

Fonterra Shareholders' Fund Annual Report 2022

FONTERRA
SHAREHOLDERS'
FUND.



Dairy for life

Contents

CHAIRMAN'S REPORT	03
OUR BOARD	05
FINANCIAL STATEMENTS	06
Manager's Statement	06
Statement of Comprehensive Income	07
Statement of Changes in Amounts Attributable to Unit Holders	07
Statement of Financial Position	08
Cash Flow Statement	08
Significant Accounting Policies	09
Notes to the Financial Statements	12
Independent Auditor's Report	17
STATUTORY INFORMATION	19
DIRECTORY	29

Chairman's Report

Dear unit holders,

It has been a tough year for equity markets with most major equity indexes experiencing heightened volatility and uncertainty driven by inflationary pressure, higher interest rates, geopolitical events and recessionary concerns. Over Fonterra's 2022 financial year, 1 August 2021 to 31 July 2022, the S&P500 and ASX200 both declined around 6% and the NZX50 declined 11%. The Fund's unit price declined 19% over the same period. In addition to the broader global market factors, the Fund has been impacted by the ongoing uncertainty associated with the implementation of Fonterra's new flexible shareholding capital structure.

Pleasingly, the unit price has lifted in recent weeks following Fonterra's announcement that it has revised its 2023 forecast earnings guidance. At mid-September the unit price decline from 1 August 2021 had reduced to 8%, whereas the S&P500, ASX200 and NZX50 declined 12%, 9% and 11%, respectively over the same period.

Fonterra's capital restructuring

Farmer shareholders voted 85% in favour of Fonterra's capital restructuring proposals in December 2021. Since then, Fonterra has been working with the Government to secure enabling legislation. The required amendments to the Dairy Industry Restructuring Act were introduced to Parliament on 13 September, and implementation of the new capital structure is expected to occur in the coming year.

The concerns of the Independent Directors of the Manager of the Fund over the impact of the capital restructuring on the Fund's unit price have been outlined in detail in market updates, and at the 2021 annual meeting. It is the Independent Directors' view that Fonterra should have offered to buy back the Fund, the units in which were trading at \$4.60 when the restructuring plans were announced in May 2021.

Uncertainty over the restructuring, and the significant potential overhang of shares on the Fonterra Shareholders Market (due to farmers no longer having to hold as many shares as before when flexible shareholding comes into effect) have had a dampening effect on the unit price.

Uncertainty should reduce as implementation of the new capital structure proceeds. However, the Independent Directors remain of the view that the buyback option should have been offered to unit holders. As Chair I am troubled by the loss in value that unit holders have incurred.

Fonterra's business performance for the year ended 31 July 2022

Neither the Fund nor the Board of the Manager has direct involvement in Fonterra's operations. However, as a holder of Economic Rights in Fonterra, the performance of the Fund is tied directly to Fonterra's performance.

It is good to see Fonterra making progress on implementing its strategy and its ability to deliver a strong financial performance in the context of historically high milk prices, inflationary pressure, and continued geopolitical and supply chain disruption in several key regions.

Fonterra's reported profit after tax for 2022 was \$583 million. After adjusting for the impact of asset sales and other normalisations, Fonterra's underlying performance has improved slightly, with normalised profit after tax up \$3 million to \$591 million. Normalised earnings per share came in at the top of the forecast range, at 35 cents per share and up 3% on the prior year.

Fonterra has declared a total dividend of 20 cents for the 2022 financial year. An interim dividend of 5 cents was paid in April 2022 and Fonterra is now declaring a final dividend of 15 cents per share. As a result, unit holders will receive a final distribution of 15 cents per unit, bringing total distributions for the 2022 financial year to 20 cents per unit.

The record date for the final distribution is 29 September 2022 and the payment date is 14 October 2022.

Fonterra delivered this result despite a significantly higher cost of milk with the Farmgate Milk Price increasing from \$7.54 per kgMS last year to \$9.30 per kgMS this year.

Chairman's Report (CONTINUED)

The higher milk price and earnings performance reflects strong demand for dairy across multiple markets and products at a time of constrained milk supply, global supply chain challenges, and significantly higher input costs for Fonterra's Foodservice and Consumer businesses. This operating environment and increase in late season milk production significantly increased Fonterra's working capital requirements through the second half of the financial year, which has impacted Fonterra's net debt position at year end, increasing \$1 billion to \$5.3 billion.

Fonterra's strong balance sheet gave it the flexibility to proactively manage the challenging operating environment, and the increased working capital requirements and net debt position are expected to improve during the 2023 financial year as working capital returns to normal levels.

Fonterra's Total Group normalised EBIT increased \$39 million in 2022 to \$991 million due to an improved performance in the Ingredients channel. On a continuing operations basis, the Ingredients channel normalised EBIT increased 151%, from \$365 million to \$916 million. The significant increase in earnings from the Ingredients channel reflects the stronger underlying market demand and a broad strengthening of product prices and higher margins, particularly in Fonterra's protein portfolio for products such as casein. The improved Ingredients performance was partially offset by the impact of higher milk input costs in Fonterra's Foodservice and Consumer channels, with normalised EBIT down 63% and 54% to \$138 million and \$142 million, respectively. The Consumer channel EBIT was also impacted by the economic crisis in Sri Lanka and an impairment of \$34 million on the Asia Brands – Annum, Anlene and Chesdale.

The improved Total Group normalised EBIT contributed to an increase in Fonterra's return on capital from 6.6% to 6.8%.

Looking ahead

The 2023 financial year is off to a strong start. In early September, Fonterra revised its 2023 forecast earnings guidance to 45 to 60 cents per share, up from 30 to 45 cents per share, citing strong demand, particularly for cheese and protein products.

Beyond the 2023 financial year, Fonterra's CEO, Miles Hurrell, has reaffirmed that the 2030 targets, announced last year in the [Long-term Aspirations booklet](#), are still firmly in sight. Mr Hurrell believes good progress has been made since announcing the new strategy last September and notes that now is the right time to double down on Fonterra's three strategic choices – to lead in sustainability, to lead in dairy innovation and science and to focus on New Zealand milk.

For further information on Fonterra's 2022 financial performance and sustainability progress I encourage you to visit [Fonterra's investor relations webpage](#).

Board changes

Two of the Independent Directors of the Manager of the Fund, Kim Ellis and I, are retiring at this year's annual meeting after 10 years on the Board. One of the Fonterra appointed Directors, Donna Smit, is coming off the Fonterra Board in November, so will also come off the Fund Manager Board.

I take this opportunity to thank unit holders for their support. As a unit holder myself I recognise that at times it has been a challenging experience. The results Fonterra has announced for 2022, and the outlook for 2023 and beyond, reflect much needed operational and strategic stability, which I welcome.



John Shewan

Our Board



John Shewan
CNZM BCA (Hons), FCA

Independent Director appointed by unit holders

John Shewan was appointed Chairman of the FSF Board in November 2012. In June 2022, John announced he will retire from the Board following the Annual Meeting in November 2022.

John currently chairs the Board of Munich Reinsurance Australasia and is an Adjunct professor in the Business School at Victoria University.



Mary-Jane Daly
BCom, MBA

Independent Director appointed by unit holders

Mary-Jane was appointed to the FSF Board in November 2020, and was announced as the Chair-Elect in June 2022. Mary-Jane is a professional director with a wide range of experience across a number of industries. Her executive background is in banking and finance in a variety of roles both in New Zealand and the UK.

Mary-Jane is Chair of AIG Insurance New Zealand Limited, and an Independent Director of Kiwibank Limited, and Kiwi Property Group Limited. Previous governance roles have included Cigna Life Insurance New Zealand, the Earthquake Commission, OnePath Life, Airways Corporation, Auckland Transport and the NZ Green Building Council. Her last corporate executive role was leading State Insurance.



Kim Ellis
BCA (Hons), BE (Hons)

Independent Director appointed by unit holders

Kim Ellis was appointed to the FSF Board in November 2012. In June 2022, Kim announced he would retire from the Board following the Annual Meeting in November 2022. Kim was the Chief Executive Officer of listed company Waste Management NZ for 13 years, until its sale in 2006. Kim currently chairs the Boards of Green Cross Health and New Zealand Social Infrastructure Fund. Kim is also a Director on the Board of the Port of Tauranga.



Donna Smit
FCA

Appointed to the Board of the Manager by Fonterra

Donna Smit was elected to the Fonterra Board in December 2016. Donna has served on the FSF Board since November 2018. In July 2022, Donna announced she will retire from the Fonterra Board and the FSF Board following their respective Annual Meetings in November 2022. Donna lives and farms at Edgcombe, and has built and owns five dairy farms in Eastern Bay of Plenty and Oamaru. Donna is a Director of Kiwifruit Equities Limited and a Trustee of the Dairy Women's Network and was previously a Director of EastPack Limited. Donna is a Fellow Chartered Accountant and was a company administrator of kiwifruit co-operative EastPack for 24 years. Donna's strong focus on financial and risk management has been built through her extensive business and manufacturing experience and financial background, and complements her deep dairy farming experience.



Andrew Macfarlane
B.Agr.Sc

Appointed to the Board of the Manager by Fonterra

Andy Macfarlane was elected to the Fonterra Board in 2017. Andy has served on the FSF Board since February 2019. Andy was a farm management consultant for 38 years and is a past President of the New Zealand Institute of Primary Industry Management (NZIPIM). He is a Director of ANZCO, chairs the SFFF Plantain Project and Edgewater Hotel Lake Wanaka and is a member of the International Farm Management Association (IFMA). Andy is a previous Director of Ngai Tahu Farming Limited and AgResearch, past chair of Deer Industry New Zealand, and served on the council of Lincoln University for 12 years.

Andy and his wife Tricia commenced farming in 1989 and live near Ashburton. His shareholding interests are in Canterbury. He has a strong interest in the governance of food processing and manufacturing, research and development, and strategic use of technology in the farming sector.

Manager's Statement

FOR THE YEAR ENDED 31 JULY 2022

FSF Management Company Limited (the Manager) presents to the unit holders the financial statements for the Fonterra Shareholders' Fund (the Fund) for the year ended 31 July 2022.

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

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



John Shewan
Chairman
FSF Management Company Limited
21 September 2022

The Manager believes that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Fund and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013 and the Fonterra Shareholders' Fund Trust Deed.

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

The Manager approves and authorises for issue the financial statements for the year ended 31 July 2022 presented on [pages 7 to 16](#).

For and on behalf of the Board of the Manager:



Mary-Jane Daly
Director
FSF Management Company Limited
21 September 2022

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 JULY 2022

	\$ MILLION	
	31 JULY 2022	31 JULY 2021
Net fair value loss on revaluation of Economic Rights of Fonterra shares	(78)	(9)
Dividend income	21	11
Investment (expense)/income	(57)	2
Net decrease in fair value of amounts attributable to unit holders	78	9
Distributions to unit holders	(21)	(11)
Finance income/(cost)	57	(2)
Profit before tax	-	-
Tax expense	-	-
Profit for the year	-	-

There are no items of other comprehensive income.

Statement of Changes in Amounts Attributable to Unit Holders

FOR THE YEAR ENDED 31 JULY 2022

	\$ MILLION
Amounts attributable to unit holders at 1 August 2021	402
Movements:	
Revaluation of amounts attributable to unit holders	(78)
Issue of units	-
Redemption of units	-
Amounts attributable to unit holders at 31 July 2022	324
Amounts attributable to unit holders at 1 August 2020	400
Movements:	
Revaluation of amounts attributable to unit holders	(9)
Issue of units	51
Redemption of units	(40)
Amounts attributable to unit holders at 31 July 2021	402

The accompanying significant accounting policies and notes form part of these financial statements.

Statement of Financial Position

AS AT 31 JULY 2022

	NOTES	\$ MILLION	
		31 JULY 2022	31 JULY 2021
Assets			
Economic Rights of Fonterra shares	2	324	402
Total assets		324	402
Liabilities			
Amounts attributable to unit holders	3	324	402
Total liabilities		324	402

Cash Flow Statement

FOR THE YEAR ENDED 31 JULY 2022

	NOTES	\$ MILLION	
		31 JULY 2022	31 JULY 2021
Cash flows from operating activities			
Cash was provided from:			
– Sale of Economic Rights of Fonterra shares		–	40
– Dividends received (net of dividends reinvested)		21	10
Cash was applied to:			
– Purchase of Economic Rights of Fonterra shares		–	(50)
Net cash flows from operating activities	4	21	–
Cash flows from financing activities			
Cash was provided from:			
– Proceeds from issue of units		–	50
Cash was applied to:			
– Outflows on redemption of units		–	(40)
– Distributions paid to unit holders (net of distributions reinvested)		(21)	(10)
Net cash flows from financing activities		(21)	–
Net change in cash and cash equivalents		–	–
Cash and cash equivalents at the beginning of the year		–	–
Cash and cash equivalents at the end of the year		–	–

The accompanying significant accounting policies and notes form part of these financial statements.

Significant Accounting Policies

FOR THE YEAR ENDED 31 JULY 2022

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 an FMC Reporting Entity 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 the Economic Rights of Fonterra shares (Economic Rights), and issue units to investors. It may not invest directly in Fonterra shares (Shares).

The Fund is listed on the NZX Main Board operated by NZX Limited and as a Foreign Exempt Listing on the Australian Securities Exchange operated by ASX Limited. The activities of the Fund and the issue of units to the public are managed by FSF Management Company Limited (the Manager). The immediate and ultimate parent of the Fund is Fonterra Co-operative Group Limited (Fonterra, or the Co-operative).

The New Zealand Guardian Trust Company Limited (the Trustee) acts as the trustee for the Fund. The Economic Rights assets are held on trust for the Trustee under the Fonterra Economic Rights Trust by Fonterra Farmer Custodian Limited (the Custodian). The trustees of the Fonterra Farmer Custodian Trust also hold one unit known as the Fonterra unit.

The registered office of the Manager is 109 Fanshawe Street, Auckland Central, Auckland 1010, New Zealand.

The financial statements were authorised for issue by the Manager on 21 September 2022.

Fonterra financial statements

Investors are encouraged to read the financial statements of Fonterra, together with the financial statements of the Fund, given that the performance of the Fund is driven by the performance of Fonterra. The Fonterra financial statements can be found at www.fonterra.com in the 'Investors/Results & Reporting' section.

Fonterra's capital structure review

At a Special Meeting held on 9 December 2021, Fonterra shareholders voted in favour of capital structure related amendments to Fonterra's Constitution that would give effect to the Flexible Shareholding structure. Subsequently, on 27 April 2022 the Government announced that it intends to amend the Dairy Industry Restructuring Act 2001 to support the Co-operative's new structure, signalling it expects the amendments to DIRA to pass through Parliament in the 2022 calendar year. The Constitution amendments and new structure will come into effect once the Fonterra Board is satisfied that any steps necessary for implementation have been (or will be) completed. The Co-operative is aiming to implement the new structure as soon as possible.

Since 6 May 2021 when Fonterra commenced consultation on its capital structure review and capped the Fund, the ability for the Fund to acquire Economic Rights and issue units to investors on a day-to-day basis has been suspended. This remains, as a capped Fund is a feature of the Flexible Shareholding structure that Fonterra shareholders voted in favour of at the Special Meeting on 9 December 2021.

The Flexible Shareholding structure caps the overall Fund size at 10% of the total number of Fonterra shares on issue. The Fund size is currently at around 6.7% at 31 July 2022.

On 8 June 2022 Fonterra announced that it would allocate up to \$50 million to an on-market share buyback programme, commencing 30 June 2022. At 31 July 2022 Fonterra had bought back 532,294 shares at total cost of \$1 million. The buyback has not had a material impact to the Fund size percentage.

Units continue to be available on the NZX and ASX to buy and sell and unit holders continue to be eligible to receive distributions.

Information about Fonterra's capital structure review is available in the 'Investors/Capital Structure' section of Fonterra's website.

As the Fund is retained under the Flexible Shareholding structure, and Fonterra has no current intention to buy back the Fund, these financial statements have been prepared on a going concern basis.

Activities

The principal activity of the Fund is to acquire and hold Economic Rights and issue units to investors to allow 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.

Significant Accounting Policies (CONTINUED) FOR THE YEAR ENDED 31 JULY 2022

Key attributes of Economic Rights

- The right to receive a distribution equivalent to any dividend declared by the Fonterra Board (before PIE tax, withholding tax or other tax on distribution).
- The right to participate in other transactions in respect of Fonterra shares such as bonus issues, rights issues or buy-backs.
- The right to share in any surplus on liquidation of Fonterra.

Key rights and restrictions of unit holders

- Unit holders will be entitled to have passed through to them an amount equal to any dividend payable in relation to a share in Fonterra (less any PIE tax, withholding tax or any other adjustments for tax in relation to that unit holder).
- If Fonterra reconstructs or adjusts its shares, an equivalent reconstruction or adjustment will be made in respect of units.
- If Fonterra makes bonus issues or rights issues of shares to its shareholders, corresponding issues of units will be made to unit holders.
- If there is an offer to acquire shares held by the Custodian, the Fund will seek instructions from unit holders as to whether the offer should be accepted. If a unit holder directs the Fund to accept the offer, the Fund will redeem units from such unit holder and accept the offer for shares in proportion to that direction. The amount received from the sale of the shares will be paid by the Fund to the unit holder.
- Unit holders are entitled to attend and vote at unit holder meetings and to elect three Directors of the Manager of the Fund. The additional two Directors of the Manager of the Fund are appointed by Fonterra.

- Unit holders do not have any right to attend or vote, or request the Custodian to attend or vote, at any meeting of Fonterra farmer shareholders.

Key rights of the Fonterra unit holder

The Trust Deed cannot be amended without the prior approval of the holder of the Fonterra unit if that amendment would change the governance structure of the Board of the Manager, the scope and role of the Fund, the exchange mechanism for units and Economic Rights and the individual Fund size restrictions.

In other respects, the holder of the Fonterra unit has the same rights as any other unit holder.

b) Basis of Preparation

These financial statements comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and have been prepared in accordance with Generally Accepted Accounting Practice (GAAP) applicable to for-profit entities. These financial statements also comply with International Financial Reporting Standards (IFRS).

These financial statements are prepared on a historical cost basis, except for Economic Rights and amounts attributable to unit holders which have been measured at fair value.

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

The same accounting policies are followed in these financial statements as were applied in the financial statements for the year ended 31 July 2021.

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.

The judgement that has the most significant effect on the amounts recognised in the financial statements relates to the valuation of the Economic Rights of Fonterra Shares. The valuation approach used for the Economic Rights is described in Note 1.

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.

Significant Accounting Policies (CONTINUED) FOR THE YEAR ENDED 31 JULY 2022

d) Dividend Income

Dividend income from investments in Economic Rights is recognised in profit or loss on the date that the right to receive payment of the dividend is established, when it is probable that the economic benefits will flow to the Fund and the amount of the dividend can be reliably measured.

e) Distributions to Unit Holders

Distributions payable to unit holders are recognised in profit or loss as finance costs in the period in which they are declared by the Board of the Manager.

f) Financial Assets and Financial Liabilities

A financial asset or liability is recognised when the Fund becomes a party to the contractual provisions of the asset or liability (i.e. trade date).

Financial assets are derecognised if the Fund's contractual rights to the cash flows from the financial assets expire or if the Fund transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Fund's obligations specified in the contract expire or are discharged or cancelled.

Economic Rights of Fonterra shares

The Economic Rights of Fonterra shares are measured at fair value. Changes in fair value are recognised as investment income or expense in profit or loss. The Economic Rights are a current asset.

Amounts attributable to unit holders

The Fund has an obligation to repurchase units from Farmers, the Registered Volume Provider and Fonterra, therefore the amounts attributable to unit holders is a financial liability. It is presented as a financial liability because it does not meet the limited set of criteria that would allow it to be presented as equity. The amounts attributable to unit holders is a current liability.

The Fund manages its amounts attributable to unit holders on a fair value basis. Therefore, the Fund has elected to measure the amounts attributable to unit holders at fair value. Changes in fair value are recognised as finance costs in profit or loss.

g) Tax

The Fund has elected to be a 'foreign investment variable-rate Portfolio Investment Entity' for New Zealand income tax purposes. Due to this election, income is effectively taxed in the hands of the unit holders and therefore the Fund has no tax expense, current tax payable or deferred tax assets or liabilities.

The Fund will attribute PIE income (being Fonterra dividends) to unit holders and pay tax on that income at each relevant unit holder's nominated prescribed investor rate (PIR), being their applicable tax rate, subject to the option to apply the non-resident withholding tax rules in respect of Notified Foreign Investors. When the Fund receives Fonterra dividends the Fund will retain an amount from dividends distributed to a unit holder to satisfy the PIE (or withholding) tax liability in relation to that unit holder and pay amounts owing direct to the IRD. It is not anticipated that the Fund will have a PIE tax loss or excess tax credits which will be attributed to unit holders.

h) New Standards and Interpretations

Standards issued but not yet effective

No new or amended standards and interpretations that became effective for the year ended 31 July 2022 have had a material impact to the Fund.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2022

1 Financial Risk Management

The Fund was primarily established to invest in Economic Rights and issue units to investors. As such its only investment comprises of Economic Rights. Through the holding of this investment and issuing units to unit holders, the Fund has limited net exposure to market price risk and liquidity risk. The Fund has no direct exposure to interest rate, foreign exchange or credit risk. The risk management policies employed by the Fund are discussed below.

Market price risk

Market price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual instrument, its issuer or factors affecting all instruments traded in the market.

The Fund's financial instruments primarily comprise of investments in the Economic Rights and amounts attributable to unit holders which are both carried at fair value with fair value changes recognised in profit or loss. Both of these instruments are exposed to market price risk. Any change in the market price of the units will result in an equal and opposite change in the market price of the Economic Rights. Hence, no impact on profit or loss in the Statement of Comprehensive Income is expected due to changes in market prices.

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund is not exposed to cash redemptions and only certain parties are permitted to redeem their units. Where permitted parties redeem units, the Fund will transfer one Economic Right for each unit redeemed to meet the redemption. Unit holders will not otherwise have the ability to redeem their units or exchange them for Shares. Hence, the Fund does not have significant liquidity risk.

Financial instruments fair value

The Fund measures the Economic Rights and amounts attributable to unit holders at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

The Fund's 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.

Where there is a bid and ask price, the Fund uses the price within that range that is most representative of fair value. Where the last traded price is within that range, the Fund uses the last traded price as fair value. Where the last traded price falls outside that range the Fund uses the mid-point between the bid and ask prices.

The market 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 validity of assumptions relating to the comparability between a unit and an Economic Right has been considered in the context of Fonterra's capital structure review and remains appropriate.

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

Capital risk management

The Fund manages its amounts attributable to unit holders as capital, notwithstanding that amounts attributable to unit holders is classified as a financial liability.

Prior to 6 May 2021, when the Fund was capped, the amount of unit holders' Funds could change on a daily basis as the Fund was subject to the issue and redemption of units at the discretion of Fonterra, the Registered Volume Provider, and Fonterra farmer shareholders.

To manage the stability of the Fund, Fonterra 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.

Since the Fund was capped on 6 May 2021, Fonterra has not needed to actively manage the Fund size other than to redeem units at the discretion of Fonterra farmer shareholders.

As at 31 July 2022, the Actual Fund Size relative to total Fonterra shares on issue is below the target range specified in the Fund Size Risk Management Policy. Fonterra has taken no specific actions to address this.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

2 Economic Rights of Fonterra Shares

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

	31 JULY 2022	31 JULY 2021
Value of Economic Rights (\$ million)	324	402
Number of Economic Rights	107,417,322	107,420,162

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

	\$ MILLION	
	31 JULY 2022	31 JULY 2021
Opening value of Economic Rights	402	400
Movements:		
Purchase of Economic Rights ¹	–	51
Sale of Economic Rights	–	(40)
Revaluation of Economic Rights	(78)	(9)
Closing value of Economic Rights	324	402

1 Purchase of Economic Rights does not include any Economic Rights acquired in conjunction with Fonterra's Dividend Reinvestment Plan (31 July 2021: \$0.6 million).

3 Amounts Attributable to Unit Holders

	31 JULY 2022	31 JULY 2021
Value of amounts attributable to unit holders (\$ million)¹	324	402
Opening number of units on issue²	107,420,162	104,581,516
Movements:		
Number of units issued ³	–	11,794,492
Number of units redeemed	(2,840)	(8,955,846)
Closing number of units on issue	107,417,322	107,420,162

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 July 2022 of \$3.02 (31 July 2021: \$3.74).

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.

3 No units have been issued under the Distribution Reinvestment Plan for the year ended 31 July 2022 (31 July 2021: 145,300 units with a value of \$0.6 million).

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

4 Reconciliation of Net Cash Flow from Operating Activities to Profit

	\$ MILLION	
	31 JULY 2022	31 JULY 2021
Reconciliation of profit for the year to net cash flows from operating activities		
Profit for the year	–	–
<i>Adjustments for:</i>		
– Fair value loss on revaluation of Economic Rights of Fonterra shares	78	9
– Net decrease in fair value of amounts attributable to unit holders	(78)	(9)
– Distributions to unit holders	21	11
– Non-cash dividend income	–	(1)
<i>Changes in assets:</i>		
Net purchase of Economic Rights of Fonterra shares	–	(10)
Net cash flows from operating activities	21	–

5 Net Assets per Security

As at 31 July 2022, the net assets per unit on issue was \$3.02 (31 July 2021: \$3.74).

6 Commitments and Contingent Liabilities

The Fund has no material commitments or contingent liabilities as at 31 July 2022 (31 July 2021: nil).

7 Related Parties

FSF Management Company Limited

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

Key Management Personnel (KMP) 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.

As at 31 July 2022 192,192 units with a value of \$580,420 were held by KMP (31 July 2021: 192,192 units with a value of \$718,798). There were no changes to the number of units held by KMP during the 12 month period to 31 July 2022.

Fonterra Co-operative Group Limited

Under the Authorised Fund Contract, Fonterra provides administrative services in relation to the Fund for the Manager and meets the operating expenses of the Fund, including the fees of the Directors of the Manager.

The Manager and the Trustee have agreed that Fonterra will meet the day-to-day operating costs of the Fund. In addition, the Fund will use corporate facilities, support functions and services provided by Fonterra. All of these services will be provided at no cost to the Fund.

There are some costs that will not be covered by Fonterra. These principally relate to circumstances where the Manager has breached certain obligations or seeks to bring claims outside the ambit of those which Fonterra has undertaken to pay. In these circumstances, the Manager would have to seek funding from other sources. This could include seeking a resolution of unit holders that they agree to bear the relevant costs through a deduction from distributions that would otherwise be made by the Fund.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

Contract Fee for Units Scheme

Under Fonterra's Contract Fee for Units Scheme, Fonterra provides services and financial assistance to The New Zealand Guardian Trust Company Limited, as trustee of The Contract Fee Trust, to acquire, on market, and hold units on behalf of Fonterra's contract milk suppliers participating in the Scheme. The purchase of units under the Contract Fee for Units Scheme has been put on hold from 6 May 2021 as part of Fonterra's capital structure review.

During the year ended 31 July 2022 on behalf of Fonterra's contract milk suppliers participating in Fonterra's Contract Fee for Units Scheme, The New Zealand Guardian Trust Company Limited, as trustee:

- No units were purchased (31 July 2021: 498,163 units for \$2.2 million);
- Sold 39,209 units for \$0.1 million due to forfeiture (31 July 2021: 10,962 units for \$0.05 million);
- No units were received from the Distribution Reinvestment Plan (31 July 2021: 8,366 units) and;
- Distributed 246,503 units to contract milk suppliers (31 July 2021: 409,586 units).

As at 31 July 2022, The New Zealand Guardian Trust Company Limited, as trustee of The Contract Fee Trust holds 647,579 units for participating contract milk suppliers (31 July 2021: 933,291 units).

Fonterra Farmer Custodian Limited

The Fund has appointed Fonterra Farmer Custodian Limited, a subsidiary of Fonterra, to provide custodian services. The Economic Rights are held on trust for the Trustee by the Custodian under the Fonterra Economic Rights Trust. Custodian services are provided at no cost to the Fund.

As at 31 July 2022, the Custodian holds 107,417,322 (31 July 2021: 107,420,162) Fonterra shares on trust for the Fund.

Fonterra (Delegated Compliance Trading Services) Limited (DCT)

DCT is a wholly owned subsidiary of Fonterra which undertakes delegated compliance trading in the Fund on behalf of Fonterra's farmer shareholders.

In the prior year on 9 February 2021, DCT made a net sale of 30,145 units for \$0.1 million on behalf of Fonterra Farmer shareholders participating in the 2021 season Delegated Compliance Trading Scheme. The sale or purchase of units with the Fonterra farmer shareholders are transacted on the same day. Therefore, no units are held by DCT on behalf of Fonterra's farmer shareholders at the close of trading.

As part of Fonterra's capital structure review, delegated compliance trading has been put on hold for farmers holding a minimum of 1,000 shares. Delegated compliance trading has not been offered for the 2022/23 season.

Fund expenses

Fonterra, the Manager, the Trustee and the Custodian have entered into the Authorised Fund Contract, which authorises the Fund to operate as an Authorised Fund and regulates the relationship between Fonterra and the Fund.

Under the Authorised Fund Contract all expenses relating to the Fund are incurred and paid by either Fonterra or the Manager. The costs of running the Fund include services by Fonterra for which there is no payment made, as well as services for which the Fund contracts to third parties.

Included within the total expenses incurred and paid by Fonterra during the year ended 31 July 2022 with respect to the Fund are the following amounts paid to KPMG, appointed as auditor of the Fund:

- Fees for the annual audit of the financial statements of \$24,000 (31 July 2021: \$24,000);
- Fees for the review of the interim financial statements of \$10,000 (31 July 2021: \$10,000); and
- Fees for other audit related services comprising agreed upon procedures for Annual Meeting voting of \$4,000 (31 July 2021: \$3,500).

KPMG has not provided any non-audit related services during the year ended 31 July 2022 (31 July 2021: nil).

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

Dividends received from Fonterra

The following dividends were received during the year ended 31 July 2022 (31 July 2021: \$10.6 million).

DIVIDENDS	\$ MILLION	
	YEAR ENDED 31 JULY 2022	YEAR ENDED 31 JULY 2021
2022 Interim dividend received – 5.0 cents per Economic Right ¹	5.4	–
2021 Final dividend received – 15.0 cents per Economic Right ²	16.1	–
2021 Interim dividend received – 5.0 cents per Economic Right ³	–	5.3
2020 Final dividend received – 5.0 cents per Economic Right ⁴	–	5.3

1 This was distributed on to unit holders on 14 April 2022 and represented a cash distribution of 5.0 cents per unit. The Distribution Reinvestment Plan did not apply to this distribution.

2 This was distributed on to unit holders on 15 October 2021 and represented a cash distribution of 15.0 cents per unit. The Distribution Reinvestment Plan did not apply to this distribution.

3 This was distributed on to unit holders on 15 April 2021 and represented a cash distribution of 5.0 cents per unit. The Distribution Reinvestment Plan did not apply to this distribution.

4 This was distributed on to unit holders on 15 October 2020 and represented a cash distribution of 5.0 cents per unit. The Distribution Reinvestment Plan applied to this distribution.

8 Subsequent Events

Declaration of distribution

On 21 September 2022, the Board of Directors of Fonterra declared a dividend of 15 cents per share. Following Fonterra's dividend declaration, the Board of the Manager declared a distribution of 15 cents per unit for the year ended 31 July 2022. The distribution will be paid on 14 October 2022 to the unit holders on the register at 29 September 2022.

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 financial statements were authorised for issue. Changes in the market price of the units result in a corresponding change in the value of the Economic Rights asset held by the Fund. Daily unit prices are available on the NZX website.

Independent Auditor's Report

FOR THE YEAR ENDED 31 JULY 2022

TO THE UNIT HOLDERS OF FONTERRA SHAREHOLDERS' FUND

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of Fonterra Shareholders' Fund (the 'Fund') on pages 7 to 16:

- i. present fairly in all material respects the Fund's financial position as at 31 July 2022 and its financial performance and cash flows for the year ended on that date in accordance with New Zealand Equivalents to International Financial Reporting Standards. We have audited the accompanying financial statements which comprise:
 - the statement of financial position as at 31 July 2022;
 - the statements of comprehensive income, changes in amounts attributable to unit holders and cash flows for the year then ended; and
 - notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Fund in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$3.2 million determined with reference to a benchmark of the Fund's total assets. We chose the benchmark because, in our view, this is a key measure of the Fund's performance.

Key audit matters

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



Other information

The Manager, on behalf of the Fund, are responsible for the other information included in the entity's Annual Report. Other information includes the Chairman's report, Statutory information and Directory. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this independent auditor's report

This independent auditor's report is made solely to the unit holders as a body. Our audit 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unit holders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Independent Auditor's Report (CONTINUED) FOR THE YEAR ENDED 31 JULY 2022



Responsibilities of the Manager for the financial statements

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

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards);
- implementing necessary internal control to enable the preparation of a set of financial statements that is 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 audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

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

For and on behalf of

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

KPMG

Auckland

21 September 2022

Statutory Information

FOR THE YEAR ENDED 31 JULY 2022

Twenty Largest Unit Holders

AS AT 31 JULY 2022

UNIT HOLDER	NUMBER OF UNITS	% OF TOTAL ISSUED UNITS
Accident Compensation Corporation	5,154,205	4.80
New Zealand Depository Nominee Limited	3,409,448	3.17
Citibank Nominees (New Zealand) Limited	2,957,476	2.75
HSBC Nominees (New Zealand) Limited	2,260,891	2.10
BNP Paribas Nominees (NZ) Limited - NZCSD <BPSS40>	2,189,995	2.04
Craigsmore Dairy II Services Limited	2,069,508	1.93
Custodial Services Limited <A/C 4>	1,788,734	1.67
Michael Douglas Hammond & Helen Mavis Hammond & Leigh Joseph Horton	770,270	0.72
BNP Paribas Nominees (NZ) Limited – NZCSD	707,026	0.66
Tea Custodians Limited Client Property Trust Account - NZCSD	688,417	0.64
Ingleton Properties Limited	675,380	0.63
The New Zealand Guardian Trust Company Limited	647,579	0.60
JBWere (NZ) Nominees Limited	602,960	0.56
Leo Francis Dooley & Peter John Dooley	600,000	0.56
FNZ Custodians Limited	587,869	0.55
Century Securities Limited	545,000	0.51
Peter Thomas Borrie & Adrienne Helen Borrie	528,304	0.49
Richard Wallace Shapero	480,000	0.45
Heathton Farms Limited	467,442	0.44
North Branch Farms Limited	445,801	0.42
	27,576,305	25.67
Total quoted units on issue	107,417,321	100.00

Statutory Information (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

Spread of Unit Holders

AS AT 31 JULY 2022

SIZE OF HOLDING	NUMBER OF HOLDERS	NUMBER OF UNITS	% OF TOTAL ISSUED UNITS
1 – 1,000	2,718	1,330,683	1.24
1,001 – 5,000	2,688	6,718,941	6.25
5,001 – 10,000	756	5,801,505	5.40
10,001 – 100,000	1,052	38,171,130	35.54
100,001 and over	188	55,395,063	51.57
Total¹	7,402	107,417,322	100.00

1 Total includes the Fonterra unit (which is not quoted).

Substantial Product Holders

As at 31 July 2022 no unit holders had filed substantial product holder notices in accordance with the Financial Markets Conduct Act 2013.

As at 31 July 2022 the Fund had 107,417,321 quoted units, and one Fonterra unit, on issue.

Holdings of Directors of the Manager

AS AT 31 JULY 2022

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)	9,317	Trustee and discretionary beneficial interest held by Hobson Wealth Custodian Limited
	6,363	Trustee and non-beneficial interest held by Hobson Wealth Custodian Limited
	4,512	Power to control and exercise a right to vote and to control the acquisition and disposal of these units held on behalf of his wife by Private Nominees Limited
Kimmitt Rowland Ellis	15,000	Trustee and discretionary beneficial interest held by Custodial Services Limited
Donna Maree Smit	9,959	Power to control and exercise a right to vote and to control the acquisition and disposal of these units held by Corona Farms Limited
	123,724	Power to control and exercise a right to vote and to control the acquisition and disposal of these units held by Pencarrow Farm Limited
Andrew Webster Macfarlane	10,000	Trustee and non-beneficial interest held by Stonylea Trust
	4,000	Trustee and beneficial interest held by GW and MA Macfarlane Family Trust
	9,317	Partner in Deebury Pastoral Partnership

Statutory Information (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

Interests Register

The Manager is required to maintain an interests register in which the particulars of certain transactions and matters involving the Directors of the Manager must be recorded. The interests register is available for inspection on request.

General disclosures of interest

During the financial year, Directors of the Manager disclosed new interests (including changes to previously disclosed interests), or a cessation of interests (indicated in *italics*), in the following entities pursuant to section 140 of the Companies Act 1993:

DIRECTOR	NATURE OF INTEREST
John Bruce Shewan (Chairman)	<i>Director, China Construction Bank (New Zealand) Limited (ceased December 2021)</i>
Mary-Jane Daly	Trustee, Declan Marshall Trust Trustee, Natalia Mander Trust Chair, AIG Insurance New Zealand Limited <i>Director, Auckland Transport (ceased October 2021)</i> <i>Chair, Earthquake Commission (ceased June 2022)</i>
Kimmit Rowland Ellis	<i>Director, Ballance Agri-Nutrients Limited (ceased February 2022)</i> <i>Director, Freightways Limited (ceased October 2021)</i>
Donna Maree Smit	<i>Director, EastPack Limited (ceased May 2022)</i> <i>Director and Shareholder, Fonterra Farmer Custodian Limited (ceased February 2022)</i> <i>Director and Shareholder, Seven Mile Farms Limited (ceased June 2022)</i>
Andrew Webster Macfarlane	Chair, SFFF Plantain Potency and Practice Programme Chair and Shareholder, Edgewater Resort Hotel Limited Director and Shareholder, Deebury Lismore Limited Trustee, Waddington Family Trust <i>Councillor, Lincoln University (ceased August 2021)</i>

Specific disclosures of interest

During the financial year, no Director of the Manager specifically disclosed any transaction in which that Director had entered into with the Manager.

NZX Trading Halts

There were no trading halts applied to the Fonterra shares and units in the Fund during the financial year ended 31 July 2022.

Donations

No donations were made by the Fund or the Manager during the financial year ended 31 July 2022 (31 July 2021: nil).

NZX Diversity Reporting Requirements

The table below provides a quantitative breakdown as to the gender composition of the Board of the Manager as at 31 July 2022.

AS AT 31 JULY	SELF-IDENTIFY AS FEMALE		SELF-IDENTIFY AS MALE	
	2021	2022	2021	2022
Directors	2	2	3	3

There are no Officers of the Manager.

NZX Waivers

A summary of waivers and approvals granted by NZ RegCo in relation to the NZX Listing Rules, which have been relied upon by the Fund in the year ended 31 July 2022, can be found at www.fonterra.com in the 'Investors/ Fonterra Shareholders' Fund' section under the heading 'Exchange Waivers'.

Statutory Information (CONTINUED) FOR THE YEAR ENDED 31 JULY 2022

NZX Non-Standard Designation

The Fonterra Shareholders' Fund has been granted a 'Non-Standard' ("NS") designation by NZ RegCo. This designation was granted because of the unique governance arrangements and unit holder restrictions.

ASX Listing

The Fund has an ASX Foreign Exempt Listing with ASX Limited which means the Fund is primarily regulated by the NZX Listing Rules and is to be exempt from complying with most of the ASX Listing Rules.

Corporate Governance

Background

The Fund is a registered managed investment scheme under the Financial Markets Conduct Act 2013. The Fund is required to have a supervisor (trustee) and a manager. The role of the trustee is to hold the economic benefit of shares held by the Fonterra Farmer Custodian for the benefit of the trustee of the Fund. The role of the Manager is to issue or offer units in the Fund and to manage the property of the Fund.

The Manager does not have any employees. Under the Authorised Fund Contract, Fonterra has agreed to provide the Fund with administrative services and to meet the costs of the general business of the Fund, including paying the fees and expenses of the Directors.

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

- issue units when new Economic Rights of Fonterra shares are held for the benefit of the Fund;
- redeem units when required by a farmer shareholder, Fonterra or the registered volume provider and direct that the Fonterra Farmer Custodian transfers Fonterra shares to the farmer shareholder, Fonterra or the Fonterra Farmer Custodian on behalf of the registered volume provider seeking that redemption; and
- not undertake other trading activities.

The Fund is to be 'passive', i.e., it does not actively solicit Economic Rights or the redemption of units except for undertaking the initial supply offer.

Corporate Governance Principles

The Board's corporate governance statement takes into consideration contemporary standards in New Zealand and Australia, incorporating principles and guidelines issued by the Financial Markets Authority, the NZX Corporate Governance Code 2022 (NZX Code) and the ASX Corporate Governance Council Principles and Recommendations (ASX Principles).

This corporate governance statement adopted by the Board is current as at September 2022 and reflects the Board's role as a manager of a Fund with limited operational activity, which in several ways is different to the corporate governance structure appropriate for a traditional listed company carrying on an operating business.

Given the special purpose nature of the Fund, as at 31 July 2022, the Manager has determined that a number of the recommendations in the NZX Code and the ASX Principles are not appropriate for the Fund or are not relevant.

In accordance with the NZX Listing Rules, the Manager has disclosed in this corporate governance statement a summary of the corporate governance policies, practices and processes adopted or followed during the year ended 31 July 2022 or explained why the Manager has decided to not comply with a particular recommendation (or part thereof) of the NZX Code.

References to 'Board' and 'Directors' in this statement are to the Board and Directors of the Manager. The Board of the Manager has approved this corporate governance statement.

Principle 1: Code of Ethical Behaviour

Code of Conduct

The Manager has a well-established Code of Conduct that, together with the Board Charter, sets ethical standards for each member of the Board of the Manager. The Code of Conduct guides the Directors on:

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

Statutory Information (CONTINUED) FOR THE YEAR ENDED 31 JULY 2022

The Code of Conduct and Board Charter are available on www.fonterra.com in the 'Investors/Fonterra Shareholders' Fund' section under the heading 'Charters and policies' and was last reviewed in June 2022.

While the Manager has no employees, Fonterra has Whistleblower procedures in place which apply to Fonterra employees who provide services to the Fund.

Securities Trading Policy and Standard

The Manager has adopted Fonterra's Securities Trading Policy and Securities Trading Standard that detail the rules for trading in units and other securities of Fonterra. The Policy and Standard are available on www.fonterra.com and apply to Directors of the Manager and Directors, officers, employees and contractors of Fonterra in addition to legal prohibitions on insider trading in New Zealand and Australia.

Directors' Unit Holdings

The Independent Directors of Fonterra who are also appointed to the Board of the Manager 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.

Principle 2: Board Composition and Performance

Board Charter

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

The roles and responsibilities of the Board are set out in its Board Charter. Its roles and responsibilities include:

- monitoring the performance of the Fund and the implementation of its objectives;
- monitoring compliance with the regulatory requirements and ethical standards; and
- monitoring compliance with, and ensuring that unitholders' interests are managed and protected in accordance with, the constituent documents for Trading Among Farmers as they relate to the Fund.

Given the Fund's limited operational activity, the Manager has limited discretion in respect of the day-to-day management of the Fund. To the extent that any material exercise of discretion or other decision-making authority is required, that discretion or authority is exercised by the Board.

The Board seeks independent professional advice when it considers that appropriate. Fonterra pays the costs of independent professional advice in accordance with the Authorised Fund Contract.

The Board Charter is available on www.fonterra.com in the 'Investors/Fonterra Shareholders' Fund' section under the heading 'Charters and policies'.

Board Appointments

The constitution of the Manager provides for five Directors and sets out how they are appointed.

In accordance with the procedure set out in the Trust Deed, unit holders are entitled to elect three Directors (Elected Directors) and may remove and replace any Elected Director.

The three Elected Directors must be 'Independent Directors' for the purposes of the NZX Listing Rules. At the date of this statement the three Elected Directors are John Shewan, Mary-Jane Daly and Kim Ellis. One Elected Director is required to retire at each annual meeting of the Fund. The Chair of the Board must be one of the three Elected Directors. John Shewan is the Chair.

The remaining two Directors are appointed, and can be replaced, by Fonterra. There is no requirement as to who the Fonterra-appointed Directors must be. While they need not be Directors of Fonterra, the current people that Fonterra has appointed (Andrew Macfarlane and Donna Smit) are both Directors of Fonterra.

Skills required of a Director on the Board of the Manager include governance experience, preferably of a listed entity, financial and capital markets knowledge, an understanding of co-operatives, and risk management experience. Each Director on the Board in the 2022 year possesses these skills and experience.

The Manager has written agreements with each of its Directors.

Disclosure

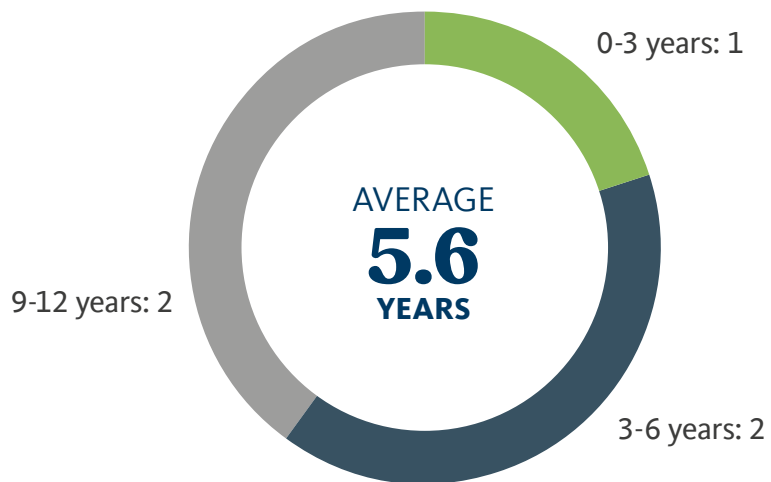
Information about each Director (including experience, length of service, independence and ownership interests and attendance at Board meetings) is disclosed below or in the 'Our Board' section of this annual report.

Statutory Information (CONTINUED) FOR THE YEAR ENDED 31 JULY 2022

Board Tenure

The graphic below shows the tenure of the current Board members including the average length of service on the Board.

Tenure



Board and Audit Committee Attendance

The table below reports attendance of Directors at Board and Audit Committee meetings during the 2022 reporting period. Board and Audit Committee meetings are held together.

Board/Audit Committee Meetings 1 August 2021 – 31 July 2022

	BOARD		AUDIT COMMITTEE	
	MEETINGS	ATTENDED	MEETINGS	ATTENDED
John Shewan	3	3	3	3
Kim Ellis	3	3	3	3
Mary-Jane Daly	3	3	3	3
Donna Smit	3	3	3	3
Andy MacFarlane	3	3	3	3

In addition to the above, all members of the Board attended the Annual Meeting of unit holders, held on 13 December 2021.

Diversity Policy

Given the small size of the Board, and as Directors are either elected by unit holders or appointed by Fonterra, the Manager has not followed recommendation 2.5 of the NZX Code and has not implemented a gender diversity policy for the Board.

See the table under the 'NZX Diversity Reporting Requirements' section of this annual report, which provides a quantitative breakdown as to the gender composition of the Board of the Manager and Officers of the Manager as at 31 July 2022.

Statutory Information (CONTINUED) FOR THE YEAR ENDED 31 JULY 2022

Director Training

Directors are expected to keep themselves abreast of changes and trends in the economic, political, social and legal climate generally. Directors are also expected to keep up to date with governance issues.

The Manager on an ad-hoc basis requests the Management of Fonterra to provide Fonterra-specific training to remain current on how best to perform their duties as Directors of the Manager.

Performance Assessment

The Board assesses its performance against its role and the Board Charter and the performance of the Audit Committee against the Audit Committee Charter.

Director Independence

As at 31 July 2022, the Board of the Manager comprised five Directors. The Board has considered which of the Directors are Independent Directors for the purposes of the NZX Listing Rules and has determined that, as at 31 July 2022, John Shewan, Mary-Jane Daly and Kim Ellis are Independent Directors.

As such, a majority of the Board of the Manager are 'Independent Directors' for the purposes of the NZX Listing Rules.

The factors relevant to determining whether a Director is an Independent Director are the criteria in the NZX Listing Rules for Independent Directors, including having regard to the factors described in the NZX Code that may impact Director independence.

Division of Roles

In accordance with the Trust Deed the Chair of the Board must be one of the three unit holder Elected Directors, who are required to be Independent Directors.

The Manager does not have a CEO, so recommendation 2.9 of the NZX Code that the Chair and CEO must be different people is not applicable.

Company Secretary

The Company Secretary for the Manager is currently Fonterra's Director of Legal and has a direct line of communication with the Chair of the Board (and by default, the Audit Committee (which is the Board)).

The Company Secretary is not paid by the Manager.

Principle 3: Board Committees

Audit Committee

The Board acts as the Audit Committee for the Fund. The Chair of the Audit Committee is the Chair of the Board. Due to the limited nature of the Fund's operations, the Board does not consider it necessary to comply with recommendation 3.1 of the NZX Code to have a separate Chair for the Audit Committee.

The Board acting as Audit Committee is responsible for:

- providing oversight in relation to financial reporting and regulatory compliance; and
- reviewing financial reporting processes, internal controls, the audit process and the process for monitoring legal and regulatory compliance.

The Manager has implemented a formal Audit Committee Charter which sets out the responsibilities of the Audit Committee in full and establishes a framework for the Fund's relationship with its external auditor. The Audit Committee Charter is available at www.fonterra.com in the 'Investors/Fonterra Shareholders' Fund' section under the heading 'Charters and policies'.

Under the Trust Deed that governs the Fund, Fonterra's external auditor is also appointed as auditor of the Fund unless Fonterra requires a different auditor. The Board of the Fund oversees the work of the external auditor and also acts as a forum for communication between the Board and the auditor where appropriate. The Audit Committee asks the external auditor to attend the annual unit holder meeting and be available to answer questions relevant to the financial statements.

Statutory Information (CONTINUED) FOR THE YEAR ENDED 31 JULY 2022

Remuneration Committee

Given the small size of the Board and the fact the Fund has no employees, the Manager has not established a separate Remuneration Committee and therefore has decided not to follow recommendation 3.3 of the NZX Code.

Under the Authorised Fund Contract, Fonterra is responsible for the payment of all director fees payable to the Directors of the Manager.

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

Nominations Committee

Given the small size of the Board, the Manager has not established a separate Nominations Committee to recommend director appointments to the Board and therefore has decided not to follow recommendation 3.4 of the NZX Code. The Board is appointed in accordance with the Trust Deed and the constitution of the Manager. The Board is responsible for establishing the criteria for determining the suitability of potential Elected Directors and recommending persons suitable for appointment to the Board.

Other Committees

As recommended by recommendation 3.5 of the NZX Code, the Board considered whether it is necessary or appropriate to have any other Board Committees as standing committees. Given the Fund's limited operational functions, the Board decided it was not appropriate to have any other Board committees as standing committees.

The Board subcommittee that was established by the Board in May 2021 to consider the implications of Fonterra's capital structure review met ten times during the 2022 reporting period, and all Independent Directors have attended each of these meetings. The subcommittee will continue to be constituted until the implementation of Fonterra's Flexible Shareholding structure.

Takeovers Policy

Given the Fund cannot have any controlling interest in Fonterra, the Manager has not established protocols that set out the procedure to be followed if there is a takeover offer for the Fund (as contemplated by recommendation 3.6 of the NZX Code).

Principle 4: Reporting and Disclosure

Continuous Disclosure

The Board aims to ensure that unit holders are informed of all major developments affecting the Fund. Information is communicated to unit holders through NZX and ASX announcements, the Fund's annual report and half and full-year results announcements.

Fonterra and the Manager have entered into an arrangement to co-operate with each other and take all steps reasonably required to ensure that information to be disclosed by either of them under the listing rules of the Fonterra Shareholders' Market, the NZX Listing Rules or the ASX Listing Rules (as the case may be) is disclosed simultaneously to the Fonterra Shareholders' Market, the NZX Main Board and ASX in relation to the Fund. It is intended that where NZX, as market operator of the Fonterra Shareholders' Market, receives information provided by Fonterra for release under the Fonterra Shareholders' Market, NZX simultaneously releases the information under the code relating to the Fund. This process is intended to be automatic.

The Manager does not consider it necessary to comply with recommendation 4.1 of the NZX Code and to have its own continuous disclosure policy. Due to the relationship between units and Fonterra shares, the majority of continuous disclosure announcements are made by Fonterra in relation to matters affecting Fonterra and the value of Fonterra shares (and by implication the value of units).

Website Disclosure

At present the Fund has the following documents available on www.fonterra.com relating to its governance:

- Board Charter
- Audit Committee Charter
- Code of Conduct
- Fonterra Group Securities Trading Policy and Securities Trading Standard
- Trust Deed
- A summary of key entitlements for unit holders and the Maximum Holding Restriction
- Fund Size Risk Management Policy
- Fund Prospectus and Investment Statement
- Summary of NZX Waivers

Statutory Information (CONTINUED) FOR THE YEAR ENDED 31 JULY 2022

Financial and Non-Financial Reporting

The Manager partially complies with recommendation 4.3 of the NZX Code in that it provides financial reporting that is balanced, clear and objective.

Given the Fund's limited operational functions, the Manager does not consider it necessary to comply with that aspect of recommendation 4.3 of the NZX Code that recommends it provide non-financial disclosures annually.

Principle 5: Remuneration

Under the Authorised Fund Contract, Fonterra is responsible for the payment of all director fees payable to the Directors of the Manager. During the 12 months ended 31 July 2022, Fonterra paid the following amounts to the Directors in the form of fees:

- \$80,000 per annum to the Chair of the Board; and
- \$53,000 per annum to each Independent Director.

Fonterra has approved the following amounts of remuneration for the Directors, from 14 November 2022:

- \$90,000 per annum to the Chair of the Board; and
- \$60,000 per annum to each Independent Director.

These amounts exclude GST, where applicable.

Currently, Directors of the Manager that have been appointed by Fonterra are not paid any remuneration, in addition to their remuneration as Directors of Fonterra, for their service on the Board of the Manager.

Neither the Manager nor Fonterra award options or provide for retirement benefits to directors. No special exertion benefits, additional to director fees, are or will be paid without unit holder approval.

As the Manager does not have any employees, it cannot provide any golden parachutes/golden handshakes to executives. The Manager also does not provide any special retirement allowances or the likes to departing directors.

Remuneration Policy

Given the small size of the Board, the fact that the Fund has no employees or CEO, and in light of the arrangements with Fonterra around director remuneration, the Manager has decided not to comply with recommendations 5.2 and 5.3 of the NZX Code.

Principle 6: 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
- monitoring compliance with the risk management framework.

Given the Fund's limited operational functions, its general risk and health and safety risk profiles are limited. The management of risks relating to Fonterra's operations and which may affect the value of Fonterra shares and dividends (and therefore the value of units and distributions flowed through to unit holders) is a matter for the Board and Management of Fonterra and is beyond the control of the Manager Board. On this basis, the Manager has decided not to follow recommendations 6.1 and 6.2 of the NZX Code.

To the extent that there are risks that specifically impact the operation of the Fund, the Board reviews the management of those risks at quarterly intervals. Specific areas of risk reviewed are:

- Regulatory compliance
- Investor confidence
- Data security
- People (Fonterra employees responsible for day-to-day operations of the Fund)

Principle 7: Auditors

External Audit

The Audit Committee Charter provides a framework for the Fund's relationship with its external auditor.

Under the Trust Deed that governs the Fund, Fonterra's external auditor is also appointed as auditor of the Fund unless Fonterra requires a different auditor. The Board of the Fund oversees the work of the external auditor and also acts as a forum for communication between the Board and the auditor where appropriate.

Statutory Information (CONTINUED) FOR THE YEAR ENDED 31 JULY 2022

KPMG has been appointed the external auditor for three consecutive years. The lead audit partner has served for three consecutive years.

The appointed external auditor has historically attended the annual unit holder meeting, and the lead audit partner is available to answer relevant questions from unit holders at that meeting.

Internal Audit

Due to the nature of the Manager's role as a manager of a Fund with limited operational activity, recommendation 7.3 of the NZX Code has not been followed and the Manager has no formal or informal internal audit functions.

Principle 8: Unit Holder Rights and Relations

Investor Centre Website

Fonterra maintains a dedicated investor webpage at www.fonterra.com under 'Investors'. This website is an important part of the Manager's communication with unit holders. It contains financial information, current and historical annual reports and presentations, dividend and distribution information and other relevant information pertaining to the Fund. The website is freely accessible to the public and is updated regularly.

Electronic Communications

The Manager provides an Investor Relations email address which provides unit holders a mechanism by which they can communicate electronically with the Manager on any matters relating to their investment. All unit holder-related enquiries are provided with a response within a reasonable timeframe.

Investors who have provided the Manager with an email address will be sent annual and interim reports electronically unless they expressly opt to receive hard copy reports and will receive other communications electronically where requested. Unit holders are strongly encouraged to provide an email address.

Voting

Under the Trust Deed the Manager and Fonterra need to comply with the provisions of all applicable Listing Rules before taking action affecting the rights attached to any unit.

Maximum Holding Restriction

Under the Trust Deed, no unit holder and its associates (excluding Fonterra) can hold, or have a "relevant interest" in, more than 15% of the units on issue or 15% of the voting rights in the Fund, whichever is lower.

The Trust Deed also contains enforcement provisions to ensure compliance by unit holders with this restriction. If Fonterra determines that a unit holder is in breach of this restriction, Fonterra may determine that the unit holder is not entitled to vote some or all of the units it holds in breach of the restriction and can require that the unit holder dispose of the units held in breach of the restriction. If the units are not disposed of, the Manager or Fonterra can arrange for their disposal.

Capital Raising

As the Fund has not sought additional equity capital during the year, the Board has not needed to follow recommendation 8.4 of the NZX Code which recommends the new equity capital raising be undertaken on a pro rata basis.

Unit Holder Meetings

Mechanisms are in place to promote effective two-way communication with unit holders and to encourage their participation at unit holder meetings, including:

- the Manager releasing to the NZX Main Board and ASX market announcements platform respectively all information sent to unit holders and will comply with the NZX Listing Rules and ASX Listing Rules with respect to unit holder communications; and
- notices of meetings, which are sent to unit holders at least 20 working days before a meeting and can be found at www.fonterra.com in the 'Investors/Fonterra Shareholders' Fund' section under the heading 'Related documents'.

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, at the expense of the Fund, to give notice of the unit holder proposal and to provide 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).

Directory

FOR THE YEAR ENDED 31 JULY 2022

REGISTERED OFFICE OF THE MANAGER OF THE FUND – NEW ZEALAND

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

REGISTERED OFFICE OF THE MANAGER OF THE FUND – AUSTRALIA

C/o Fonterra Australia Pty. Ltd.
Level 2, 40 River Boulevard
Richmond, Victoria 3121
Telephone: +61 3 8541 1588

DIRECTORS OF THE MANAGER OF THE FUND

Mary-Jane Daly
Kimmitt Rowland Ellis
Andrew Webster Macfarlane
John Bruce Shewan
Donna Maree Smit

COMPANY SECRETARY

Andrew Cordner

SUPERVISOR

The New Zealand Guardian Trust Company Limited
Level 6, 191 Queen Street
Auckland Central, Auckland 1010
New Zealand

AUDITOR OF THE FUND AND THE MANAGER OF THE FUND

KPMG
18 Viaduct Harbour Avenue
Auckland 1010
New Zealand

LEGAL ADVISERS TO THE MANAGER OF THE FUND

Chapman Tripp
Level 34, PwC Tower
15 Customs Street West, Auckland 1010
New Zealand

SHARE REGISTRAR – NEW ZEALAND

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna, Auckland 0622
Private Bag 92119, Auckland 1142
Telephone: +64 9 488 8700

SHARE REGISTRAR – AUSTRALIA

Computershare Investor Services Pty. Limited
Yarra Falls, 452 Johnston Street
Abbotsford, Victoria 3067
GPO Box 2975
Melbourne, Victoria 3000
Telephone: 1800 501 366 (within Australia)
Telephone: +61 3 9415 5000 (outside Australia)





fonterra.com

