

Fonterra Shareholders' Fund

INTERIM FINANCIAL RESULTS

FOR SIX MONTHS ENDED
31 JANUARY 2021

**FONTERRA
SHAREHOLDERS'
FUND.**



Dairy for life

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Chairman's Report

Dear Investors

Fonterra's performance has continued to improve, and it has delivered a strong set of results for the first six-months of the 2021 financial year. These include Total Group normalised EBIT of \$684 million, up 17% on the comparative period, normalised profit after tax of \$418 million, up 43%, and a decision to pay an interim dividend. It is encouraging to see that these results have been achieved alongside a strong forecast Farmgate Milk Price.

Fonterra's reported profit after tax of \$391 million is 22% lower than the comparative period due to last year's results including the gain on sale from divesting DFE Pharma and foodspring®.

Fonterra has declared an interim dividend of 5 cents per share. As a result unit holders will receive an interim distribution of 5 cents per unit. The record date for the interim distribution is 24 March 2021 and the payment date is 15 April 2021. Due to Fonterra's ongoing capital structure review, the distribution reinvestment plan has been suspended in relation to this distribution.

STRATEGY

Staying on strategy has been important to Fonterra's performance so far this year. The strategy is to grow the value of New Zealand milk by using innovation, sustainability and efficiency to deliver products that customers value.

Fonterra is clear about the consumption categories they want to be in – Core Dairy, Foodservice, Sports and Active Lifestyles, Medical and Aging Nutrition, and Paediatrics. It already has a competitive advantage in some of these categories and in others it wants to achieve the same, drawing on its dairy know-how and innovation capabilities.

Fonterra remains committed to divesting non-core businesses so it can continue to reduce debt, strengthen its balance sheet and continue the strong focus on creating value.

Fonterra's intellectual property, innovation and dairy know-how is a key strength. Part of the strategy it has outlined is looking for ways to better commercialise these strengths such as through licensing agreements or joint ventures in the place of capital.

An example of this is the successful transition of Fonterra's USA Foodservice business to a new operating model partnership with Land O'Lakes, one of America's leading dairy co-operatives. This provides Fonterra access to Land O'Lakes' strong, well-established distribution network and its large customer base.

As part of Fonterra's continuous review of its asset portfolio, it has decided, along with the joint venture partner, to undertake a sales process for the joint venture farms in China.

FINANCIAL PERFORMANCE

Fonterra has advised that the core financial targets for the current financial year are a return on capital of 6 to 7%, a debt to EBITDA ratio of 3 to 3.5 times, and a gearing ratio of 36 to 40%.

It considers it is on-track to achieve these targets. Key to this has been the improved underlying performance, which can be seen in the \$100 million increase in Total Group normalised EBIT on the comparative period.

Fonterra has used its scale and the breadth and diversity of its markets and products to its advantage, moving milk to where the most value can be created. This can be seen in the improved Total Group normalised gross margin, which has increased from 16.0% to 17.4%, while keeping control of operating expenses. Fonterra's profit after tax has also benefited from lower average debt and a reduction in global interest rates.

The Greater China business increased normalised EBIT by 38% to \$339 million. This reflects the strength of the Foodservice channel, an improved performance in the Consumer channel and China's strong economic recovery following the initial impact of COVID-19.

Asia Pacific's normalised EBIT is up 9% to \$190 million and this is predominantly driven by people cooking more with dairy and Fonterra's renewed focus on its Consumer brands.

AMENA's normalised EBIT is down 7% to \$201 million due to reduced sales volumes and lower gross margins in the Ingredients channel. The lower sales volume reflects Fonterra making the most of its ability to move milk into higher returning markets and products.

LOOKING AHEAD

Fonterra has had a strong first half, with its normalised earnings equating to 25 cents per share after deducting non-controlling interests. Fonterra's earnings performance is heavily weighted to the first half and it expects its second half earnings to come under significant pressure due to increasing raw milk prices putting pressure on sales margins.

Fonterra CEO Miles Hurrell has said Fonterra will look to manage this by staying on strategy, focusing on what's in their control and driving demand for New Zealand milk.



John Shewan

Chairman
FSF Management Company Limited

Manager's Statement

FOR THE SIX MONTHS ENDED 31 JANUARY 2021

FSF Management Company Limited (the Manager) presents to the unit holders the interim financial statements for the Fonterra Shareholders' Fund (the Fund) for the six months ended 31 January 2021.

The Manager is responsible for presenting interim financial statements for the six months which fairly present the financial position of the Fund and its financial performance and cash flows for that period.

The Manager considers the interim financial statements of the Fund have been prepared using accounting policies which have been consistently applied and supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards have been followed.

The Manager believes that proper accounting records have been kept



John Shewan
Chairman
FSF Management Company Limited

16 March 2021

which enable, with reasonable accuracy, the determination of the financial position of the Fund and facilitate compliance of the interim financial statements with the Financial Markets Conduct Act 2013 and the Fonterra Shareholders' Fund Trust Deed.

The Manager considers that it has taken adequate steps to safeguard the assets of the Fund, and to prevent and detect fraud and other irregularities.

The Manager approves and authorises for issue the interim financial statements for the six months ended 31 January 2021 presented on pages 3 to 7.

For and on behalf of the Board of the Manager:



Kimmitt Ellis
Director
FSF Management Company Limited

16 March 2021

Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 31 JANUARY 2021

	\$ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2021 UNAUDITED	31 JAN 2020 UNAUDITED	31 JUL 2020 AUDITED
Net fair value gain on revaluation of Economic Rights of Fonterra shares	76	28	6
Dividend income	5	-	-
Investment income	81	28	6
Net increase in fair value of amounts attributable to unit holders	(76)	(28)	(6)
Distributions to unit holders	(5)	-	-
Finance cost	(81)	(28)	(6)
Profit before tax	-	-	-
Tax expense	-	-	-
Profit for the period	-	-	-

There are no items of other comprehensive income.

Statement of Changes in Amounts Attributable to Unit Holders

FOR THE SIX MONTHS ENDED 31 JANUARY 2021

	\$ MILLION
Amounts attributable to unit holders at 1 August 2020	400
Movements:	
Revaluation of amounts attributable to unit holders	76
Issue of units	21
Redemption of units	(14)
Amounts attributable to unit holders at 31 January 2021 (unaudited)	483
Amounts attributable to unit holders at 1 August 2019	388
Movements:	
Revaluation of amounts attributable to unit holders	28
Issue of units	17
Redemption of units	(27)
Amounts attributable to unit holders at 31 January 2020 (unaudited)	406
Amounts attributable to unit holders at 1 August 2019	388
Movements:	
Revaluation of amounts attributable to unit holders	6
Issue of units	65
Redemption of units	(59)
Amounts attributable to unit holders at 31 July 2020 (audited)	400

The accompanying notes from part of these interim financial statements.

Statement of Financial Position

AS AT 31 JANUARY 2021

	NOTES	\$ MILLION		
		31 JAN 2021 UNAUDITED	31 JAN 2020 UNAUDITED	31 JUL 2020 AUDITED
Assets				
Economic Rights of Fonterra shares	2	483	406	400
Total assets		483	406	400
Liabilities				
Amounts attributable to unit holders	3	483	406	400
Total liabilities		483	406	400

Cash Flow Statement

FOR THE SIX MONTHS ENDED 31 JANUARY 2021

	\$ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2021 UNAUDITED	31 JAN 2020 UNAUDITED	31 JUL 2020 AUDITED
Cash flows from operating activities			
Cash was provided from:			
– Sale of Economic Rights of Fonterra shares	14	27	59
– Dividends received (net of dividends reinvested)	4	–	–
Cash was applied to:			
– Purchase of Economic Rights of Fonterra shares	(20)	(17)	(65)
Net cash flows from operating activities	(2)	10	(6)
Cash flows from financing activities			
Cash was provided from:			
– Proceeds from issue of units	20	17	65
Cash was applied to:			
– Outflows on redemption of units	(14)	(27)	(59)
– Distributions paid to unit holders (net of distributions reinvested)	(4)	–	–
Net cash flows from financing activities	2	(10)	6
Net change in cash and cash equivalents	–	–	–
Cash and cash equivalents at the beginning of the period	–	–	–
Cash and cash equivalents at the end of the period	–	–	–

The accompanying notes from part of these interim financial statements.

Significant Accounting Policies

FOR THE SIX MONTHS ENDED 31 JANUARY 2021

A) GENERAL INFORMATION

The Fonterra Shareholders' Fund (FSF or the Fund) is a New Zealand managed investment scheme established to be the 'Authorised Fund' under Fonterra's Trading Among Farmers scheme. It is registered under the Financial Markets Conduct Act 2013 and its governing document is the Fonterra Shareholders' Fund Trust Deed (the Trust Deed) dated 23 October 2012 (as amended) and has a life of 80 years. Under the Trust Deed, the Fund may invest only in authorised investments, which are Economic Rights of Fonterra shares (Economic Rights), and issue units to investors. It may not invest directly in Fonterra shares.

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

These interim financial statements were authorised for issue by the Manager on 16 March 2021.

Fonterra interim financial statements

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

Activities

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

B) BASIS OF PREPARATION

These unaudited interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting*. They have also been prepared in accordance with Generally Accepted Accounting Practice (GAAP) applicable to for-profit entities. These interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the financial statements for the year ended 31 July 2020.

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

The accounting policies applied in the preparation of these interim financial statements are consistent with those applied in the financial statements for the year ended 31 July 2020.

C) OPERATING SEGMENTS

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

All of the Fund's income is from investments in the Economic Rights.

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

Notes to the Financial Statements

FOR THE SIX MONTHS ENDED 31 JANUARY 2021

1 FAIR VALUE MEASUREMENT

Economic Rights of Fonterra shares and amounts attributable to unit holders are measured at fair value.

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

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

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

Economic Rights are Level 2 instruments as Economic Rights are not listed and there is no active market for Economic Rights assets. Economic Rights are valued using the quoted price of units (which are considered to be a materially comparable instrument) in the Fund listed on the NZX Main Board. The on-going validity of assumptions relating to the comparability between a unit and an Economic Right is regularly reviewed.

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

2 ECONOMIC RIGHTS OF FONTERRA SHARES

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

	AS AT 31 JAN 2021 UNAUDITED	AS AT 31 JAN 2020 UNAUDITED	AS AT 31 JUL 2020 AUDITED
Value of Economic Rights (\$ million)	483	406	400
Number of Economic Rights	106,336,396	100,187,385	104,581,516

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

	\$ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2021 UNAUDITED	31 JAN 2020 UNAUDITED	31 JUL 2020 AUDITED
Opening value of Economic Rights	400	388	388
Movements:			
Purchase of Economic Rights ¹	21	17	65
Sale of Economic Rights	(14)	(27)	(59)
Revaluation of Economic Rights	76	28	6
Closing value of Economic Rights	483	406	400

¹ Purchase of Economic Rights includes \$0.6 million for Economic Rights acquired in conjunction with Fonterra's Dividend Reinvestment Plan (31 January 2020: \$nil; 31 July 2020: \$nil).

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2021

3 AMOUNTS ATTRIBUTABLE TO UNIT HOLDERS

	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2021 UNAUDITED	31 JAN 2020 UNAUDITED	31 JUL 2020 AUDITED
Value of amounts attributable to unit holders at the end of the period (\$ million) ¹	483	406	400
Opening number of units on issue ²	104,581,516	102,934,582	102,934,582
Movements:			
Number of units issued ³	5,111,889	4,410,779	17,298,927
Number of units redeemed	(3,357,009)	(7,157,976)	(15,651,993)
Closing number of units on issue	106,336,396	100,187,385	104,581,516

1 The amounts attributable to unit holders is measured at fair value, calculated as the number of units on issue multiplied by the unit market price at 31 January 2021 of \$4.54 (31 January 2020: \$4.05; 31 July 2020: \$3.82).

2 Included in the total number of units is one Fonterra unit, held by the Fonterra Farmer Custodian Trust, which was issued at inception of the Fund. The key rights of the Fonterra unit holder are set out in the Fund's Annual Financial Statements for the year ended 31 July 2020.

3 Included in the number of units issued are 145,300 units with a total value of \$0.6 million that were issued under the Distribution Reinvestment Plan (31 January 2020: nil; 31 July 2020: nil).

4 NET ASSETS PER SECURITY

As at 31 January 2021, the net assets per unit on issue was \$4.54 (31 January 2020: \$4.05; 31 July 2020: \$3.82).

5 COMMITMENTS AND CONTINGENT LIABILITIES

The Fund has no material commitments or contingent liabilities as at 31 January 2021 (31 January 2020: nil; 31 July 2020: nil).

6 SUBSEQUENT EVENTS

Declaration of distribution

On 16 March 2021, the Board of Directors of Fonterra declared an interim dividend of 5 cents per share. Following Fonterra's dividend declaration, the Board of the Manager declared an interim distribution of 5 cents per unit. The distribution will be paid on 15 April 2021 to the unit holders on the register at 24 March 2021.

The Distribution Reinvestment Plan does not apply to this distribution.

Changes in unit price

Units are traded on the NZX and ASX and accordingly the unit price changes regularly, including during the period between balance date and the date these interim financial statements were authorised for issue. Changes in the market price of the units result in a corresponding change in the value of the Economic Rights asset held by the Fund. Daily unit prices are available on the NZX website.

Independent Review Report



To the unit holders of Fonterra Shareholders' Fund

REPORT ON THE INTERIM FINANCIAL STATEMENTS

Conclusion

We have completed a review of the accompanying interim financial statements which comprise:

- the statement of financial position as at 31 January 2021;
- the statements of comprehensive income, changes in amounts attributable to unit holders and the cash flow statement for the 6 month period then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements on pages 3 to 7 do not:

- present fairly in all material respects, the Fund's financial position as at 31 January 2021 and its financial performance and cash flows for the 6 month period ended on that date; and
- comply with NZ IAS 34 *Interim Financial Reporting* (NZ IAS 34) and IAS 34 *Interim Financial Reporting* (IAS 34).

Basis for conclusion

A review of interim financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of Fonterra Shareholders' Fund, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

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

Use of this Independent Review Report

This report is made solely to the unit holders as a body. Our review work has been undertaken so that we might state to the unit holders those matters we are required to state to them in the Independent Review Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unit holders as a body for our review work, this report, or any of the opinions we have formed.

Responsibilities of the Manager for the interim financial statements

The Manager, on behalf of the Fund, are responsible for:

- the preparation and fair presentation of the interim financial statements in accordance with NZ IAS 34 and IAS 34;
- implementing necessary internal control to enable the preparation of interim financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the interim financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 and IAS 34.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly, we do not express an audit opinion on these interim financial statements.

This description forms part of our Independent Review Report.

A handwritten signature in blue ink that reads 'KPMG'.

KPMG
Auckland

16 March 2021

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SHAREHOLDERS'
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