audit above \$380,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

We have not identified any key audit matters from our audit given the nature of the entity. Refer to the *Key audit matters* section of our report.

### Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

### Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit to ensure that we performed sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Fund, the accounting processes and controls, and the sector in which the Fund operates.

# INDEPENDENT AUDITOR'S REPORT

CONTINUED

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. The Fund only invests in Economic Rights of Fonterra Shares ("Economic Rights"). The value of these Economic Rights are based on the price of the Units in the Fund which are quoted on the NZX Main Board. Our audit focused on the valuation of Units and the application of this to the Economic Rights. Given the nature of the Fund's operations, we determined that there were no key audit matters to communicate in our report.

## INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT

The Manager of the Fund is responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

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 to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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.

## RESPONSIBILITIES OF THE MANAGER FOR THE FINANCIAL STATEMENTS

The Manager of the Fund is responsible, on behalf of the Fund, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are 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 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 and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 the financial statements is located at the External Reporting Board's website at: <https://xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our auditor's report.

## WHO WE REPORT TO

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

The engagement partner on the audit resulting in this independent auditor's report is Sam Shuttleworth.

For and on behalf of:

Chartered Accountants, Auckland  
23 September 2017

# STATUTORY INFORMATION

FOR THE YEAR ENDED 31 JULY 2017

## TWENTY LARGEST UNIT HOLDERS

AS AT 31 JULY 2017

UNIT HOLDER	NUMBER OF UNITS	% OF TOTAL ISSUED UNITS
HSBC Nominees (New Zealand) Limited	10,405,138	8.25
FNZ Custodians Limited	6,204,248	4.92
National Nominees Limited	5,201,137	4.13
JBWere (NZ) Nominees Limited	4,807,948	3.81
Citibank Nominees (New Zealand) Limited	4,424,876	3.51
JP Morgan Nominees Australia Limited	3,911,883	3.10
Accident Compensation Corporation	3,764,919	2.99
HSBC Custody Nominees (Australia) Limited	3,236,597	2.57
BNP Paribas Nominees (NZ) Limited – NZCSD <COGN40>	2,834,772	2.25
HSBC Nominees (New Zealand) Limited A/C State Street	2,702,855	2.14
BNP Paribas Nominees Pty Ltd	2,604,245	2.07
Custodial Services Limited <A/C 3>	2,137,823	1.70
JPMorgan Chase Bank NA NZ Branch-Segregated Clients Acct	2,074,257	1.65
Custodial Services Limited <A/C 4>	1,422,256	1.13
Custodial Services Limited <A/C 2>	1,075,197	0.85
Investment Custodial Services Limited	880,048	0.70
Guardian Nominees No 2 A/C Westpac W/S Enhanced Cash Trust	834,941	0.66
Michael Douglas Hammond & Helen Mavis Hammond & Leigh Joseph Horton	770,270	0.61
Public Trust RIF Nominees Limited	746,488	0.59
BNP Paribas Nominees (NZ) Limited – NZCSD <BPSS40>	712,377	0.57
<b>Total</b>	<b>60,752,275</b>	<b>48.20</b>
<b>Total quoted units on issue</b>	<b>126,047,303</b>	<b>100.00</b>

## SPREAD OF UNIT HOLDERS

AS AT 31 JULY 2017

SIZE OF HOLDING	NUMBER OF HOLDERS	NUMBER OF UNITS	% OF TOTAL ISSUED UNITS
1 – 1,000	2,758	1,580,389	1.25
1,001 – 5,000	3,751	9,476,234	7.52
5,001 – 10,000	954	7,197,567	5.71
10,001 – 100,000	742	22,939,061	18.20
100,001 and over	119	84,854,053	67.32
<b>Total<sup>1</sup></b>	<b>8,324</b>	<b>126,047,304</b>	<b>100.00</b>

<sup>1</sup> Total includes the Fonterra unit (which is not quoted).

# STATUTORY INFORMATION

FOR THE YEAR ENDED 31 JULY 2017 CONTINUED

## SUBSTANTIAL PRODUCT HOLDERS

As at 31 July 2017 no unit holders had filed substantial product holder notices in accordance with the Financial Markets Conduct Act 2013.

As at 31 July 2017 the Fund had 126,047,303 quoted units, and one Fonterra unit, on issue.

## HOLDINGS OF DIRECTORS OF THE MANAGER

AS AT 31 JULY 2017

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)	15,680	Trustee and discretionary beneficial interest through Investment Custodial Services Limited
John Bruce Shewan (Chairman)	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
Kimmit Rowland Ellis	15,000	Trustee and discretionary beneficial interest held by Custodial Services Limited

## NZX TRADING HALTS

No trading halts were placed by NZX Regulation in the financial year ended 31 July 2017.

## NZX DIVERSITY REPORTING REQUIREMENTS

As at 31 July 2017, the gender composition of the Board of the Manager comprised two female and three male Directors. As at 31 July 2016, the gender composition of the Board of the Manager comprised two female and three male Directors. The Manager does not employ any Officers.

## NZX WAIVERS

A summary of waivers and approvals granted by NZX Regulation in relation to the NZX Main Board Listing Rules (NZX Listing Rules), which have been relied upon by the Fund in the year ended 31 July 2017, is available at <http://www.fonterra.com/nz/en/our-financials/fonterra-shareholders-fund>.

## NZX NON-STANDARD DESIGNATION

The Fonterra Shareholders' Fund has been granted Listing with a 'Non-Standard' (NS) designation by NZX Regulation. 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 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 best practice code issued by NZX (NZX Governance 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, the Manager has determined that a number of the recommendations in the NZX Governance 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.

References to 'Board' and 'Directors' in this statement are to the Board and Directors of the Manager.

## The Board

The Board has statutory responsibilities for the affairs and activities of the Manager and the Fund.

The role of the Board is 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 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 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 Manager has written agreements with each of its Directors.

A copy of the Board Charter is available from the Manager upon request.

### 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 implemented a gender diversity policy for the Board.

### 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.

### Board composition

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, Pip Dunphy 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 Chair.

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 (Nicola Shadbolt and Scott St John) are both Directors of Fonterra.

### Nominations Committee

Given the small size of the Board, the Manager has not established a separate Nominations Committee and therefore has decided not to follow Recommendation 2.1 or clause 3.11 of the NZX Governance 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.

### Independent professional advice

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.

### Code of Conduct

The Manager has adopted the Code of Conduct. 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.

### Securities trading policy

The Manager and Fonterra have adopted trading policies that detail the policy on, and rules for, trading in units. The policies each apply to Directors of the Manager and Directors, officers, employees and contractors of Fonterra and are in addition to legal prohibitions on insider trading in New Zealand and Australia.

## 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 have an independent 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. A copy of the Audit Committee Charter is available from the Manager upon request.

The Board acting as Audit Committee selects and appoints the external auditor and determines the rotation of external audit engagement partners. It also acts as a forum for communication between the Board and external auditors where appropriate. The Audit Committee asks that the external auditor attends the annual unit holder meeting and to be available to answer questions from unit holders relevant to the audit.

### 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

FOR THE YEAR ENDED 31 JULY 2017 CONTINUED

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).

## Communications with unit holders

All external communications by the Fund are:

- subject to internal vetting and authorisation before issue;
- reviewed to ensure that they do not omit material information; and
- timely and expressed in a clear and objective manner.

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 will release 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.
- Notices of meetings are sent to unit holders at least 14 days before a meeting.
- 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 to, at the expense of the Fund, give notice of the unit holder proposal and 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).

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.

## 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 reporting back to the Board; and
- monitoring compliance with the risk management framework.

Given the Fund's limited operational functions, its risk profile is 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. To the extent that there are risks that specifically impact the operation of the Fund, the Board periodically reviews the management of those risks.

## Remuneration of Directors

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, the two Directors of the Manager who have been appointed by Fonterra and who are also Directors of Fonterra are not to be paid any additional remuneration (in addition to their remuneration as Directors of Fonterra) for their service on the Board of the Manager.

The remuneration of the Directors of the Manager may be reviewed and adjusted from time to time.

## Directors' unit holdings

The independent Directors of Fonterra that are also appointed to the Board of the Manager are prohibited from acquiring any relevant interest in units. The other Directors of the Manager (elected by unit holders) may acquire units, and to the extent any units are acquired, these acquisitions will be disclosed to the market as required by law.

# DIRECTORY

## REGISTERED OFFICE OF THE MANAGER OF THE FUND – NEW ZEALAND

109 Fanshawe Street  
Auckland Central, Auckland 1010  
Telephone: +64 9 374 9000

## REGISTERED OFFICE OF THE MANAGER OF THE FUND – AUSTRALIA

C/o Fonterra Australia Pty Ltd  
327 Ferntree Gully Road  
Mount Waverley, Melbourne  
Victoria 3149  
Telephone: +61 3 8541 1588

## DIRECTORS OF THE MANAGER OF THE FUND

Philippa Jane Dunphy  
Kimmitt Rowland Ellis  
Nicola Mary Shadbolt  
John Bruce Shewan  
Scott Andrew St John

## COMPANY SECRETARY

Andrew Cordner

## SUPERVISOR

The New Zealand Guardian Trust Company Limited  
Level 14, 191 Queen Street  
Auckland Central, Auckland 1010  
New Zealand

## AUDITORS OF THE FUND AND THE MANAGER OF THE FUND

PricewaterhouseCoopers  
Level 22, PwC Tower  
188 Quay Street, Auckland 1010  
New Zealand

## LEGAL ADVISERS TO THE MANAGER

Chapman Tripp  
Level 35, ANZ Centre  
23 Albert Street, Auckland 1010  
New Zealand

## SHARE REGISTRAR – NEW ZEALAND

Computershare Investor Services Limited  
Level 2, 159 Hurstmere Road  
Takapuna, Auckland 0622  
Private Bag 92119, Auckland 1142  
Telephone: +64 9 488 8777

## SHARE REGISTRAR – AUSTRALIA

Computershare Investor Services Pty Limited  
Yarra Falls  
452 Johnston Street  
Abbotsford, Victoria 3067  
GPO Box 3329  
Melbourne, Victoria 3001  
Telephone: 1800 501 366 (within Australia)  
Telephone: +61 3 9415 4083 (outside Australia)



THIS DOCUMENT IS PRINTED ON AN ENVIRONMENTALLY RESPONSIBLE PAPER PRODUCED USING ELEMENTAL CHLORINE FREE (ECF)FSC® CERTIFIED MIXED SOURCE PULP, SOURCED FROM WELL MANAGED AND LEGALLY HARVESTED FORESTS, AND MANUFACTURED UNDER THE STRICT ISO14001 ENVIRONMENTAL MANAGEMENT SYSTEM.