

# 2014 INTERIM REPORT



INTERIM REPORT 2014  
FONTERRA SHAREHOLDERS' FUND

FONTERRA  
SHAREHOLDERS'  
FUND.





## Chairman's Report

### DEAR INVESTORS,

It is my pleasure to present the Fonterra Shareholders' Fund Interim Report, for the six months ended 31 January 2014. The Fund offers investors an opportunity to invest in the performance of Fonterra Co-operative Group.

Since the return on a Unit is driven by the underlying performance of Fonterra, investors are encouraged to read Fonterra's 2014 Interim Report (which can be found at <http://www.fonterra.com/nz/en/Financial>) together with this report to gain a good understanding of the Co-operative's financial performance and key drivers of earnings.

The number of Units on issue at 31 January 2014 was 106,414,814 representing seven per cent of the total Fonterra Co-operative Group shares on issue.

Analysis of the Unit register shows New Zealand and Australian investors to be the largest group by region, owning 89 per cent of the Units on issue, while other international investors hold the remaining 11 per cent.

On 25 March 2014, Fonterra declared an interim dividend of 5.0 cents per Share. As a result, Unit holders will receive an interim distribution of 5.0 cents per Unit less any PIE (Portfolio Investment Entity) or any other adjustments for tax in relation to that Unit. The record date for the interim distribution is 10 April 2014 and the payment date is 17 April 2014.

Your Board was pleased to announce that Kim Ellis was re-elected as a Director following the first Annual Meeting in December 2013. Kim was the Chief Executive Officer of listed company Waste Management NZ Limited for 13 years, until its sale in 2006. He currently chairs the Board of New Zealand Social Infrastructure Fund Limited and holds several directorships.

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 stylized flourish at the end.

**JOHN SHEWAN**  
CHAIRMAN  
FSF MANAGEMENT COMPANY LIMITED



# Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 31 JANUARY 2014

|   | \$ MILLION               |                          |                        |
|---|--------------------------|--------------------------|------------------------|
|   | SIX MONTHS ENDED         | PERIOD ENDED             |                        |
|   | 31 JAN 2014<br>UNAUDITED | 31 JAN 2013<br>UNAUDITED | 31 JUL 2013<br>AUDITED |
| Net fair value (loss)/gain on revaluation of Economic Rights of Fonterra Shares | (109)                    | 141                      | 188                    |
| Dividend income   | 17                       | -                        | 15                     |
| <b>Investment (expense)/income</b>  | <b>(92)</b>              | <b>141</b>               | <b>203</b>             |
| Net change in fair value of liability to Unit holders                           | 109                      | (141)                    | (188)                  |
| Distributions to Unit holders   | (17)                     | -                        | (15)                   |
| <b>Finance income/(costs)</b>   | <b>92</b>                | <b>(141)</b>             | <b>(203)</b>           |
| <b>Profit before tax</b>  | <b>-</b>                 | <b>-</b>                 | <b>-</b>               |
| Tax expense   | -                        | -                        | -                      |
| <b>Profit for the period</b>  | <b>-</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 SIX MONTHS ENDED 31 JANUARY 2014

|   | \$ MILLION |
|---|------------|
| Net assets attributable to Unit holders at 1 August 2013                      | 788        |
| <b>Movements:</b>   |            |
| Revaluation of liability to Unit holders                                      | (109)      |
| Issue of Units  | 38         |
| Redemption of Units   | (47)       |
| <b>Net assets attributable to Unit holders at 31 January 2014 (unaudited)</b> | <b>670</b> |
| Issue of Units on launch of Fund  | 525        |
| <b>Movements:</b>   |            |
| Revaluation of liability to Unit holders                                      | 141        |
| Issue of Units  | 2          |
| Redemption of Units   | -          |
| <b>Net assets attributable to Unit holders at 31 January 2013 (unaudited)</b> | <b>668</b> |
| Issue of Units on launch of Fund  | 525        |
| <b>Movements:</b>   |            |
| Revaluation of liability to Unit holders                                      | 188        |
| Issue of Units  | 553        |
| Redemption of Units   | (478)      |
| <b>Net assets attributable to Unit holders at 31 July 2013 (audited)</b>      | <b>788</b> |

The accompanying notes form part of these interim financial statements.

# Statement of Financial Position

AS AT 31 JANUARY 2014

|  | NOTES | \$ MILLION               |                          |                        |
|--|-------|--------------------------|--------------------------|------------------------|
|  |       | AS AT                    |                          |                        |
|  |       | 31 JAN 2014<br>UNAUDITED | 31 JAN 2013<br>UNAUDITED | 31 JUL 2013<br>AUDITED |
| <b>Assets</b>  |       |                          |                          |                        |
| Economic Rights of Fonterra Shares   | 2     | 670                      | 668                      | 788                    |
| <b>Total assets</b>  |       | 670                      | 668                      | 788                    |
| <b>Total liabilities (excluding net assets attributable to Unit holders)</b> |       | -                        | -                        | -                      |
| <b>Net assets attributable to Unit holders – liability</b>                   | 3     | 670                      | 668                      | 788                    |

# Cash Flow Statement

FOR THE SIX MONTHS ENDED 31 JANUARY 2014

|  | \$ MILLION               |                          |                        |
|--|--------------------------|--------------------------|------------------------|
|  | SIX MONTHS ENDED         | PERIOD ENDED             |                        |
|  | 31 JAN 2014<br>UNAUDITED | 31 JAN 2013<br>UNAUDITED | 31 JUL 2013<br>AUDITED |
| <b>Operating activities</b>  |                          |                          |                        |
| Profit before tax  | -                        | -                        | -                      |
| Adjustments for:   |                          |                          |                        |
| - Fair value loss/(gain) on revaluation of Economic Rights of Fonterra Shares    | 109                      | (141)                    | (188)                  |
| - Net change in fair value of liability to Unit holders                          | (109)                    | 141                      | 188                    |
| - Distributions paid to Unit holders   | 17                       | -                        | 15                     |
| Purchase of Economic Rights of Fonterra Shares on launch of Fund                 | -                        | (525)                    | (525)                  |
| Purchase of Economic Rights of Fonterra Shares outside of initial launch of Fund | (38)                     | (2)                      | (553)                  |
| Sale of Economic Rights of Fonterra Shares outside of initial launch of Fund     | 47                       | -                        | 478                    |
| <b>Cash flows from operating activities</b>                                      | 26                       | (527)                    | (585)                  |
| <b>Financing activities</b>  |                          |                          |                        |
| Proceeds from issue of Units on the launch of Fund                               | -                        | 525                      | 525                    |
| Proceeds from issue of Units outside of initial launch of Fund                   | 38                       | 2                        | 553                    |
| Outflows on cancellation and redemption of Units                                 | (47)                     | -                        | (478)                  |
| Distributions paid to Unit holders   | (17)                     | -                        | (15)                   |
| <b>Cash flows from financing activities</b>                                      | (26)                     | 527                      | 585                    |
| Net (decrease)/increase in cash and cash equivalents                             | -                        | -                        | -                      |
| Cash and cash equivalents at the beginning of the period                         | -                        | -                        | -                      |
| <b>Cash and cash equivalents at the end of the period</b>                        | -                        | -                        | -                      |

The accompanying notes form part of these interim financial statements.



# Condensed Statement of Significant Accounting Policies

FOR THE SIX MONTHS ENDED 31 JANUARY 2014

## 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 only be invested 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 an issuer under the Financial Reporting Act 1993 and is listed on the NZX Main Board operated by NZX Limited and the Australian Securities Exchange operated by ASX Limited.

These condensed interim financial statements were authorised for issue by the Board of Directors of the Manager on 26 March 2014. The Manager does not have the power to amend these condensed interim financial statements once issued.

### 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 <http://www.fonterra.com/nz/en/Financial>.

### Activities

The principal activity of the Fund is to acquire Economic Rights in Fonterra 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 comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and have been prepared in accordance with New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting. These interim financial statements also comply with International Accounting Standard 34: Interim Financial Reporting. These interim financial statements should be read in conjunction with the financial statements for the period ended 31 July 2013. These interim financial statements are for the six months ended 31 January 2014, and are unaudited. The Fund was launched on 30 November 2012. The comparative figures are therefore presented for the periods from 30 November 2012 to 31 January 2013 and 31 July 2013.

These interim financial statements are prepared on a historical cost basis, except for Economic Rights of Fonterra Shares and liabilities to Unit holders that have been measured at fair value.

The statement of financial position is presented broadly in order of liquidity.

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 cash flow statement for the periods ended 31 January 2013 and 31 July 2013 has been restated in these interim financial statements. This has resulted in a restatement of both cash outflows from operating activities and cash inflows from financing activities to \$527 million (previously \$525 million) and \$585 million (previously \$615 million), for these two respective periods. There is no impact on the net cash position or on any other items in the financial statements.

The same accounting policies are followed in these interim financial statements as were applied in the financial statements for the period ended 31 July 2013.

# Notes to the Financial Statements

FOR THE SIX MONTHS ENDED 31 JANUARY 2014

## 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. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments. 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 of Fonterra Shares 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 valuation techniques referencing to the quoted price of Units in the Fund listed on the NZX Main Board which are considered to be materially similar instruments. 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 2014<br>UNAUDITED | 31 JAN 2013<br>UNAUDITED | 31 JUL 2013<br>AUDITED |
|---------------------------------------|--------------------------|--------------------------|------------------------|
| Value of Economic Rights (\$ million) | 670                      | 668                      | 788                    |
| Number of Economic Rights             | 106,414,814              | 95,689,327               | 107,969,310            |

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.

## 3 LIABILITY TO UNIT HOLDERS

|  | 31 JAN 2014<br>UNAUDITED | 31 JAN 2013<br>UNAUDITED | 31 JUL 2013<br>AUDITED |
|--|--------------------------|--------------------------|------------------------|
| <b>Value of Unit holder liability (\$ million)</b> | <b>670</b>               | <b>668</b>               | <b>788</b>             |
| Opening number of Units on issue                   | 107,969,310              | –                        | –                      |
| Number of Units issued in the period:              |                          |                          |                        |
| – On launch of Fund                                | –                        | 95,454,545               | 95,454,545             |
| – Bonus issue <sup>1</sup>                         | –                        | –                        | 2,397,854              |
| – Supply Offer <sup>1</sup>                        | –                        | –                        | 59,973,601             |
| – Other issuances                                  | 5,679,966                | 279,388                  | 11,644,347             |
| Number of Units redeemed in the period:            |                          |                          |                        |
| – Supply Offer <sup>1</sup>                        | –                        | –                        | (59,973,601)           |
| – Other redemptions                                | (7,234,462)              | (44,606)                 | (1,527,436)            |
| <b>Closing number of Units on issue</b>            | <b>106,414,814</b>       | <b>95,689,327</b>        | <b>107,969,310</b>     |

<sup>1</sup> Refer to Note 6 for details of the Bonus issue and Supply Offer.

Included in the total number of Units is one Fonterra Unit which was issued at launch. The liability to Unit holders is measured at fair value, calculated as the number of Units on issue multiplied by the Unit market price.

# Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2014

## 4 NET TANGIBLE ASSETS PER SECURITY

As at 31 January 2014 the net tangible assets per Unit on issue was \$6.30 (31 January 2013: \$6.98; 31 July 2013: \$7.30).

## 5 COMMITMENTS AND CONTINGENT LIABILITIES

The Fund has no material commitments or contingent liabilities as at 31 January 2014 (31 January 2013: \$nil; 31 July 2013: \$nil).

## 6 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.

### a) 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.

### b) 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 New Zealand Guardian Trust Company Limited (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.

### c) 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 of Fonterra Shares are held on trust for the Fund by the Custodian under the Fonterra Economic Rights Trust. Custodian services are provided at no cost to the Fund.

### d) Fonterra (Delegated Compliance Trading Services) Limited (DCT)

The DCT is a wholly owned subsidiary of Fonterra incorporated on 31 May 2013 to undertake delegated compliance trading in the Fund on behalf of Fonterra's Shareholder suppliers.

#### 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 consideration, as well as services for which the Fund contracts to third parties.

Included within the total expenses incurred and paid by Fonterra during the period ended 31 July 2013 with respect to the Fund was the following amount:

- audit fees paid to PricewaterhouseCoopers of \$40,000.

In addition to this, there were total equity transaction costs of \$nil (31 January 2013: \$18 million<sup>1</sup>; 31 July 2013: \$18 million<sup>1</sup>) relating to the formation of the Fund.

<sup>1</sup> Included in total equity transactions costs relating to the initial issue of Units was \$400,000 paid to PricewaterhouseCoopers for other assurance and advisory services.

#### Fund Unit and Fonterra share transactions

On launch of the Fund, Fonterra issued 89,808,526 Shares to the Custodian, to hold on trust for the Fund. As at 31 January 2014 the Custodian holds 106,414,814 (31 January 2013: 95,689,327; 31 July 2013: 107,969,310) Fonterra Shares on trust for the Fund.

During the current period nil (31 January 2013: nil; 31 July 2013: 32,760) Units were purchased for \$nil (31 January 2013: \$nil; 31 July 2013: \$0.2 million) by DCT on behalf of Shareholder suppliers. During the current period 32,760 (31 January 2013: nil; 31 July 2013: nil) Units were converted to shares and were sold to farmers participating in the Delegated Compliance Trading Scheme for \$0.2 million (31 January 2013: \$nil; 31 July 2013: \$nil).



## 6 RELATED PARTIES CONTINUED

### Bonus issue of Units

On 27 February 2013 Fonterra announced a non-cash Bonus issue of one share for every 40 shares held. As a result, a corresponding issue of Units was made to Unit holders. The Bonus issue increased the number of Units on issue and the number of Economic Rights held by the Fund by 2.4 million. The record date for the Bonus issue was 12 April 2013 and the issue date was 24 April 2013.

### Supply Offer

In May 2013 Fonterra provided its Shareholder suppliers with an opportunity to sell Economic Rights of Fonterra Shares backed by milk supply to the Fund, and to sell to Fonterra the resulting Units (Supply Offer).

Under the Supply Offer, Fonterra Shareholder suppliers sold the Economic Rights of 60 million Fonterra Shares to the Custodian, resulting in the issuance of 60 million Units in the Fund. Fonterra acquired the 60 million Units via the NZX for \$475 million and immediately redeemed these, resulting in the transfer of 60 million Fonterra Shares to Fonterra by the Custodian. Fonterra subsequently cancelled these Shares on 31 July 2013. As a result of this redemption, the Supply Offer did not ultimately affect the total number of Units on issue.

### Dividends received

The following dividends were received from Fonterra:

| DIVIDENDS – FINAL AND INTERIM                        | 31 JAN 2014<br>UNAUDITED | 31 JUL 2013<br>AUDITED |
|--|--------------------------|------------------------|
| Final dividend received – \$ million                 | 17                       | –                      |
| Final dividend received – cents per Economic Right   | 16.0                     | –                      |
| Interim dividend received – \$ million               | –                        | 15                     |
| Interim dividend received – cents per Economic Right | –                        | 16.0                   |

The interim cash dividend received of \$15 million was paid on to Unit holders on 19 April 2013. This represented a cash distribution of 16.0 cents per Unit.

The final cash dividend received of \$17 million was paid on to Unit holders on 18 October 2013. This represented a cash distribution of 16.0 cents per Unit.

## 7 SUBSEQUENT EVENTS

At 24 March 2014 the unaudited net asset value of the Fund was \$650 million and the Unit price was \$6.12.

### Declaration of interim distribution

On 25 March 2014 the Board of Directors of Fonterra declared an interim dividend of 5.0 cents per Share. Following Fonterra's dividend declaration, the Board of the Manager declared an interim cash distribution of 5.0 cents per Unit. The distribution will be paid on 17 April 2014 to the Unit holders on the register at 10 April 2014.

# Independent Review Report

TO THE UNIT HOLDERS OF FONTERRA SHAREHOLDERS' FUND



## REPORT ON THE INTERIM FINANCIAL STATEMENTS

We have reviewed the condensed interim financial statements ("financial statements") of Fonterra Shareholders' Fund ("the Fund") on pages 2 to 7, which comprise the statement of financial position as at 31 January 2014, 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 Interim Financial Statements

The Fund's Manager is responsible for the preparation and presentation of the financial statements that present fairly the financial position of the Fund as at 31 January 2014, and its financial performance and cash flows for the period ended on that date.

### Our Responsibility

We are responsible for reviewing the financial statements presented by the Manager in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the financial statements do not present fairly the matters to which they relate.

A review is limited primarily to enquiries of the Manager's personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the financial statements of the Fund for the period ended 31 January 2014 in accordance with the Review Engagement Standards issued in New Zealand.

We have no relationship with, or interests in, Fonterra Shareholders' Fund other than in our capacities as auditors conducting this review and providers of other assurance (including audit) services. These services have not impaired our independence as auditors of the Fund.

### Opinion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements which have been prepared in accordance with International Accounting Standard 34 and New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting do not present fairly the financial position of the Fund as at 31 January 2014 and its financial performance and cash flows for the period ended on that date.

## 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 a 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 opinions we have formed.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive, flowing script.

CHARTERED ACCOUNTANTS, AUCKLAND

26 March 2014

# Directory

## **REGISTERED OFFICE OF THE MANAGER OF THE FUND**

9 Princes Street  
Auckland Central  
Auckland 1010  
New Zealand

## **DIRECTORS OF THE MANAGER OF THE FUND**

Philippa Jane Dunphy  
Kimmitt Rowland Ellis  
Sir Ralph James Norris  
John Bruce Shewan  
Jim William van der Poel

## **TRUSTEE**

The New Zealand Guardian Trust Company Limited  
Level 7, Vero Centre  
48 Shortland Street  
Auckland 1010  
New Zealand

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

PricewaterhouseCoopers  
Level 22, PwC Tower  
188 Quay Street  
Auckland 1142  
New Zealand

