

THE FIRST YEAR

THE FONTERRA SHAREHOLDERS' FUND

UNIT PRICE NZD¹



¹ Reflects NZX closing price.

KEY EVENTS

30 NOVEMBER 2012	LAUNCH OF THE FONTERRA SHAREHOLDERS' FUND
19 APRIL 2013	INTERIM DISTRIBUTION OF 16 CENTS PER UNIT PAID
24 APRIL 2013	BONUS ISSUE – 2.4 MILLION NEW UNITS ISSUED
10 OCTOBER 2013	RECORD DATE OF FINAL DIVIDEND PAYMENT
18 OCTOBER 2013	PAYMENT DATE FOR FINAL DIVIDEND OF 16 CENTS PER UNIT

NZX KEY STATISTICS AS AT 31 JULY 2013:

UNITS ON ISSUE	108 MILLION
MARKET CAPITALISATION	\$788 MILLION
FUND SIZE	7% OF FONTERRA SHARES ON ISSUE
HIGH/LOW TO 31 JULY 2013	\$8.09/\$6.37



CHAIRMAN'S REPORT

DEAR INVESTORS,

It is my pleasure to present the first Fonterra Shareholders' Fund Annual Report for the period since the launch of Trading Among Farmers on 30 November 2012 to 31 July 2013.

The Fund offers investors a unique opportunity to invest in the performance of Fonterra Co-operative Group. It continues to be well supported by both institutional and retail investors, which reflects the level of interest and endorsement from investors of Fonterra's strong global market position, and in the value of Fonterra's management team, business model and strategy.

Since the return on a Unit is driven by the underlying performance of Fonterra, investors are encouraged to read Fonterra's 2013 Annual Review (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.

A summary of Fonterra's performance in 2013 is included in that Annual Review and provides further details on

the recent whey protein concentrate (WPC80) quality issue which has seen extensive coverage in the media.

In the eight months since listing, the Unit price has increased 33 per cent from an issue price of \$5.50 to \$7.30 on 31 July 2013. Units on issue at 31 July 2013 were 108 million, representing 7 per cent of the total Fonterra Co-operative Group shares on issue. Although the FSF ranked 21st on the NZX by market capitalisation on 31 July 2013, it ranked first in terms of liquidity¹ and this is reflected in the level of trading in the Units.

An analysis of the Unit register shows that New Zealand domiciled investors continue to be the largest group by region, owning 46 per cent of the Units, while Australian based investors hold 41 per cent and international investors 13 per cent.

In April this year, Fonterra announced the appointment of a new Director, Simon Israel, following the retirement of Ralph Waters. Mr Israel, who is based in Singapore, has exceptional governance, consumer and wider Asian business experience. His appointment by Fonterra

followed a robust process including consultation with the Board of the Manager of the Fonterra Shareholders' Fund. As the Fund Board we supported his appointment and believe he will bring to the Fonterra Board invaluable insights and knowledge about emerging markets that will assist the Co-operative in pursuing its business strategy.

On 24 September 2013, Fonterra declared a final dividend of 16 cents per share resulting in a total dividend of 32 cents for the full year. As a result, Unit holders will receive a final distribution of 16 cents per Unit less any PIE (Portfolio Investment Entity) or other adjustments for tax in relation to that Unit holder. The record date for the final distribution is 10 October 2013 and the payment date is 18 October 2013.

Thank you for your continued support of the Fonterra Shareholders' Fund.

JOHN SHEWAN
CHAIRMAN
FSF MANAGEMENT COMPANY LIMITED

¹ Liquidity has been calculated as mean daily value traded (6 months) / Average Daily NZ Free Float Market Cap (6 months) (Source: NZX).

OVERVIEW OF THE FUND

The Fund is a unit trust formed under the Unit Trusts Act and is a 'foreign investment variable-rate PIE' for New Zealand income tax purposes. Units are listed on the NZX Main Board and on the ASX.

The Fund forms part of the broader Trading Among Farmers structure of Fonterra, and it enables investors to buy Units in the Fund that benefit from the Economic Rights of a Fonterra Co-operative Group Share.

The Fund supplements liquidity in the Fonterra Shareholders' Market, a private market operated by the NZX which allows Farmer Shareholders to buy and sell shares among themselves. The Fund allows the effective "exchange" of Units for Fonterra Shares by Farmer Shareholders, Fonterra and the market maker and vice versa.

The Economic Rights of a Share are the rights to receive dividends and other economic benefits derived from a Share. These rights do not include the right to hold legal title to the Share (i.e. to become registered as the holder of the Share), or to exercise voting rights in the Fonterra Co-operative Group.

The Fund has been designed so that the number of Units in the Fund corresponds to the number of Shares in which the Economic Rights are held for the Fund. Unit holders are 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).

Unit holders are entitled to attend and vote at meetings of the Fonterra Shareholders' Fund, and to elect three Directors of the Manager of the Fund. Unit holders do not, however, have the right to attend or vote, or request the Fonterra Farmer Custodian to attend or vote, at any meeting of Farmer Shareholders of the Fonterra Co-operative Group.

The Trustees of the Fonterra Farmer Custodian Trust hold one Unit known as the Fonterra Unit. Subject to the terms of the NZSX Listing Rules, the Trust Deed cannot be altered without the prior approval of the Fonterra Unit holder (which can only be given after receipt of a direction to that effect from Farmer Shareholders) if that amendment would change:

- the governance structure of the Board of the Manager, including the number of Directors of the Manager elected by the Unit holders, the manner of their election, or the number of Directors of the Manager appointed by Fonterra and the manner of their appointment;
- the scope and role of the Fund;
- the obligation of the Fund to facilitate the exchange of a Share for a Unit or a Unit for a Share;
- the limit of 15 per cent on the number of Units that can be held by any person and their Associates (other than Fonterra) in the Fund; or
- the terms of the Fonterra Unit itself.

In other respects, the Fonterra Unit has the same rights as all other Units issued by the Manager.

FONTERRA CO-OPERATIVE GROUP ANNUAL RESULTS

KEY HIGHLIGHTS FOR THE YEAR TO 31 JULY 2013

REVENUE (NZD)

\$18.6_B

NET PROFIT AFTER TAX (NZD)

\$736_M

PAYOUT (NZD)

\$6.16

FARMGATE MILK PRICE (NZD)

\$5.84

DIVIDEND PER SHARE (NZD)

32_c

EARNINGS PER SHARE (NZD)

44_c

NORMALISED EBIT¹ (NZD)

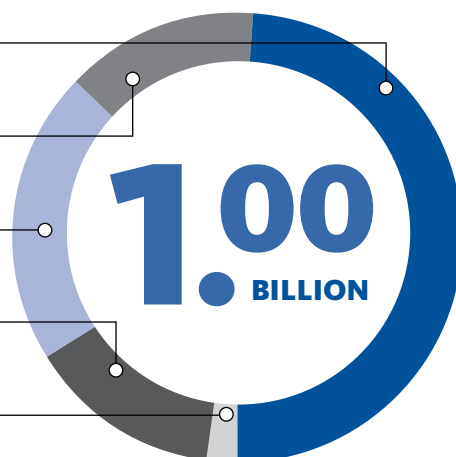
49%
NZMP²

14%
ANZ²

21%
ASIA/AME²

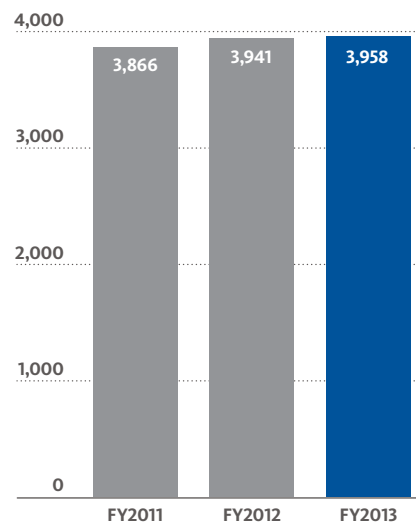
14%
LATAM²

2%
INTER-
SEGMENT²



VOLUMES

External Sales
Volume ('000 MT)



1 Normalised EBIT is profit for the year before net finance costs, tax and normalisation adjustments.

2 For details on the operating segments, refer to Fonterra Co-operative Group's Annual Review.

Fonterra is a New Zealand based Co-operative and the world's largest dairy processor and exporter processing around 22 billion litres of milk each year. The Group's dairy product exports of around 2.6 million metric tonnes represents around 21 per cent of all global dairy exports, including 46 per cent of whole milk powder (WMP).

Fonterra has an established consumer brand portfolio that includes Mainland, Tip Top, Western Star, Anchor™, Anlene™, Annum™ and Soprole, many of which are market leaders in their regions. The Co-operative earned around \$5 billion from sales of these brands across a diverse range of geographies and product formats in 2013.

Note: The financial information above relates to Fonterra and not to the Fund. Since the performance of the Units in the Fund is related to the performance in Fonterra, this information is also relevant to Unit holders.

OUR BOARD



- 1. JOHN SHEWAN
- 2. PIP DUNPHY
- 3. KIM ELLIS
- 4. JIM VAN DER POEL
- 5. SIR RALPH NORRIS KNZM

1. JOHN SHEWAN

CNZM BCA (Hons), FCA
Independent Director and Chairman
deemed to have been appointed
by Unit holders

John Shewan is currently an Adjunct Professor of Accounting at Victoria University. He also chairs the Wellington Regional Stadium Trust, Munich Re New Zealand Service Limited, is Deputy Chair of the Partnership Schools Authorisation Board and is a Director

of Munich Holdings of Australasia Pty Ltd. John was a partner at PricewaterhouseCoopers from 1984, and chaired the firm in New Zealand from 2003 to 2012. He has been a member of several Government advisory committees, and chaired the New Zealand Government's Tax Education Office from 1988 to 1998, and the Advisory Board of Victoria University Business School. He was appointed a Companion of the New Zealand Order of Merit in 2012.

2. PIP DUNPHY

B.Horti.Sci, CFA

Independent Director deemed to have been appointed by Unit holders

Pip Dunphy has worked in New Zealand financial markets for more than 20 years, assisting local and offshore companies in capital raising and risk management. She currently chairs the Boards of Mint Asset Management Limited and New Zealand Clearing and Depository Corporation Limited and is Deputy Chair of Auckland Transport.

Pip's other directorships include Abano Healthcare Group Limited, New Zealand Post Limited, NZ Super Fund and Solid Energy Limited.

3. KIM ELLIS

BCA (Hons), BE (Hons)

Independent Director deemed to have been appointed by Unit holders

Kim Ellis was the Chief Executive Officer of listed company Waste Management NZ Limited for 13 years, until its sale in 2006. He currently chairs the Boards of New Zealand Social Infrastructure Fund Limited and Macaulay Metals Limited. Kim also holds several directorships including Freightways Limited, Ballance Agri-Nutrients Limited, Envirowaste Services Limited, The Tasman Tanning Company Limited, Port of Tauranga Limited and Moa Group Limited. He is also a member of the Trust Board of Wanganui Collegiate School.

4. JIM VAN DER POEL

Appointed to the Board of the Manager by Fonterra

Jim van der Poel was elected to the Fonterra Board in 2002. He serves on the Co-operative Relations Committee and is Chairman of Fonterra's International Farming Ventures Group. Jim has won a number of industry awards including the AC Cameron Memorial Award, 2002 New Zealand Nuffield Farming Scholarship, Sharemilker/Equity Farmer of the Year and the Dairy Exporter Primary Performer Award. Jim and his wife Sue live at Ngahinapouri in the Waikato and have farming interests in Waikato, Canterbury and the United States.

5. SIR RALPH NORRIS KNZM

FNZIM, FNZCS

Appointed to the Board of the Manager by Fonterra

Sir Ralph Norris joined the Fonterra Board in 2012 as an Appointed Director. He sits on the Appointments, Remuneration and Development Committee. Sir Ralph also serves on the Board of Origin Energy Limited and on the Council of The University of Auckland. Sir Ralph is also a Director on the Board of the New Zealand Treasury, a member of the University of Auckland Council, a Director of the Parenting Place, Co-Chair of the Australian Juvenile Diabetes Research Foundation Advisory Board, Advisory Board member of New Zealand

Tax Management, Advisory Board Member Australian Graduate School of Management. He was Chief Executive of the Commonwealth Bank of Australia for six years until December 2011 and, prior to that, he served as Chief Executive and Managing Director of Air New Zealand Limited from February 2002 to August 2005. Sir Ralph had a 40-year career in banking and served as the Managing Director and Chief Executive Officer of ASB Bank Limited from March 1991 to September 2001, and the Head of International Financial Services for the Commonwealth Bank of Australia from August 1999 to September 2001. Sir Ralph was made a Knight Companion of the New Zealand Order of Merit in 2009 and a Distinguished Companion of the New Zealand Order of Merit for services to business in 2006.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 31 JULY 2013

	\$ MILLION
	FOR THE PERIOD ENDED 31 JULY 2013
Net fair value gain on revaluation of Economic Rights of Fonterra Shares	188
Dividend income	15
Investment income	203
Net change in fair value of liability to Unit holders	(188)
Distribution to Unit holders	(15)
Finance costs	(203)
Profit before tax	-
Tax expense	-
Profit for the period	-

There are no items of other comprehensive income.

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS

FOR THE PERIOD ENDED 31 JULY 2013

	\$ MILLION
	FOR THE PERIOD ENDED 31 JULY 2013
Issue of Units on launch of Fund	525
Movements:	
Revaluation of liability to Unit holders	188
Issue of Units	553
Redemption of Units	(478)
Net assets attributable to Unit holders at 31 July 2013	788

STATEMENT OF FINANCIAL POSITION

AS AT 31 JULY 2013

	NOTES	\$ MILLION AS AT 31 JULY 2013
Assets		
Economic Rights of Fonterra Shares	2	788
Total assets		788
Total liabilities (excluding net assets attributable to Unit holders)		-
Net assets attributable to Unit holders – liability	3	788

CASH FLOW STATEMENT

FOR THE PERIOD ENDED 31 JULY 2013

	\$ MILLION FOR THE PERIOD ENDED 31 JULY 2013
Operating activities	
Profit before tax	-
Adjustments for:	
– Fair value gain on revaluation of Economic Rights of Fonterra Shares	188
– Net change in fair value of liability to Unit holders	(188)
Dividend income	(15)
Purchase of Economic Rights of Fonterra Shares on launch of Fund	(525)
Purchase of Economic Rights of Fonterra Shares outside of initial launch of Fund	(553)
Sale of Economic Rights of Fonterra Shares outside of initial launch of Fund	478
Cash flows from operating activities	(615)
Financing activities	
Proceeds from issue of Units on the launch of Fund	525
Proceeds from issue of Units outside of initial launch of Fund	553
Outflows on cancellation and redemption of Units	(478)
Distributions paid to Unit holders	15
Cash flows from financing activities	615
Net (decrease)/increase in cash and cash equivalents	-
Cash and cash equivalents at 30 November 2012	-
Cash and cash equivalents at 31 July 2013	-

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE PERIOD ENDED 31 JULY 2013

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 was listed on the NZX Main Board operated by NZX Limited and the Australian Securities Exchange operated by ASX Limited on 30 November 2012. These are the first set of annual financial statements prepared for the Fund. These financial statements cover the period from launch of the Fund on 30 November 2012 to 31 July 2013 and accordingly there are no comparatives presented. 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 Fund under the Fonterra Farmer Custodian Trust by the Fonterra Farmer Custodian Limited (the Custodian). The Trustees of the Fonterra Farmer Custodian Trust also hold one Unit known as the Fonterra Unit.

The Fund is an issuer under the Financial Reporting Act 1993. The registered office of the Fund is 9 Princes Street, Auckland Central, Auckland 1010, New Zealand. The financial statements were authorised for issue by the Board of Directors of the Manager on 24 September 2013. The Manager does not have the power to amend these financial statements once issued.

Fonterra financial statements

Investors are encouraged to read all of 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 <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.

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; and
- 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; and

- Unit holders do not have any right to attend or vote, or request the Custodian to attend or vote, at any meeting of 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 Generally Accepted Accounting Practice (NZ GAAP), and have been prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for profit-oriented 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 of Fonterra Shares and liabilities to Unit holders that 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.

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

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.

Information about significant areas of estimation uncertainty, requiring judgement

in applying accounting policies, that have the most significant effect on the amounts recognised in the financial statements, are described below:

Fair value of Economic Rights

Economic Rights of Fonterra Shares 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 which the Manager considers to be materially similar instruments. The ongoing validity of assumptions around comparability between the Unit and Economic Rights instruments, and market operation and efficiency are regularly reviewed to support this area of significant judgement.

Classification of Unit holder instruments as liabilities or equity

Judgement has been applied in classifying the Units as financial liabilities. The Manager considers that under the Trust Deed the Fund has an obligation to repurchase Units from Farmers, the Registered Volume Provider and Fonterra which meets the definition of a puttable instrument under NZ IAS 32. Puttable instruments meet the definition of a financial liability as they include a contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset on exercise of the put. Puttable instruments are classified as financial liabilities unless they meet a set of limited criteria which allow them to be presented as equity. The Manager has determined that the Unit instruments do not meet these criteria. The Fund has therefore both presented and accounted for the Unit instruments as financial liabilities.

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 of Fonterra Shares.

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) ISSUE AND REDEMPTION OF UNITS

The issue and redemption of Units are recognised at the Weighted Average Trade Price from the NZX at the date on which the Units are issued or redeemed.

E) 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.

F) 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.

G) NET GAINS AND LOSSES FROM CHANGES IN FAIR VALUE

Net gains and losses from financial instruments at fair value through profit or loss include all realised and unrealised fair value changes on Economic Rights assets and Unit holder liabilities, but exclude dividend income and distributions paid to Unit holders.

H) 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.

I) 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). The Fund classifies financial instruments issued as either financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Financial assets and liabilities carried at fair value through profit or loss are initially recognised at fair value and transaction costs, if any, are expensed in the income statement as incurred.

After initial recognition, financial assets and financial liabilities are measured at their fair values with fair value changes recognised in profit or loss. The Fund manages its Economic Rights assets and its liability to Unit holders on a fair value basis in accordance with the Fund's risk management strategy and hence has designated these at fair value through profit or loss.

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.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

J) FAIR VALUE ESTIMATION

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 fair values of financial assets and liabilities traded in active markets are based on quoted market prices at the close of trading on the reporting date. Where an instrument measured at fair value has a bid and an ask price, the Fund has used the price within that range that is most representative of fair value. Generally this will be the last traded price that is within the range.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. The valuation techniques used aim to make maximum use of market inputs and rely as little as possible on entity-specific inputs and may include reference to other instruments that are judged to be substantially the same.

K) NEW STANDARDS AND INTERPRETATIONS

Standards effective 1 January 2013 that have been early adopted

NZ IFRS 13 Fair Value Measurement, effective for annual periods beginning on or after 1 January 2013, has been early adopted. The standard provides a precise definition of fair value and provides guidance on how fair value accounting should be applied. In measuring fair value, NZ IFRS 13 permits the use of any price within the bid-ask spread that is most representative of fair value rather than prescribing a specific market price that must be used.

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. Except for NZ IFRS 9 Financial Instruments: Classification and Measurement, none of these are expected to have a material impact on the financial statements of the Fund.

NZ IFRS 9 is the first phase of the NZ IAS 39 replacement project and specifies how an entity should classify and measure financial assets and liabilities. The Fund is yet to assess the full impact of adopting this standard.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 JULY 2013

1 FINANCIAL RISK MANAGEMENT

The Fund is primarily established to invest in Economic Rights of Fonterra Shares and issue Units to investors. As such its only investment comprises of Economic Rights. Through the holding of this investment, the Fund has limited exposure to market price risk and liquidity risks. 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:

a) 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 of Fonterra Shares and liabilities to Unit holders which are both carried at fair value with fair value changes recognised in the income statement. 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 of Fonterra Shares. Hence, no impact on the income statement is expected due to changes in market prices.

b) 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.

c) Financial instruments fair value

The Fund's accounting policy on fair value measurement is discussed in the Statement of Significant Accounting Policies.

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's liability to Unit holders is a Level 1 valuation as the Unit price is quoted on the NZX 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 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 the period.

d) 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's Shareholder suppliers. 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 uses 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.

2 ECONOMIC RIGHTS OF FONTERRA SHARES

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

	31 JULY 2013
Value of Economic Rights (\$ million)	788
Number of Economic Rights	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 JULY 2013
Value of Unit holder liability (\$ million)	788
Number of Units issued in the period:	
– On launch of Fund	95,454,545
– Bonus issue ¹	2,397,854
– Supply Offer ¹	59,973,601
– Other	11,644,347
Number of Units redeemed in the period:	
– Supply Offer ¹	(59,973,601)
– Other	(1,527,436)
Number of Units on issue at 31 July	107,969,310

¹ 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.

4 NET TANGIBLE ASSETS PER SECURITY

As at 31 July 2013 the net tangible assets per Unit on issue was \$7.30.

5 COMMITMENTS AND CONTINGENT LIABILITIES

The Fund has no material commitments or contingent liabilities as at 31 July 2013.

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.

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 to 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.

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) 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 reported period with respect to the Fund are the following amounts:

- audit fees paid to PricewaterhouseCoopers of \$40,000; and
- total equity transaction costs of \$18 million relating to the formation of the Fund.¹

¹ (Included in total equity transaction costs relating to the initial issue of Units is \$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 July 2013 the Custodian holds 107,969,310 Fonterra Shares on trust for the Fund.

During the period 32,760 Units were purchased for \$0.2 million by Delegated Compliance Trading Services Limited on behalf of Shareholder suppliers. No Units were sold.

Bonus issue

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 and distributions paid

The following dividends were received from Fonterra during the period:

INTERIM DIVIDENDS	31 JULY 2013
Interim dividends 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.

7 SUBSEQUENT EVENTS

At 23 September 2013, the unaudited net asset value of the Fund was \$756 million and the Unit price was \$718.

Declaration of final distribution

On 24 September 2013, the Board of Directors of Fonterra declared a final dividend. Following Fonterra's dividend declaration on 24 September 2013, the Board of the Manager declared a final cash distribution of 16.0 cents per Unit for the period ended 31 July 2013. The distribution will be paid on 18 October 2013 to the Unit holders on the register at 10 October 2013.

8 PROSPECTIVE FINANCIAL INFORMATION OF FONTERRA CO-OPERATIVE GROUP LIMITED

The Fonterra Shareholders' Fund Prospectus was issued in October 2012 to facilitate the listing of Units in the Fund. The prospectus included Prospective Financial Information (PFI) in relation to the consolidated Fonterra Co-operative Group Limited (Fonterra Group) for the year ended 31 July 2013.

The Manager and the Board of the Manager were not involved in the preparation of PFI nor the preparation of the Fonterra Annual statutory accounts. The information included in this note is drawn directly from the Fonterra Co-operative Group Financial Accounts for the year ended 31 July 2013 and summarises the key variances between Fonterra's prospective financial information and its actual performance.

Fonterra Group consolidated income statement

	NOTES	FONTERRA GROUP \$ MILLION	
		31 JULY 2013 PROSPECTIVE	31 JULY 2013 ACTUAL
Revenue from sale of goods		18,627	18,643
Cost of goods sold		(15,319)	(15,611)
Gross profit	a	3,308	3,032
Selling and marketing expenses		(693)	(622)
Distribution expenses		(526)	(514)
Administrative and other operating expenses		(1,183)	(1,120)
Net other operating income		76	98
Share of profit of equity accounted investees		72	63
Profit before net finance costs and tax	b	1,054	937
Net finance costs	c	(328)	(269)
Profit before tax		726	668
Tax (expense)/credit	d	(36)	68
Profit for the year		690	736
Profit for the year is attributable to:			
Equity holders of the Parent		673	718
Non-controlling interests		17	18
Profit for the year		690	736
		RESTATED ¹	
		\$	\$
Earnings per share			
Basic and diluted earnings per share	e	0.43	0.44

1 Restated for impact of the non-cash Bonus issue of Shares, issue date 24 April 2013.

Fonterra Group adjusted FY2013 prospective profitability by segment for changes in organisational structure from 1 August 2012

	FONTERRA GROUP \$ MILLION					
	NZMP	ANZ	ASIA/AME	LATAM	INTER-SEGMENTS	TOTAL
Prospective EBIT¹	517	201	223	125	(12)	1,054
Adjustments:						
Changes in organisational structure	(17)	12	(2)	6	1	-
Prospective EBIT – adjusted²	500	213	221	131	(11)	1,054
Prospective normalisation adjustment	-	25	-	-	-	25
Prospective normalised EBIT – adjusted^{2,3}	500	238	221	131	(11)	1,079
Actual EBIT	480	93	207	137	20	937
Actual normalisation adjustments	14	49	2	-	-	65
Actual normalised EBIT	494	142	209	137	20	1,002

1 EBIT is defined as earnings before net finance costs and tax.

2 As described in the prospectus, Fonterra's organisational structure was realigned from 1 August 2012. However, the prospective financial information was presented on the basis of Fonterra's organisational structure that existed prior to 1 August 2012. The most significant organisational changes were the transfer of the RD1 Group from New Zealand Milk Products (NZMP) to Australia/New Zealand (ANZ), and the transfer of International Farming Ventures from NZMP to Asia/Africa and Middle East (Asia/AME) and Latin America (Latam).

3 Prospective normalised EBIT excluded a forecast of the costs associated with the closure of a plant in Australia.

a Gross profit was lower than forecast as a result of a number of differences across the respective business units.

Revenue from the NZMP business was higher than forecast, driven by higher sales volumes, dairy commodity prices that were higher than expectations, along with a product mix that when compared to the prospective assumptions favoured higher priced commodities such as cheese.

This increase in revenue was more than offset by the increase in cost of goods sold. The prospectus assumed a Farmgate Milk Price of \$5.25, however the increase in dairy commodity prices in the second half of the financial year resulted in a much higher cost of milk for the NZMP business, and a final Farmgate Milk Price for the Season of \$5.84. These rapid and then sustained increases in commodity prices were not able to be passed on immediately to customers, negatively impacting gross margin. Changes in base commodity prices and changes in the prices of products that are not included in the calculation of Farmgate Milk Price were highlighted as risks in the prospective information.

Decreased gross profit in the ANZ business, was driven by weaker than expected performance from the consumer business in Australia, which was highlighted as a significant risk in the preparation of the prospective information. Further, margins in the Australian Ingredients business were negatively impacted by competitive pricing for raw milk in Australia.

Asia/AME gross profit was lower as a result of lower than forecast sales volumes.

b EBIT was lower than the forecast, due to the impact of lower than expected gross profit, partially offset by operating expense saving achieved.

Administrative and other operating expenses were \$63 million lower than forecast as a result of savings made through various initiatives. Whilst not included in the forecast, this saving programme, including a FY2013 target of \$60 million was highlighted in the prospectus.

Selling and marketing expenses were lower as a result of cost control initiatives in ANZ, and a programme to target advertising and promotion spend in growth markets in Asia/AME.

c Net finance costs are lower as a result of lower average borrowings and interest rates, coupled with better than forecast fair value gains on interest rates swaps as the Fonterra Group locked more of its borrowings to fixed rates.

d The tax credit recognised compared to the tax expense forecast was predominately driven by the recognition of deferred tax, resulting from the change of the applicable tax rate in certain offshore jurisdictions. Lower than forecast profit before tax also contributed to the decrease.

e Earnings per share was ahead of forecast as a result of the higher profit after tax number, partially offset by the dilutive effect of the Bonus share offer undertaken, which was not in the forecast numbers.

Fonterra Group consolidated statement of comprehensive income

	NOTES	FONTERRA GROUP \$ MILLION	
		31 JULY 2013 PROSPECTIVE	31 JULY 2013 ACTUAL
Profit for the year		690	736
Movement in cash flow hedge reserve		(128)	(145)
Movement in net investment hedges		–	(3)
Movement in foreign currency translation reserve		(4)	(52)
Share of equity accounted investees' movements in reserves		–	(1)
Foreign currency translation attributable to non-controlling interests		–	1
Other comprehensive expense recognised directly in equity	a	(132)	(200)
Total comprehensive income for the year		558	536
Attributable to:			
Equity holders of the Parent		541	517
Non-controlling interests		17	19
Total comprehensive income for the year		558	536

a Lower other comprehensive income was a result of the unfavourable impact of the translation of net investments denominated in foreign currencies, particularly in Australia.

Fonterra Group consolidated statement of changes in equity

	NOTES	FONTERRA GROUP \$ MILLION	
		31 JULY 2013 PROSPECTIVE	31 JULY 2013 ACTUAL
Opening equity as at 1 August		6,655	6,655
Total comprehensive income attributable to equity holders		541	517
Total comprehensive income attributable to non-controlling interests		17	19
Total comprehensive income for the year		558	536
Transactions with equity holders in their capacity as equity holders:			
Dividends paid to equity holders	a	(506)	(546)
Dividends paid to non-controlling interests		(15)	(14)
Equity instruments issued/(cancelled)/(surrendered) net of transaction costs	b	276	117
Total equity		6,968	6,748

a Dividends paid to equity holders were higher than forecast as a result of a higher than forecast interim dividend per share.

b The net proceeds from share transactions were lower than forecast. The funds received from the issue of shares to launch TAF were returned to Farmer Shareholders via the Supply Offer in May 2013, whereas the forecast assumed \$150 million remained with Fonterra at 31 July 2013.

Fonterra Group consolidated statement of financial position

	NOTES	FONTERRA GROUP \$ MILLION	
		31 JULY 2013 PROSPECTIVE	31 JULY 2013 ACTUAL
Cash and cash equivalents	a	1,271	330
Trade and other receivables		2,143	2,054
Inventories	b	2,660	3,078
Other current assets		164	184
Total current assets	a	6,238	5,646
Property, plant and equipment	c	5,079	4,807
Equity accounted investments		497	449
Intangible assets		2,868	2,858
Other non-current assets		626	613
Total non-current assets	c	9,070	8,727
Total assets		15,308	14,373
Bank overdraft and borrowings	a	1,066	1,570
Supplier, trade and other payables		2,244	2,202
Other current liabilities		241	306
Total current liabilities		3,551	4,078
Borrowings	a	4,296	3,108
Other non-current liabilities		493	439
Total non-current liabilities		4,789	3,547
Total liabilities		8,340	7,625
Net assets		6,968	6,748
Subscribed equity		5,966	5,807
Retained earnings		1,245	1,249
Foreign currency translation reserve		(215)	(266)
Cash flow hedge reserve		(65)	(82)
Total equity attributable to equity holders of the Parent		6,931	6,708
Non-controlling interests		37	40
Total equity		6,968	6,748

- a Total current assets are lower as a result of lower than forecast cash holdings. When considered together with borrowings, net interest bearing debt has increased as a result of the decision to pay out a higher proportion of the cost of milk to Farmer Shareholders earlier in the Season, than projected in the prospectus.
- b Inventory balances are higher than forecast as a result of higher dairy commodity prices later in the production season increasing the cost of milk, a key component of the cost of inventory.
- c Total non-current assets are lower as a result of lower than forecast capital spend due to timing of spend on key international growth projects.

Fonterra Group consolidated statement of cash flows

	NOTES	FONTERRA GROUP \$ MILLION	
		31 JULY 2013 PROSPECTIVE	31 JULY 2013 ACTUAL
Net cash flows from operating activities	a	1,803	997
Net cash flows from investing activities	b	(1,138)	(868)
Net cash flows from financing activities	c	(416)	(786)
Net increase in cash and cash equivalents		249	(657)
Cash and cash equivalents at the beginning of the year		991	991
Effect of exchange rate changes on cash balances		1	(5)
Cash and cash equivalents at the end of the year		1,241	329
Reconciliation of closing cash balances to the statement of financial position:			
Cash and cash equivalents		1,271	330
Bank overdraft		(30)	(1)
Closing cash balances	c	1,241	329

- a Cash flows from operating activities are lower than forecast as a result of the decision to pay a higher proportion of the cost of milk to Farmer Shareholders earlier in the Season, coupled with lower earnings before interest, tax, depreciation and amortisation.
- b The net cash outflow from investing is lower than forecast predominately due to lower than forecast capital spend.
- c Net cash outflows from financing activities are higher than forecast primarily due to the Fonterra Group holding of lower cash balances, and instead paying down borrowings.

INDEPENDENT AUDITORS' REPORT



TO THE UNIT HOLDERS OF THE FONTERRA SHAREHOLDERS' FUND

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Fonterra Shareholders' Fund (the Fund) on pages 7 to 16, which comprise the statement of financial position as at 31 July 2013, the statement of comprehensive income, the statement of changes in unit holders' funds and the statement of cash flows for the period then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Manager's Responsibility for the Financial Statements

The Fund's Manager is responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Manager determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Fund's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditors we have no relationships with, or interests in, the Fund.

Opinion

In our opinion, the financial statements on pages 7 to 16:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Fund as at 31 July 2013, and its financial performance and cash flows for the period then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the period ended 31 July 2013:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Fund as far as appears from an examination of those records.

Restriction on Distribution or Use

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 to the Fund's unit holders those matters which we are required to state to them in an auditors' 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's unit holders, as a body, for our audit work, for this report or for the opinions we have formed.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

CHARTERED ACCOUNTANTS, AUCKLAND
24 September 2013

STATUTORY INFORMATION

FOR THE PERIOD ENDED 31 JULY 2013

TWENTY LARGEST UNIT HOLDERS

As at 31 July 2013

UNIT HOLDER	NUMBER OF UNITS	% OF TOTAL ISSUED UNITS
JP Morgan Chase Bank NA – NZCSD	15,177,244	14.06
JP Morgan Nominees Australia Limited	7,674,188	7.11
RBC Investor Services Australia Nominees Pty Limited	5,108,750	4.73
Citicorp Nominees Pty Limited	4,903,488	4.54
HSBC Nominees (New Zealand) Limited – NZCSD	3,648,759	3.38
National Nominees New Zealand Limited – NZCSD	3,635,941	3.37
National Nominees Limited	3,292,231	3.05
HSBC Custody Nominees (Australia) Limited	3,056,430	2.83
Citibank Nominees (New Zealand) Limited – NZCSD	2,551,274	2.36
BNP Paribas Nominees (NZ) Limited – NZCSD	2,260,246	2.09
TEA Custodians Limited – NZCSD	2,010,629	1.86
Accident Compensation Corporation – NZCSD	1,999,462	1.85
Custodial Services Limited	1,940,014	1.80
Investment Custodial Services Limited	1,931,872	1.79
FNZ Custodians Limited	1,884,854	1.75
New Zealand Superannuation Fund Nominees Limited – NZCSD	1,346,622	1.25
Kingfisher Nominees Pty Limited	1,287,546	1.19
BNP Paribas Noms Pty Ltd	1,095,278	1.01
Forsyth Barr Custodians Limited	1,034,556	0.96
UBS Nominees Pty Limited	998,496	0.92
Total	66,837,880	61.90
Total Units on Issue	107,969,310	100.00

SPREAD OF UNIT HOLDERS

As at 31 July 2013

SIZE OF HOLDING	NUMBER OF HOLDERS	NUMBER OF UNITS	% OF TOTAL ISSUED UNITS
1 – 999	2,861	1,856,147	1.72
1,000 – 4,999	4,073	10,316,085	9.55
5,000 – 9,999	1,086	8,482,329	7.86
10,000 – 99,999	425	9,114,658	8.44
100,000 and over	43	78,200,091	72.43
Total	8,488	107,969,310	100.00

SUBSTANTIAL SECURITY HOLDERS

As at 31 July 2013

The following security holders had filed substantial security holder notices in accordance with the Securities Markets Act 1988.

SECURITY HOLDER	NUMBER OF UNITS HELD AT DATE OF NOTICE	% OF TOTAL ISSUED UNITS
Caledonia (Private) Investments Limited	9,234,338	8.55
Perpetual Limited and Subsidiaries	8,171,936	7.57
Commonwealth Bank of Australia and Subsidiaries (Commonwealth Bank Group)	7,602,249	7.04

As at 31 July 2013 the Fund had 107,969,310 Quoted Units, and one Fonterra Unit on issue.

HOLDINGS OF DIRECTORS OF THE MANAGER

As at 31 July 2013

The following Directors of the Manager have disclosed relevant interests in Units of the Fund:

DIRECTOR	NUMBER OF UNITS	NATURE OF INTEREST
John Bruce Shewan (Chairman)	9,371	Trustee and discretionary beneficial interest through Investment Custodial Services Limited
John Bruce Shewan (Chairman)	3,726	Power to control and exercise a right to vote and to control the acquisition and disposal of these units held by his wife
John Bruce Shewan (Chairman)	785	Power to control and exercise a right to vote and to control the acquisition and disposal of these units held by his wife in a discretionary portfolio through his wife held by Private Nominees Limited

NZX DIVERSITY REPORTING REQUIREMENTS

As at 31 July 2013, the gender composition of the Board of the Manager comprised one female and four male Directors. The Manager does not employ any Officers.

NZX WAIVERS

NZX has granted the following rulings or waivers to the Fund, which have been relied upon in the period ended 31 July 2013:

- a) a waiver from NZSX Listing Rule 3.1.1(a) to the extent that NZSX Listing Rule 3.1.1(a) would require the Trust Deed to incorporate provisions consistent with, or having the same effect as, NZSX Listing Rules 3.3.10 and 3.4.3 (for which separate waivers have been granted as described below);
- b) a ruling from NZX that clause 4.5(c) of the Trust Deed represents a “contrary intention” appearing in the constitution, for the purposes of NZSX Listing Rule 3.1.1(d), such that no act or omission which seeks to circumvent the rights of the holder of the Fonterra Unit could be authorised by a ruling granted by NZX;
- c) waivers from the following NZSX Listing Rules, due to the procedure for the appointment of the Directors of the Manager being inconsistent with:
 - (i) NZSX Listing Rule 3.3.5 to the extent necessary to allow Fonterra to appoint two Directors to the Board of the Manager, even though Fonterra is not a Unit holder and to allow a precondition to be imposed in respect of persons who may be nominated by Unit holders to fill three Director positions, that those candidates be Independent for the purposes of the NZSX Listing Rules;
 - (ii) NZSX Listing Rule 3.3.10 so that only Fonterra may remove its Appointed Directors from the Board of the Manager in accordance with the constitution of the Manager; and
 - (iii) NZSX Listing Rule 3.3.11 to the extent that the Fonterra Appointed Directors are not subject to the requirement to retire by rotation but are subject to removal by a direction from Fonterra, with the effect that the reference

to “Directors” in NZSX Listing Rule 3.3.11 refers solely to the Directors of the Manager appointed by the Unit holders;

The waivers described in this paragraph (c) are conditional upon the Fund bearing a “Non-Standard” designation to alert the market of the Fund’s unique governance arrangements, and upon Fonterra only appointing and removing appointed Directors in accordance with the provisions of the constitution of the Manager and the Trust Deed;

- d) a ruling that no Director of the Manager is “interested” in any matter, within the meaning assigned to that term in section 139 of the Companies Act, solely because that person is a Director of the Manager;
- e) a waiver from NZSX Listing Rules 3.5.1 and 3.5.2 to permit the Directors of the Manager to be paid by the Manager without the approval by an ordinary resolution of Unit holders. The waiver from NZSX Listing Rules 3.5.1 and 3.5.2 is conditional upon the Fund bearing a “Non-Standard” designation to alert the market to the Fund’s unique governance arrangements;
- f) a ruling that a transfer of Units to Fonterra will not be a “restricted transfer” for the purposes of that definition in NZSX Listing Rule 4.1.1, because DIRA prohibits Fonterra from exercising voting rights in respect of any Units that it holds;
- g) a waiver from NZSX Listing Rule 5.1.10 to permit the Trust Deed to omit the information required under paragraphs (a) (that the Trustee is entitled to appoint an independent valuer to value the assets of the Fund) and (c) (that if the office of the Trustee is vacated and a new Trustee not appointed within two months, the Fund be wound up) of Appendix 10 to the NZSX Listing Rules;
- h) a waiver from NZSX Listing Rule 7.3 to allow the Manager to issue Units as set out in the Trust Deed, without requiring the approval of the Unit holders;
- i) a waiver from NZSX Listing Rule 7.4 to permit the Fund to pass on any Benefit or Distribution (as those terms are defined in the Trust Deed) to Unit holders that

Fonterra passes on to Shareholders, without requiring Unit holders’ approval;

- j) a ruling that a holding of an interest in Units that is less than 15 per cent of the total number of Units on issue, or the total voting rights, shall not amount to “effective control” for the purposes of NZSX Listing Rule 7.5;
- k) a waiver from NZSX Listing Rules 7.6.1 and 7.6.2 to the extent necessary to allow Unit holders to redeem Units as required by the Trust Deed, without requiring prior Shareholder approval or any other restrictions;
- l) a waiver from NZSX Listing Rules 8.1.3 and 8.1.4 in respect of the pricing of Units issued in accordance with the Trust Deed to reflect Shares transferred or issued to the Fonterra Farmer Custodian;
- m) a ruling from NZX that the acquisition or disposal of Economic Rights of Shares in accordance with the Trust Deed and the issue or redemption of Units in accordance with the Trust Deed are not a “series of linked or related transactions” for the purposes of NZSX Listing Rule 9.1.1 and not a “related series of transactions” for the purposes of NZSX Listing Rule 9.2.2;
- n) a ruling that the entry into, and the performance of obligations under, the Authorised Fund Contract, is not a major transaction or series of linked or related transactions for the purposes of NZSX Listing Rule 9.1.1, nor a material transaction with a related party for the purposes of NZSX Listing Rule 9.2;
- o) a waiver from the requirements in NZSX Listing Rule 9.1.1 and in NZSX Listing Rule 9.2 to seek Unit holder approval to allow the Fund to dispose of its assets as permitted by the termination provisions of the Trust Deed.

NZX has also granted approval, in accordance with NZSX Listing Rule 11.1.5, to the restriction contained in the Trust Deed allowing the Manager to refuse to register a holding that would cause a Unit holder and its Associates (other than Fonterra) to have a Relevant Interest in more than 15 per cent of Units on issue or voting rights, and may require a sell down if this level

is exceeded, or would cause the Fund to become ineligible as a PIE or threaten any such eligibility.

ASX WAIVERS

ASX has granted the following waivers from; and provided confirmations in relation to, the ASX Listing Rules, which have been relied upon in the period ended 31 July 2013:

- Confirmation that ASX considers that the Fund's structure and operations are appropriate for the purposes of listing rule 1.1 condition 1.
- Confirmation that ASX has no objection to the Trust Deed on the condition it includes the modified provisions of Appendix 15A of the Listing Rules, as set out in clauses 2.5 and 2.6 of the Trust Deed.
- Confirmation that for the purposes of listing rule 1.1 condition 3:
 - ASX accepted the Prospectus; and
 - the Prospectus is not considered by ASX to be an information memorandum and is not required to comply with items 108 to 129 inclusive in Appendix 1A of the Listing Rules.
- Confirmation that only the Manager, and not the trustee of the Fund (the Trustee) is required to be registered as a foreign company under the Corporations Act for the purposes of listing rule 1.1 condition 4(c).
- Listing rule 1.1 condition 5 to the extent necessary to permit the Manager to cause Units held by the following persons to be redeemed:
 - a Unit holder entitled under the constitution of Fonterra to hold shares (Shares) in Fonterra to be transferred to that Unit holder upon the redemption of the relevant Units;
 - a Registered Volume Provider (as defined in clause 1.1 of the Trust Deed); and
 - Fonterra,

in accordance with clause 9 of the Trust Deed.

- Listing rules 1.1 condition 13 and 12.7 to the extent necessary that the Audit Committee of the Fund need not have an independent Chair.
- Listing rules 1.1 condition 16 and 12.8 to the extent necessary that the Fund is not required to have a Remuneration Committee.
- Confirmation that only Directors of the Manager, and not the Trustee, will be required to comply with listing rule 1.1 condition 17.
- Listing rules 1.3.3(a), 1.3.3(b), and 1.3.5(c) to the extent necessary to permit the Fund not to provide the financial information or make the statement required by those rules.
- Confirmation that that listing rule 1.3.5(a) does not apply.

- Listing rule 3.10.3 in respect of the on-going issue of Units pursuant to clause 5 of the Trust Deed.
- Listing rules 2.7 and 3.10.5 to the extent necessary that the Fund not be required to apply for quotation of new Units on each occasion that new Units are issued, on the following conditions:
 - the Fund lodges with ASX a copy of the announcement required by New Zealand Stock Exchange (NZSX) listing rule 7.12.1, at the same time it is lodged with NZSX;
 - the Fund applies for quotation of any new Units issued other than under clause 5 of the Trust Deed at least once a month; and
 - the Fund provides the market with a monthly update in the form of an ASX Appendix 3B of net changes in the number of Units on issue.
- Confirmation that for the purposes of listing rule 4.10.4 the Fund may provide in its annual report substantial securities holder information in accordance with the New Zealand Securities Markets Act 1988.
- Confirmation that the terms of the Units and the Fonterra Unit (as defined in the Prospectus and Trust Deed) are appropriate and equitable for the purposes of listing rule 6.1.
- Confirmation that, for the purposes of listing rule 6.2, the Fonterra Unit does not constitute an ordinary security.
- Confirmation that listing rules 6.4, 6.5, 6.6 and 6.7 do not apply to the Fonterra Unit.
- Listing rules 6.8 and 6.9 to the extent necessary to permit Units held by Fonterra not to have voting rights while they are held by Fonterra to the extent required by section 161A(1) of the Dairy Industry Restructuring Act 2001.
- Confirmation that for as long as ASX continues to consider the disenfranchisement provisions in the Trust Deed to be appropriate and equitable for the purposes of listing rule 6.10.5, that listing rules 6.8 and 6.9 do not apply in circumstances where the Trust Deed provides that:
 - a registered holder of Affected Units (as defined in the Trust Deed) will not have the right to vote those Affected Units;
 - no vote may be cast in respect of a Defaulter's (as defined in the NZSX listing rules) Units on a poll while the Default (as defined in the NZSX listing rules) is unremedied; or
 - no vote may be cast in respect of any Unit if any amount is due and payable on that Unit by the Unit holder to the Fund.
- Listing rule 6.10.3 to the extent necessary to permit the Fund to set the "specified time" to determine whether a security holder is entitled to vote at a Unit holders' meeting

in accordance with the requirements of the relevant New Zealand legislation.

- Confirmation that the divestment and disenfranchisement provisions in the Trust Deed are appropriate and equitable for the purposes of listing rules 6.10.5 and 6.12.3, and that the removal of voting rights in accordance with these provisions is not contrary to listing rules 6.8 and 6.9.
- Listing rule 7.1 to the extent necessary to permit the Manager to issue, without Unit holder approval, one Unit for each Share sold to the Custodian pursuant to clause 5 of the Trust Deed.
- Without limiting the waiver of Listing Rule 7.1 referred to above, a waiver from listing rule 7.1 to permit the Fund to issue securities without security holder approval under that listing rule, subject to the following conditions.
 - The Fund remains subject to, and complies with, the listing rules of NZSX with respect to the issue of new securities.
 - The Fund certifies to ASX on an annual basis (on or about 31 October each year) that it remains subject to, has complied with, and continues to comply with, the requirements of NZSX with respect to the issue of new securities.
 - If the Fund becomes aware of any change to the application of NZSX listing rules with respect to the issue of new securities, or that the Fund is no longer in compliance with the requirements of NZSX with respect to the issue of new securities, it must immediately advise ASX.

Without limiting ASX's right to vary or revoke its decision pursuant to listing rule 18.3, ASX reserves the right to revoke this waiver if:

- the Fund fails to comply with any of the conditions; or
- there are changes to the NZSX listing rules in respect of the issue of new securities such that, in ASX's opinion, the regulation of the issue of new securities under those NZSX listing rules ceases to be comparable to the regulation of the issue of new securities under the ASX Listing Rules.
- Listing rule 7.9 to the extent necessary to permit the Manager to issue, without Unit holder approval, one Unit for each Share sold to the Custodian pursuant to clause 5 of the Trust Deed.
- Confirmation that the ongoing issue and redemption of Units does not constitute a reorganisation of capital for the purposes of listing rules 7.18, 7.20, 7.25 and 7.36.
- Listing rule 8.10 to the extent necessary to permit the Manager to refuse to register any transfers that would result in any person (or their associates) (other than

Fonterra or a wholly owned subsidiary of Fonterra) having an interest in more than 15 per cent of the lesser of:

- the total number of Units on issue; or
- the total Voting Rights (as defined in the Trust Deed).
- Listing rule 8.10 to the extent necessary to permit the Manager to refuse to register a transfer document if:
 - the instrument of transfer is not accompanied by such evidence as the Manager or the Trustee may reasonably require to show the right of the transferor to make the transfer in accordance with clause 19.4(b) of the Trust Deed; and
 - registration of the transfer would result in the Fund becoming ineligible as a Portfolio Investment Entity or Foreign Investment PIE (both as defined in section YA 1 of the Income Tax Act 2007 (NZ)), or would operate to threaten any eligibility, in accordance with clause 19.4(c) of the Trust Deed.
- Listing rule 8.11 to the extent necessary to permit Fonterra to require registered Unit holders to provide statutory declarations or other disclosure in accordance with clause 6.2 of the Trust Deed.
- Confirmation that listing rule 10.1 does not apply to the ongoing issue and redemption of Units pursuant to clauses 5 and 9 of the Trust Deed, and accordingly that listing rules 10.10 and 14.11 do not apply in those circumstances.
- Confirmation that listing rule 10.11 does not apply to the issue of Units:
 - to Fonterra in circumstances where Fonterra has nominated individuals to the Board of Directors of the Manager; or
 - to a Fonterra shareholder (who is also a Director of the Manager) due to the operation of clause 5 of the Trust Deed.
- Confirmation that, for purposes of listing rule 10.11, the issue by the Manager to either a Registered Volume Provider or to Fonterra, having regard to the structure of the Fund, will not constitute the issue of securities to a person whose relationship with the Manager or a related party requires that Unit holder approval should be obtained.
- Listing rules 10.1, 11.1 and 11.2 to allow the provisions in the Trust Deed that apply to termination to operate as intended so that if the Fund is terminated, Fonterra or a nominee may acquire the Economic Rights held for the Fund or the Shares held by the Custodian.
- Confirmation that, given the position set out in resolution 3.32 in respect of listing rules 10.1, 11.1 and 11.2, in the event that the Fund is terminated:
 - listing rules 10.10 and 14.11 do not apply; and
 - the voting exclusion requirements in each of listing rules 11.1 and 11.2 do not apply.
- Confirmation that listing rules 10.17 and 10.19 do not apply to the Fund to the extent that Fonterra funds the payment of all fees and remuneration paid to the Directors of the Manager.
- Listing rule 14.4 to the extent necessary that the Directors appointed by Fonterra are not subject to this rule, on the condition that NZSX waives the equivalent NZSX listing rule.
- Confirmation that a waiver of listing rule 14.5 is not required.
- Listing rule 15.7 to the extent necessary to permit the Fund to provide announcements simultaneously to both ASX and the NZSX.
- Confirmation that the requirements of listing rule 15.11.1 will be satisfied through the inclusion in the Trust Deed of clause 2.5 and clause 2.6 of the Trust Deed.
- Listing rule 15.12 to the extent necessary to permit the Trust Deed not to contain the provisions required by listing rules 15.12.1 to 15.12.3 inclusive, on condition that the Manager of the Fund undertakes not to acquire any classified assets in circumstances under which the Listing Rules would require the issue of restricted securities, without the written consent of ASX. The undertaking is to be given and executed in the form of a deed.
- Listing rules 15.13, 15.13A and 15.13B to the extent necessary to permit the Fund to divest Unit holders of less than a minimum holding in accordance with the procedure set out in its Trust Deed.
- Listing rule 15.14 to the extent necessary to permit:
 - the Trust Deed to contain unit holding limitation provisions that permit the enforcement of prohibitions against a Unit holder that breaches the unit holding limit provisions as defined in the Trust Deed; and
 - the exercise of the compulsory acquisition powers under clause 22 of the Trust Deed.
- On the basis that the Fund is registered as a managed investment scheme under the Corporations Act for the purposes of the continuous disclosure provisions of the Corporations Act, that the Units are a class of financial products that can be dealt with on the market that ASX is licensed to conduct under ASX's Australian Market Licence.

CORPORATE GOVERNANCE

Background

The Fonterra Shareholders' Fund (Fund) is a unit trust established under the Unit Trusts Act 1960. It is required to have a trustee and a manager. The role of the trustee is to hold any investments and other property that are assets of the Fund. These are the rights to the economic benefits of Shares held by the Fonterra Farmer Custodian for the benefit of the trustee of the Fund. The role of the Manager, FSF Management Company Limited (Manager), is to issue or offer Units in the Fund (Units) and to manage the property of the Fund.

The Trust Deed for the Fund (Trust Deed) defines a narrow function of the Fund which is, in summary to:

- issue Units when new Economic Rights in 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 will 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 and the ASX Corporate Governance Council Principles and Recommendations (ASX Principles). The ASX Principles are not mandatory, but are guidelines designed to maximise corporate performance and accountability in the interests of investors and the broader community. If a listed entity considers that a recommendation is inappropriate to the particular circumstances, it has the flexibility not to adopt it – a flexibility tempered by the requirement under the ASX Listing Rules to explain why – the "if not, why not" approach.

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 will be 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 ASX Principles are not appropriate for the Fund or are not relevant. In accordance with the

ASX Listing Rules and the ASX Principles, the Manager has disclosed in this corporate governance statement the extent of its compliance with the ASX Principles, any principles or recommendations that it has not decided to follow and the reasons for not following them, as at the date of the Fund's admission to the ASX official list.

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

Principle 1: Lay solid foundations for management and oversight

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, in accordance with Recommendation 1.1. 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.

As the Manager does not have any employees, the Manager's practices diverge from the ASX Principles in a number of respects. The Board Charter has not set out the functions delegated to management (Recommendation 1.1) or disclosed the process for evaluating senior executives (Recommendation 1.2), and will not be reporting on the performance evaluation processes of senior executives in its annual report (Recommendation 1.3). 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. Evaluation of the performance of senior executives is not applicable to the Fund.

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

In accordance with Recommendation 1.3, the Manager has disclosed the information indicated in the Guide to reporting on Principle 1 or provided explanations where the information is not applicable.

Principle 2: Structure the Board to add value

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 NZSX Listing Rules. The first three Elected Directors (John Shewan, Pip Dunphy and Kim Ellis) have, however, been selected by Fonterra so that the Fund can commence operations. Of these first three Elected Directors, one is required to retire at each annual meeting of the Fund over the course of the first three annual meetings of the Fund. Each is eligible for re-election.

The Chair of the Board must be one of the three Elected Directors. The first Chair is John Shewan.

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 first two people that Fonterra has appointed (Sir Ralph Norris and Jim van der Poel) are both Directors of Fonterra.

The initial Directors have been chosen for their mix of skills, experience and expertise.

Accordingly, the Manager complies with Recommendations 2.1, 2.2 and 2.3, which require that:

- a majority of the Board should be independent Directors;
- the Chair should be an independent Director; and
- the roles of Chair and Chief Executive Officer should not be exercised by the same individual. The Manager does not have any employees and does not have a Chief Executive Officer.

Nominations Committee

The Manager does not consider it necessary to establish a separate Nominations Committee and has decided not to follow Recommendation 2.4. The Board will be appointed in accordance with the Trust Deed and the constitution of the Manager. The Board will be responsible for establishing the criteria for determining the suitability of potential Elected Directors and recommending persons suitable for appointment to the Board. Given the small size of the Board, the Manager considers that the Board itself is the most efficient mechanism in carrying out the nominations functions.

Performance assessment

Under the Board Charter, the Board will annually assess its performance against its role and the Board Charter and the performance of the Audit Committee against the Audit Committee Charter. A regular program of peer review of individual Directors will also occur.

The Board and individual Directors will use the findings of these reviews to identify areas for the development or more effective use of relevant skills.

The Manager has complied with Recommendation 2.5.

Independent professional advice

The Board will seek independent professional advice where it determines appropriate. Fonterra will pay the costs of independent professional advice in accordance with the Authorised Fund Contract.

In accordance with Recommendation 2.6, the Manager has disclosed the information indicated in the Guide to reporting on Principle 2.

Principle 3: Promote ethical and responsible decision making

Code of Conduct

The Manager has adopted the Code of Conduct. The Code of Conduct will guide the Directors as to:

- the practices necessary to maintain confidence in the Manager's integrity; and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Manager complies with Recommendation 3.1.

Diversity policy

The Board has not adopted a gender diversity policy as there are no employees of the Manager or the Fund. Given the small size of the Board, and as Directors are either elected by Unit holders or appointed by Fonterra, the Manager does not consider it necessary to implement a gender diversity policy for the Board.

This represents a departure from Recommendation 3.2. For the same reasons, the Manager will not be complying with Recommendations 3.3 and 3.4, and Recommendation 3.5 to the extent that it will not be making a diversity policy publicly available.

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 additional to legal prohibitions on insider trading in New Zealand and Australia.

In accordance with Recommendation 3.5, the Manager has disclosed the information indicated in the Guide to reporting on Principle 3 or provided explanations where the information is not applicable.

Principle 4: Safeguard integrity in financial reporting

Audit Committee

The Board will act as the Audit Committee for the Fund. The Chair of the Audit Committee will be 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 Audit Committee will otherwise comply with Recommendations 4.1, 4.2 and 4.3 and therefore the ASX Listing Rules, being comprised of only non-executive Directors, having a majority of independent Directors, and having at least three members.

The Manager has obtained waivers from ASX Listing Rule 1.1 Condition 13 and ASX Listing Rule 12.7 in respect of the requirement for an independent chair of the Audit Committee who is not the Chair of the Board. ASX has considered that, as the only assets of the Fund will be rights to the economic benefits of Fonterra Shares, its financial statements are likely to be relatively simple. Having the same person as the Chair of the Board and the Audit Committee is not expected to affect the ability of the Audit Committee to exercise independent judgement.

Strict compliance with this recommendation would be an added administrative burden with very little additional benefit from a corporate governance perspective.

The Board acting as Audit Committee will be 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 (in accordance with Recommendation 4.3). A copy of the Audit Committee Charter is available from the Manager upon request.

The Board acting as Audit Committee will select and appoint the external auditor and determine the rotation of external audit engagement partners. It will also act as a forum for communication between the Board and external auditors where appropriate.

In accordance with Recommendation 4.4, the Manager has disclosed the information indicated in the Guide to reporting on Principle 4 or provided explanations to the extent that a recommendation has not been followed.

Principle 5: Make timely and balanced disclosure

Continuous disclosure

The Board aims to ensure that Unit holders are informed of all major developments affecting the Fund. Information will be communicated to Unit holders through NZX Main Board 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 NZSX 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 will simultaneously release the information under the code relating to the Fund. This process is intended to be automatic. Fonterra will also arrange for the information to be simultaneously disclosed on ASX. To facilitate this and to minimise ongoing compliance obligations on the Manager, the Manager has authorised Fonterra personnel to make these market announcements for the Fund.

Due to the relationship between Units and Fonterra Shares, it is expected that the majority of continuous disclosure announcements will be made by Fonterra in relation to matters affecting Fonterra and the value of Fonterra Shares (and by implication the value of Units). Accordingly, the Manager has not considered it necessary to implement and publish a separate formal written policy, and to this extent, departs from Recommendations 5.1 and 5.2.

Where the Manager relies on administrative services provided by Fonterra under the Authorised Fund Contract to monitor compliance with continuous disclosure obligations, the Board will require regular reporting from Fonterra personnel. The Board will also independently consider its disclosure obligations and review compliance at each Board meeting.

In accordance with Recommendation 5.2, the Manager has provided the information indicated in the Guide to reporting on Principle 5 or provided explanations for any departures.

Principle 6: Respect the rights of shareholders

Communications with Unit holders

All external communications by the Fund will be:

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

Mechanisms that are in place to promote effective communication with Unit holders and to encourage their participation at Unit holder meetings include:

- 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 NZSX Listing Rules and ASX Listing Rules with respect to Unit holder communications.
- Notices of meetings will be sent to Unit holders at least 14 days before a meeting (clause 2.1 of the Schedule to the Trust Deed).
- 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).

Due to the limited nature of the Fund, and given that the majority of communications will be made by Fonterra in relation to matters affecting Fonterra, the Manager has not considered it necessary to implement and publish a separate formal communications policy as at the date of admission, and to this extent departs from Recommendations 6.1 and 6.2.

In accordance with Recommendation 6.2, the Manager has provided the information indicated in the Guide to reporting on Principle 6 or provided explanations for any departures.

Principle 7: Recognise and manage risk

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) will be 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 will periodically review the management of those risks. Accordingly, except as otherwise set out in this corporate governance statement, the Board has not as at the date of admission published separate written policies for the oversight and management of material business risks. To this extent, the Manager's practices represent a departure from Recommendation 7.1.

The Manager does not have any employees and accordingly Recommendation 7.2 is not applicable to the extent that it requires the Board to require management to design and implement a risk management and internal control system and to report to the Board on whether risks are being managed effectively. These functions will reside with the Directors of the Board. Where the Manager relies on administrative services provided by Fonterra under the Authorised Fund Contract to monitor compliance and manage risk, the Board will require regular reporting from Fonterra personnel or external service providers (as applicable).

Recommendation 7.3 is not applicable. The provisions of Chapter 2M of the Australian Corporations Act 2001 do not apply to the Manager or the Fund. Accordingly, the Manager will not seek or obtain the assurance from management ordinarily required by section 295A of the Australian Corporations Act 2001 and will not be complying with Recommendation 7.3 on an ongoing basis.

The Manager has complied with Recommendation 7.4 and provided explanations of departures from Recommendations 7.1, 7.2, 7.3 and 7.4.

Principle 8: Remunerate fairly and responsibly

Remuneration of Directors

Pursuant to the Authorised Fund Contract, Fonterra will be responsible for the payment of all director fees payable to the Directors of the Manager.

Fonterra has approved the following amounts of remuneration for the Directors:

- \$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 will not 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.

As the Manager has no executives, the disclosures set out in Recommendation 8.3 are not applicable.

Directors' Unit holdings

The independent Directors of Fonterra are prohibited from acquiring any relevant interest in Units. The other Directors of the Manager may acquire Units, and to the extent any Units are acquired, these acquisitions will be disclosed to the market as required by law.

Remuneration Committee

The Manager does not consider it necessary or appropriate to establish a Remuneration Committee. This represents a departure from Recommendations 8.1 and 8.2. Under the Authorised Fund Contract, Fonterra has agreed to meet the operating expenses of the Fund, including fees and expenses of Directors of the Manager. The Fund will not have its own employees and will not have independent funds from which to meet its costs. In these circumstances, establishing a Remuneration Committee will have very minimal value or purpose. ASX has granted waivers from ASX Listing Rule 1.1 Condition 16 and ASX Listing Rule 12.8 in respect of the requirement to establish a Remuneration Committee.

The Manager has complied with Recommendation 8.4 and provided explanations for any departures from Recommendations 8.1, 8.2, 8.3 and 8.4. As there is no Remuneration Committee, no schemes for retirement benefits for Directors provided by the Manager and no equity-based remuneration scheme relating to Units, the information in respect of these matters, which would otherwise be disclosed in accordance with the Guide to reporting on Principle 8, have not been set out in this Corporate Governance statement.

DIRECTORY

REGISTERED OFFICE OF THE MANAGER OF THE FUND

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DIRECTORS OF THE MANAGER OF THE FUND

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Kimmitt Rowland Ellis
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John Bruce Shewan
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