



Dairy for life

# Your guide to Flexible Shareholding

VERSION 3



A photograph of two men standing in a grassy field. The man on the left is younger, wearing a dark blue polo shirt and khaki pants. The man on the right is older, wearing a blue and white checkered shirt, a dark blue cap, and dark pants. They are both looking at a tablet held by the younger man. In the background, there are green fields and a cow grazing.

## This booklet is your guide to our new Flexible Shareholding capital structure

### In this booklet you will find:

- An overview of Flexible Shareholding
- A summary of how Flexible Shareholding applies to the different kinds of shareholder, and some scenarios
- An overview of how to apply to become a shareholder
- Some FAQs
- The Rules for Shareholding in full

### This booklet is for guidance only

You'll need to refer to the [Rules for Shareholding](#) and the [Constitution](#) ([Fonterra.com/flexibleshareholding/constitution](https://fonterra.com/flexibleshareholding/constitution)) for specific details.

This booklet is also not intended to tell you how to invest in the Co-op or provide you with financial advice. As always, if you're thinking of buying or selling Fonterra shares, you should take advice from your financial advisor, accountant, lawyer or other rural professional.



# Overview of Flexible Shareholding

Our Flexible Shareholding structure is intended to make it easier for new farmers to join our Co-op, and for existing farmers to remain with our Co-op, by allowing flexibility in the level of investment required.

This supports our strategy by helping to maintain a sustainable milk supply, protecting farmer ownership and control, and supporting a stable balance sheet.

Flexible Shareholding is also more inclusive, with Sharemilkers, Contract Milkers and Farm Lessors of a farm supplying the Co-op now able to join and hold Co-op shares as Associated Shareholders.

## Flexible Shareholding in a nutshell

- If you're a Supplying Shareholder, you can hold up to 4 times your milk supply in shares, or as little as 33% of your milk supply.
- If you're joining our Co-op, you have up to 6 seasons to reach your minimum holding of 33% or one share for every ~3 kgMS supplied.
- Votes are based on your share backed production, that is one vote for every 1000kgMS of production backed by shares.
- If, at some stage, you decide you want to cease supplying milk to the Co-op, you have a few options, and there's more about this in the table on the next page. If you've given a valid cease notice and:
  - you were a shareholder in our Co-op on 9 December 2021, you will have up to the later of (a) the Compliance Date in the season ending 31 May 2037; and (b) the Compliance Date in the 10th season after you cease, to sell your shares; or
  - you joined our Co-op after 9 December 2021, you will have up to 5 seasons after you cease to sell your shares.
- After ceasing, you also have an option to transfer shares to one or more Permitted Transferees, being a relative or, if you're an entity or trust, someone with a sufficient ownership or control relationship to you.
- If you're a Sharemilker, Contract Milker or Farm Lessor who is approved to be an Associated Shareholder, you can hold up to 1x the milk supply from the farm you're associated with in total for all Associated Shareholders of that farm. Associated Shareholders do not have any entitlement to vote.
- If you're a Sharemilker on a farm that supplies milk to our Co-op and you own or supply all the dairy herd, you might also consider becoming a Secondary Shareholder with the approval of your Supplying Shareholder. In this case, while you will need to hold an agreed percentage of the minimum holding, being the percentage you agree with your Supplying Shareholder, you will also get votes based on the agreed percentage of shares you hold up to the milk supply on the farm.
- Our farmers can still trade shares in our Co-operative between themselves. However, the market price is no longer directly influenced by external investors in units in the Fonterra Shareholders' Fund. This is because the Fund is capped, and shares cannot be exchanged into units on a day-to-day basis.

Whatever you decide, you're bound to have a few questions. If you're looking for more general information on your options, have a look here [Fonterra.com](https://www.fonterra.com).

You can also get in touch with your Farm Source contact, such as your Area Manager, or phone the Farmer Support Team on 0800 65 65 68.

# What are the different kinds of shareholder?

This table is only a high-level summary of the different types of shareholder.

If you're looking for more detail on Supplying Shareholders, you'll need to refer to the [Constitution](https://fonterra.com/flexibleshareholding/constitution) (Fonterra.com/flexibleshareholding/constitution). For more details on Associated Shareholders, Secondary Shareholders and Permitted Transferees, you can find the Rules for Shareholding at the end of this booklet.

Who are you?	Supplying Shareholder	Associated Shareholder	Secondary Shareholder	Permitted Transferee
<b>Description</b>	You hold shares and supply milk to the Co-op under the Fonterra Farmers' Terms of Supply	<ul style="list-style-type: none"> <li>You're a Sharemilker, Contract Milker or Farm Lessor associated with a farm that supplies milk to the Co-op</li> <li>You have a qualifying agreement (e.g. lease) with your Supplying Shareholder</li> <li>If you're a Sharemilker or Contract Milker, you're paid directly by the Co-op for milk supplied</li> <li>If you're a Farm Lessor, the lease includes the milking platform</li> </ul>	<ul style="list-style-type: none"> <li>You're a Sharemilker on a farm that supplies milk to the Co-op and you own or supply all the dairy herd</li> <li>You have a sharemilking agreement with your Supplying Shareholder</li> </ul>	<ul style="list-style-type: none"> <li>You're a relative of, or have a sufficient ownership or control relationship with, a ceased Supplying Shareholder or ceased Secondary Shareholder</li> <li>The ceased shareholder has applied to transfer shares to you before the end of the third complete season</li> <li>After the cease application becomes effective, or on the death of a key person connected to the ceased shareholder</li> </ul>
<b>Minimum holding</b>	33% of 3-season average milk supply	No minimum holding requirements	Agreed percentage of your Supplying Shareholder's minimum holding	No minimum (but limited to no more than 5 Permitted Transferees)
<b>Maximum holding</b>	4x the 3-season average milk supply	1x the 3-season average milk supply, in total for all Associated Shareholders on the farm	Agreed percentage of your Supplying Shareholder's maximum holding	No further shares can be acquired, unless a further application is made and accepted
<b>Voting</b>	1 vote per 1000 kgMS of production backed by shares	No entitlement to vote	Agreed percentage of 1 vote per 1000 kgMS of production backed by shares	No entitlement to vote
<b>Sharing down after ceasing</b>	<p>If you've given a cease notice as required and: you were a shareholder in our Co-op on 9 December 2021, you can hold your shares until the later of (a) the Compliance Date in the season ending 31 May 2037; and (b) the Compliance Date in the 10th season after you cease; or</p> <p>you joined our Co-op after 9 December 2021, you can hold your shares for up to 5 seasons.</p> <p>If you've not given a cease notice as required you'll need to divest your shares by the next Compliance Date in most cases</p>	<ul style="list-style-type: none"> <li>You can hold your shares for up to 3 seasons</li> <li>If we revoke your approval to be an Associated Shareholder, you might have a shorter period</li> </ul>	<ul style="list-style-type: none"> <li>If you've given a cease notice as required and: <ul style="list-style-type: none"> <li>you were a shareholder in our Co-op on 9 December 2021, you can hold your shares until the later of (a) the Compliance Date in the season ending 31 May 2037; and (b) the Compliance Date in the 10th season after you cease; or</li> <li>you joined our Co-op after 9 December 2021, you can hold your shares for up to 5 seasons.</li> </ul> </li> <li>If you've not given a cease notice as required you'll need to divest your shares by the next Compliance Date in most cases</li> </ul>	You can hold your shares for the same length of time as the ceased shareholder who transferred them to you would have had
<b>Ceasing notice requirements</b>	You'll need to give notice you intend to cease at least 3 months prior to the start of the season you will cease supplying (i.e. by 28 February for a cease in the next season starting 1 June)	You'll need to give notice without delay of any change in circumstances which mean you're no longer to be eligible to be an Associated Shareholder	You'll need to give notice you intend to cease at least 3 months' prior to the start of the season you will cease supplying (i.e. by 28 February for a cease in the next season starting 1 June)	

# Farmer scenarios

## New Supplying Shareholder leasing the farm

You are new to the Co-op and intend to supply 80,000kgMS each season. You lease your farm.

You must buy 1,000 shares in your first season and then you have another 5 seasons to share up to at least 26,400 shares – which is 33% of your 80,000kgMS per season estimated supply.

While you would like to eventually hold shares for at least 100% of your milk production, you know it will take a while to get there.

After discussing your situation with your financial advisor, you make a plan to initially share up to the 33% minimum over 6 seasons.

The owners of the farm (who lease the farm to you), would also like to invest in the Co-op as Associated Shareholders. This is how you all plan to invest for the first 6 seasons:

Who	Season	Shares	Voting
New Supplying Shareholder	1st season	1,000 shares	1 vote
	2nd season	5,080 shares	5 votes
	3rd season	10,160 shares	10 votes
	4th season	15,240 shares	15 votes
	5th season	20,320 shares	20 votes
	6th season	26,400 shares	26 votes
Associated Shareholder	At any time	80,000 shares	No voting rights on these shares

Every farmer situation is unique. Whether you're a new supplier, looking to grow your business or retire – your needs will be different depending on where you're at.

Flexible Shareholding recognises this and gives farmers more choices and optionality when it comes to investing in the Co-op.

We've illustrated a few examples of possible share ownership scenarios. This is not meant to be an exhaustive list of examples, but might be helpful when deciding how Flexible Shareholding can work for you and your farming business.

## Supplying Shareholder growing farming operations

You currently supply the Co-op an average of 80,000 kgMS per season from your dairy farm that's been in your family for 4 generations. At this point you hold 100,000 Co-op shares.

You have recently bought the neighbouring dairy farm to expand your operation. Based on current production, this new farm is also likely to supply 80,000 kgMS per season.

With a total expected milk supply of 160,000 kgMS across the 2 farms, your new minimum holding of 33% is 52,800 shares. This means you will have the flexibility to sell up to 47,200 shares or invest further in the Co-op and hold up to 640,000 shares.

Today you have 100 votes, but if you invest in a further 60,000 shares you will have 160 votes. Here is an illustration of the range of shareholding you could choose to hold (and how this would impact your voting):

	Shareholding	Voting
Minimum Holding	52,800 shares	52 votes
<b>Actual holding</b>	<b>100,000 shares</b>	<b>100 votes</b>
Maximum Holding	640,000 shares	160 votes





### Established Supplying Shareholder and Sharemilkers

You have been with the Co-op for just over 25 years and supply an average of 200,000kgMS per season. This means you can hold up to 800,000 or as few as 66,000 shares.

Over the last few years, you have taken a step back from the day-to-day management of the farm, and your sharemilkers have been sharemilking on your dairy property for 3 years.

You have been thinking about investing further in the Co-op, but have also been really impressed with way your sharemilkers have run the dairy farm and are keen for them to take up their opportunity to invest in the Co-op too.

Based on the continued average supply of 200,000kgMS per season, your sharemilkers plan to invest in Co-op shares as Associated Shareholders as follows:

Season	Shares	Voting
1st season	8,000 shares	No voting rights on these shares
2nd season	12,000 shares	
3rd season	16,000 shares	

They would have the option to continue to invest to hold up to 200,000 shares over time (assuming there are no other Associated Shareholders on the farm).

### Retiring Supplying Shareholder looking to release capital

You have been dairy farming with the Co-op for decades and are planning to retire soon. Your average farm production is 120,000kgMS per year and you hold 150,000 Co-op shares.

You would like to make a few on-farm improvements and upgrade the dairy shed before you pass the farm to your children. You have decided you would like to release capital now to cover the costs.

You know you can still hold onto Co-op shares until the later of the season ending 31 May 2037 and 10 seasons after you leave the dairy farm and cease supplying the Co-op. You will not be able to buy shares when you've ceased.

You have decided to manage your shareholding in the following way:

Now	On ceasing
Release capital for on-farm improvements by reducing your shareholding to 80,000 shares	Apply to the Co-op to transfer 40,000 shares to your children as your Permitted Transferees Sell 20,000 shares to release capital for your retirement Retain the remaining 20,000 shares until the end of your cease period as an investment

# How to apply to become a shareholder

## The first step is to determine what kind of shareholder you can be.

If you're not sure by referring to the table on pages 4 and 5, we have an online tool to help you out.

If you're eligible to be a **Supplying Shareholder**, you can find out more information on how to apply here ([Fonterra.com/nz/en/our-co-operative/the-way-we-farm/becoming-a-fonterra-farmer.html](https://fonterra.com/nz/en/our-co-operative/the-way-we-farm/becoming-a-fonterra-farmer.html)). Please contact one of our Business Development Managers on **0800 65 65 68**, who will be able to help you with the application process.

If you're eligible to be an **Associated Shareholder** or a **Secondary Shareholder**, or to transfer shares to a **Permitted Transferee**, you can apply online. It's easy to get started, just follow this [link](https://nzfarmsource.co.nz/my-shareholding/application-forms) ([nzfarmsource.co.nz/my-shareholding/application-forms](https://nzfarmsource.co.nz/my-shareholding/application-forms)) or QR code and you're away.

**If you need help, get in touch with your Farm Source contact or phone the Farmer Support Team on 0800 65 65 68.**

**We'll be in touch when we receive your application.**



Scan here to link through to our online tool.



## Buying and selling shares

Once you're set up as a shareholder, you'll be eligible to buy and sell shares. You can trade directly online through your Fonterra Share Trading Account, or you can instruct a Registered Broker to execute trades on your behalf.

## Customer due diligence

As part of your application, we'll need to get some important details from you to make sure we're compliant with our obligations under anti-money laundering laws. These laws require us to carry out customer due diligence (CDD) on our shareholders, any beneficial owners of our shareholders and any persons acting on behalf of our shareholders.

As part of our CDD, you will need to provide:

- proof of your identity (such as a NZ Driver's License or Passport)
- full names and mobile numbers of all the individuals associated with you, the applicant;
- if you are a trust, a copy of your trust deed; and
- if you are a partnership, a copy of your partnership agreement.

Each individual associated with you will be sent a text after you submit your application with a link to a secure website to verify their identity - you should let them know in advance to expect this text.

## Using a Registered Broker to manage your shareholding

You can use any of the Registered Brokers listed below (in alphabetical order) to execute trades on your behalf using the CSN number supplied by Computershare for your farm(s).

The benefits of using a Registered Broker include access to their analysis and research about Fonterra and markets in general, they can support you through the process of trading and they can also provide financial advice. You will need to pay the Registered Broker's brokerage fees.

Click on the links below to be directed to their relevant websites.

- <https://craigsip.com/>
- <https://www.forsythbarr.co.nz/>
- <https://www.jarden.co.nz/>

## Fonterra Share Trading Account

To apply for a Fonterra Share Trading Account you'll need to head to the Farm Source website ([Nzfarmsource.co.nz/shareoptionsandtools](https://nzfarmsource.co.nz/shareoptionsandtools)).

You'll see there are a few different types of application forms – please select the form that suits your farm business (e.g. individual, trust, company or partnership).

There are some things you'll need to have on hand to do this:

- CSN – or common shareholder number, this is the number you'll be given by us and Computershare when you join the Co-op. If you've misplaced it, get in touch with our Farmer Support Team who can help you out on 0800 65 65 68.
- FIN – this is the Faster Identification Number and is issued by Computershare.

The benefits of using your Trading Account to trade are that you will not pay brokerage fees (as the Co-op covers those), and you can log on to set up your trades at any time (noting they can only take place when the market is open). However, we still recommend you seek appropriate advice before you make any decisions about your shareholding.

Permitted Transferees will be able to set up a Trading Account – however, they will not be able to use their Trading Account to buy shares. This is because, under the application process, any shares transferred to them must be transferred to them from the ceased Supplying Shareholder or ceased Secondary Shareholder using an off-market transfer form. They can, however, use their Trading Account to see and sell their shares.

# Frequently asked questions

## I'm a Supplying Shareholder – how many shares do I need to hold?

- In the first season a minimum of 1,000 shares is required, with 1/5th of the remainder of the 33% minimum holding (which is around 1 share for every 3 kgMS) required for each of the following 5 seasons.
- You could, however, decide to share up to your minimum holding earlier (and you will not be bound to supply the Co-op for the full 6 seasons if you reach your minimum holding early).
- You also have the flexibility to hold more shares - up to a maximum of 4x the share standard.

## How will I know if I'm compliant?

- You will receive a measurement statement at the beginning of each season, setting out how many shares you hold and your minimum and maximum holdings.
- If you are already a shareholder, you would have received a measurement statement for this season in June, but you will receive a new measurement statement when the Flexible Shareholding structure is implemented.

## Can I move my unit holding into shares?

- In theory, yes. However, as you will be aware the traded prices for units in the FSF listed on the NZX may not be the same as the traded prices for Co-operative shares. Another option would be to sell your units and use the proceeds to buy shares. We recommend that you seek independent advice from an accountant, lawyer, financial advisor or other rural professional.

## How long can I own shares as a Supplying Shareholder?

- If you've given a cease notice as required and:
  - you were a shareholder in our Co-op on 9 December 2021, you can hold your shares until the later of (a) the Compliance Date in the season ending 31 May 2037; and (b) the Compliance Date in the 10th season after you cease; or
  - you joined our Co-op after 9 December 2021, you can hold your shares for up to 5 seasons.

## Who is eligible to share down over 5 / 15 seasons?

- You do not need to divest a certain number of shares each year - you could decide to hold all of your shares until the end of your share down period.
- To be eligible for the share down period you'll need to give notice you intend to cease at least 3 months prior to the start of the season you will cease supplying (i.e. by 28 February for a cease in the next season starting 1 June).
- If you've not given a cease notice as required, you'll need to divest your shares by the next Compliance Date in most cases.

## I'm a Sharemilker, should I be an Associated Shareholder or a Secondary Shareholder?

- If you own or provide all the herd on the farm, you have 2 options - have a look here ([Fonterra.com/flexibleshareholding](https://fonterra.com/flexibleshareholding)) to consider the right option for you.
- Associated Shareholders can't vote but have no minimum shareholding requirement. They can hold up to 1x the share standard for their farm (in total with all other Associated Shareholders on that farm). Secondary Shareholders are eligible (or required, in the case of the minimum holding only) to hold an agreed percentage of shares. They can vote using their agreed percentage of any "wet shares" held, being shares backed by production.

Head over to the Flexible Shareholding section of the Fonterra website ([Fonterra.com/flexibleshareholding/FAQ](https://fonterra.com/flexibleshareholding/FAQ)) for a comprehensive FAQ that is updated from time to time.

## In the case of multiple parties who qualify as Associated Shareholders and apply to hold them, who has rights to hold shares? i.e. how do you divvy them up?

- If there is more than one Associated Shareholder per farm the maximum will be allocated on the following basis:
  - If there is already an existing Associated Shareholder, they can keep the proportion of the Share Standard they already have. The unused balance may be allocated to the new Associated Shareholder(s).
  - If there is no existing Associated Shareholder, the shares may be divided equally among applicants.
  - If there is a disagreement, the Associated Shareholder(s) will need to work with the Supplying Shareholder to decide how to allocate the shares.

## How do I find out how many shares I have?

- Head to the "shares" section in your Farmsource. [co.nz](https://co.nz) ([Nzfarmsource.co.nz/my-shareholding/shareholding-portfolio](https://nzfarmsource.co.nz/my-shareholding/shareholding-portfolio)) account for all the information on your share portfolio.

## When is a good time to buy / sell?

- We cannot provide you with financial advice about when to buy and sell shares. We recommend that farmers seek independent advice from an accountant, lawyer, financial advisor or other rural professional.

## Can I get reminders / prompts for when to trade?

- We recommend you seek independent advice from an accountant, lawyer, financial advisor or other rural professional.

## What is a CSN number?

- Common Shareholder Number. This is the identifying number shareholders are provided with by Computershare in relation to their shareholding in the Co-op.

## What is a FIN number?

- This is your Faster Identification Number issued by Computershare. You will need this and your CSN (Common Shareholder Number) to buy and sell shares.

## More information

Looking for more detail on the different kinds of shareholders? Head to [fonterra.com](https://fonterra.com/flexibleshareholding) (Fonterra.com/flexibleshareholding).

You can also get in touch with your Farm Source contact, such as your Area Manager, or phone the Farmer Support Team on **0800 65 65 68**.

If you're looking for more detail on Supplying Shareholders you'll need to refer to the [Constitution](#). ([Fonterra.com/flexibleshareholding/constitution](https://fonterra.com/flexibleshareholding/constitution)).

For more detail on Associated Shareholders, Secondary Shareholders and Permitted Transferees, you can find the Rules for Shareholding on the following pages.



# The Rules for Shareholding

## Introduction and Contents

These are the Rules set by the Board in relation to shareholding, as noted in the Constitution of Fonterra Co-operative Group Limited (**Co-op, we, us or our**).

These Rules may be changed from time to time by the Board, after consultation with the Fonterra Co-operative Council. The current Rules are available from [Fonterra.com/flexibleshareholding/rulesbooklet](https://Fonterra.com/flexibleshareholding/rulesbooklet)

The Co-op's decisions in relation to the application of these Rules are final and binding. Any delay by the Co-op in enforcing these Rules will not constitute a waiver by the Co-op of these Rules.

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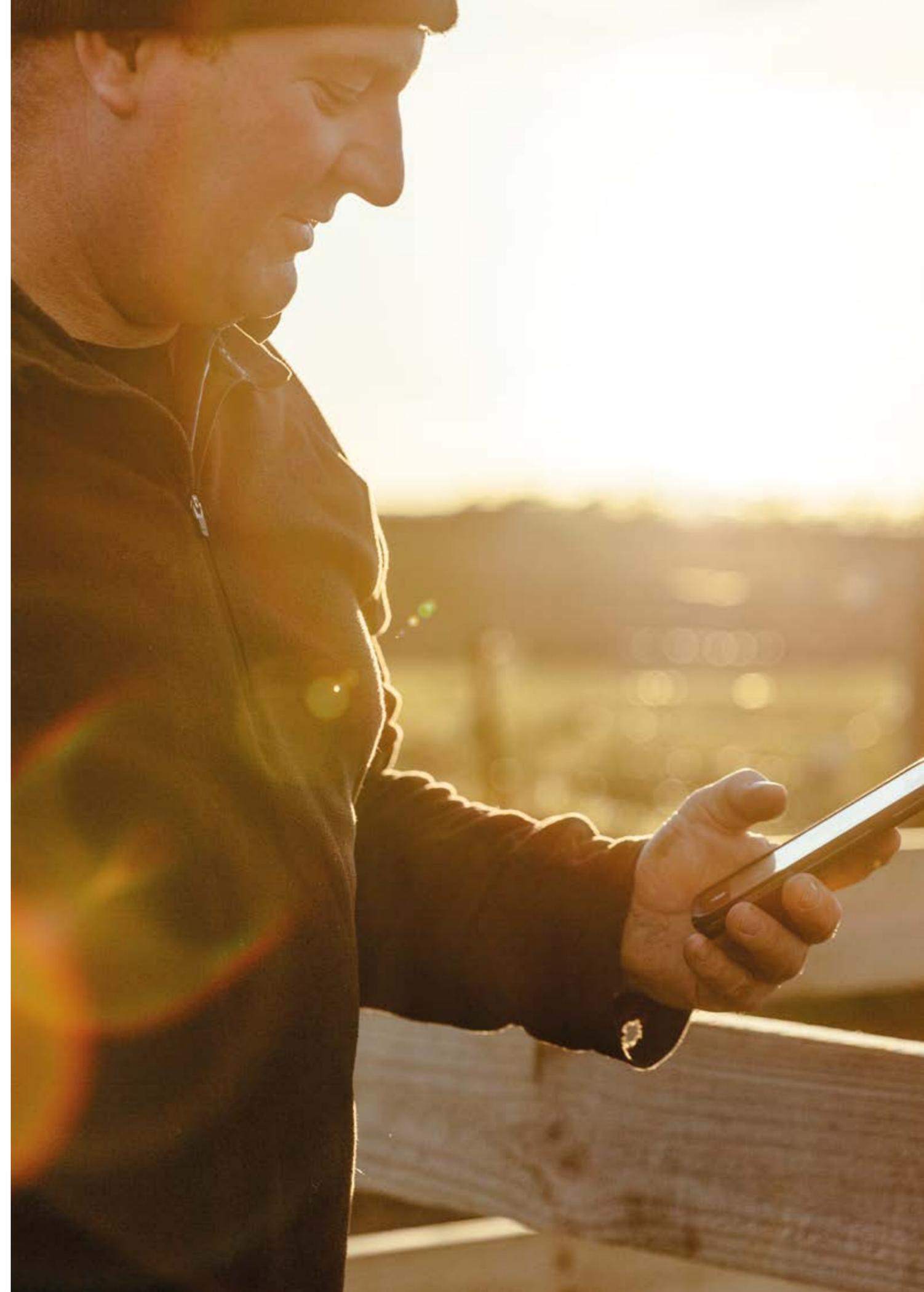


The current Rules for Shareholding are available from [Fonterra.com/flexibleshareholding/rulesbooklet](https://Fonterra.com/flexibleshareholding/rulesbooklet) or by scanning the QR code.

# Glossary

Any other capitalised terms used in these Rules, but not defined below or elsewhere in these Rules, have the meaning given to them in the Constitution.

<b>Associated Shareholder</b>	a Shareholder that is a Farm Lessor, Sharemilker or Contract Milker.
<b>Associated Shareholder Maximum</b>	the maximum number of Shares all Associated Shareholders for a Farm may hold in total, as determined in accordance with these Rules.
<b>Contract Milker</b>	a person that the Board is satisfied: <ul style="list-style-type: none"> <li>• has entered into a bona fide contract milking arrangement with a Supplying Shareholder, in respect of one or more Farms; and</li> <li>• complies with any further requirements specified in these Rules.</li> </ul>
<b>Farm</b>	any farm, farm dairy, or group of farm dairies (whether physically located on the same property or not), that the Board may from time to time determine to constitute a Farm (as defined further in the Constitution).
<b>Farm Lessor</b>	a person that the Board is satisfied: <ul style="list-style-type: none"> <li>• owns the land on which one or more Farms is located, and has entered into a bona fide Farm lease or similar arrangement with a Supplying Shareholder, in respect of one or more of such Farms; and</li> <li>• complies with any further requirements specified in these Rules, including the requirement for the lease to include the Milking Platform (Part A, Rule 1.1(a)(iv)).</li> </ul>
<b>Milking Platform</b>	all or part of the area of land used to produce milk from the Farm, including the dairy shed or cow shed that is used for milking cows on the Farm.
<b>Permitted Transferee</b>	a person who has been approved by the Co-op and who is (and remains) related to or associated with a Supplying Shareholder, as determined in accordance with these Rules.
<b>Risk Management Policy</b>	the Risk Management Policy adopted from time to time by the Board in relation to the total number of Shares on issue and the proportion of Shares that are not held by Supplying Shareholders.
<b>Sharemilker</b>	<ul style="list-style-type: none"> <li>• has the meaning set out in section 34 of the Co-operative Companies Act* and includes any other person that the Board is satisfied:</li> <li>• has entered into a bona fide sharemilking arrangement with another Supplying Shareholder, in respect of one or more Farms; and</li> <li>• complies with any further requirements specified in these Rules.</li> </ul> <p>* Section 34 of the Co-operative Companies Act defines a "sharemilker" as a person who is engaged by a supplying shareholder, otherwise than as a servant under a contract of service, to produce milk or milksolids obtained from a dairy herd owned or provided by that person.</p>
<b>Secondary Shareholder</b>	a sharemilker as defined in section 34 of the Co-operative Companies Act that holds shares as if they were a supplying shareholder, pursuant to section 44 of the Co-operative Companies Act and clause 30.5 of the Constitution, either before commencement of the Flexible Shareholding capital structure in accordance with the rules that were in place at the time, or in accordance with Part B of these Rules.
<b>Supplying Shareholder</b>	a Shareholder supplying Milk to the Co-op.



# Part A: Rules for Associated Shareholders

## 1. Applying to hold Shares as an Associated Shareholder

### 1.1 Who can apply:

- (a) You can apply to hold Shares as an Associated Shareholder if:
- (i) you are a Sharemilker, Contract Milker or Farm Lessor, for a Farm where there is a Supplying Shareholder; and
  - (ii) you have a sharemilking agreement\*, contract milking agreement, farm lease agreement or similar document (**Qualifying Agreement**), showing a genuine arrangement with the Supplying Shareholder, and either:
    - (iii) you are a Sharemilker or Contract Milker and we are paying you directly for some or all of the Milk supplied from the Farm, following the Supplying Shareholder's instructions to us; or
    - (iv) you are a Farm Lessor and you lease an area of land including the Milking Platform to the relevant Supplying Shareholder.
- \* A lease agreement could be a qualifying sharemilking agreement where the lessee is the 100% Sharemilker and the lessor is the Supplying Shareholder.
- (b) If the Farm you are associated with supplies Milk to the Co-op via MyMilk, you will not be able to hold Shares.

1.2 **How to apply:** To apply, you need to complete the application form available here ([Nzfarmsource.co.nz/my-shareholding/application-forms](https://nzfarmsource.co.nz/my-shareholding/application-forms)). This includes providing:

- (a) the name of the Supplying Shareholder and the Supply Number for the Farm;
- (b) the maximum number of Shares you would like to hold (as a percentage of the Associated Shareholder Maximum for the Farm);
- (c) your GST number and bank account details;
- (d) a copy of your Qualifying Agreement; and
- (e) information about you and your beneficial owners for anti-money laundering purposes.

### 1.3 Contact with Supplying Shareholder:

- (a) We may contact the Supplying Shareholder to confirm your relationship with them and to check your Qualifying Agreement. We may share details of your application with them.
- (b) The Supplying Shareholder will be able to see on their Farm Source account that you have made an application and, if they request, we may share details of your application with them.

1.4 **Decision on application:** We may approve your application if we agree that you meet the criteria to be an Associated Shareholder. The reasons we may decline your application include:

- (a) we are not satisfied that you are a Sharemilker, Contract Milker or Farm Lessor for the Farm;
- (b) other Associated Shareholder(s) for the Farm already hold Shares equal to the Associated Shareholder Maximum for the Farm; or
- (c) your arrangements are not genuine.

1.5 **Details provided if application approved:** If your application is approved, we will advise:

- (a) you of your Party Number and CSN (Common Shareholder Number), and the Share Registrar will advise your FIN (Faster Identification Number). Your CSN and FIN are required to buy and sell Shares; and
- (b) you and the Supplying Shareholder of the initial maximum number of Shares that you may hold, calculated as a percentage of the Share Standard of the Farm.

1.6 **No involvement with Qualifying Agreement:** Approval of your application does not mean we approve the terms of your Qualifying Agreement – that is for you and the Supplying Shareholder to agree between yourselves.

### 1.7 Separate applications:

- (a) If you have a Qualifying Agreement with more than one Supplying Shareholder or for more than one Farm, you need to complete a separate application for each Farm.
- (b) A separate CSN will be issued for each Farm where your application is approved.

## 2. Maximum Shareholding for Associated Shareholders

### 2.1 Associated Shareholder Maximum:

- (a) The **Associated Shareholder Maximum** (being the maximum number of Shares all Associated Shareholders for a Farm may hold in total) is:
  - (i) 1 x the Share Standard for Milk supplied from the Farm; or
  - (ii) any lesser number we may set under Rule 2.4(b) below.
- (b) This excludes Shares still held by anyone who has ceased to be an Associated Shareholder of the Farm (for example, if the Associated Shareholder no longer has a Qualifying Agreement with a Supplying Shareholder and is in a Reduction Period).

### 2.2 Measurement Statement and Compliance Statement:

- (a) The maximum number of Shares you are allowed to hold in each Season and your compliance with that maximum number will be set out in your annual Measurement Statement and Compliance Statement.
- (b) We may re-issue your Measurement Statement and/or Compliance Statement within a Season to reflect any changes to your maximum shareholding.

### 2.3 More than one Associated Shareholder per Farm:

Where we approve more than one Associated Shareholder for a Farm, the Associated Shareholder Maximum will be allocated on the following basis (and we may re-issue Measurement Statements accordingly):

- (a) if there is an existing Associated Shareholder that holds Shares, it will be entitled to continue to hold a number of Shares equal to the proportion of the Associated Shareholder Maximum it currently holds in Shares, and we may allocate any unused proportion of the Associated Shareholder Maximum to an additional Associated Shareholder;
- (b) if there are no existing Associated Shareholders that hold Shares, we may apportion the Associated Shareholder Maximum evenly between all approved applicants; and
- (c) if there is any disagreement between Associated Shareholders, you and the other Associated Shareholder(s) will need to work with the Supplying Shareholder to determine how the Associated Shareholder Maximum should be apportioned and we may give effect to the Supplying Shareholder's directions.

2.4 **Reduction in line with Risk Management Policy:** Under the Risk Management Policy noted in clause 16.14(b) of the Constitution, we may by notice at any time:

- (a) require you to reduce the number of Shares you hold; and/or
- (b) reduce the Associated Shareholder Maximum of a Farm.

2.5 **Enforcement:** If at any time you hold more Shares than you are allowed to hold under these Rules or the Constitution, the enforcement provisions of clauses 3 and 4 of the Constitution apply.

## 3. Ceasing to be an Associated Shareholder

3.1 **No longer meeting the criteria to be an Associated Shareholder:** You must notify us (without delay) of anything which means you may no longer meet the criteria to be an Associated Shareholder, including if:

- (a) you are no longer a Sharemilker, Contract Milker or Farm Lessor for the Farm;
- (b) your Qualifying Agreement is amended in any material respect or expires; or
- (c) the Supplying Shareholder ceases or intends to cease to supply Milk to us from the Farm.

3.2 **Disposal of Shares on ceasing to meet the criteria to be an Associated Shareholder:** If you no longer meet the criteria to be an Associated Shareholder for a Farm you must dispose of any Shares you hold within three Seasons (being the Reduction Period for Associated Shareholders), unless:

- (a) you are allowed to hold those Shares on some other basis (e.g. because we have approved your application to hold Shares under a Qualifying Agreement for another Farm, and you are transferring your Shares to that other Farm in accordance with Rule 3.3 below);
- (b) we have notified you of a change to the Reduction Period, including under the Risk Management Policy noted in clause 16.14(b) of the Constitution; or
- (c) your approval to hold Shares has been revoked by us in accordance with Rule 3.4 below, in which case you must dispose of any Shares you hold by the time set by us under Rule 3.5.

### 3.3 Fresh application for new or replacement Qualifying Agreement:

- (a) If you enter into a new or replacement Qualifying Agreement relating to the same or another Farm, you need to reapply to us to hold Shares as an Associated Shareholder.
- (b) If your application is approved, you must transfer the relevant Shares to your new CSN by the Compliance Date in the first Season in which the new Qualifying Agreement applies – this can be done by completing an off-market transfer form, available here ([Nzfarmsource.co.nz/my-shareholding/application-forms](https://nzfarmsource.co.nz/my-shareholding/application-forms)).

3.4 **Revocation of approval in the Co-op's discretion:** We may revoke your approval to hold Shares, including if we think that these Rules have not been complied with or that the arrangements are not genuine.

3.5 **Disposal of Shares on approval being revoked:** If your approval to hold Shares is revoked, you must dispose of all Shares you hold by the time set by us (not being less than 10 Working Days).

## 4. Ongoing requirements for Associated Shareholders

4.1 **Confirmation of eligibility:** You must on request provide evidence to confirm that your Qualifying Agreement remains in force and reflects a genuine arrangement between you and the Supplying Shareholder. This will usually be required once per Season and may be by way of online confirmation.

4.2 **No entitlement to vote:** You will not have any entitlement to vote any Shares held by you as an Associated Shareholder, because you do not directly supply Milk to the Co-op.

4.3 **Instructions to the Co-op from Associated Shareholders:**

- (a) You must:
  - (i) give all instructions and notices to us in writing or following any procedure or standard form given by us for this purpose; and
  - (ii) ensure an attorney who signs an instruction or notice sends the power of attorney and a certificate of non-revocation to us.
- (b) We may rely on written instruction(s) provided in any format as the valid and binding instructions of the named Associated Shareholder, including where the instruction is signed or given by only one joint owner, one partner or one trustee or by a person for a company.

## 5. Relationship to statutory entitlements

5.1 **No limits to statutory rights:** Nothing in these Rules limits the rights of a Supplying Shareholder or Sharemilker under section 44 of the Co-operative Companies Act 1996 and clause 30.5 of the Constitution. If a Supplying Shareholder transfers Shares to a Sharemilker under those provisions, Part B of these Rules will apply instead of this Part A.

## Part B: Rules for Sharemilkers holding shares as Secondary Shareholders

### 1. Applying to hold Shares as a Secondary Shareholder

- 1.1 **Who can apply:** You can apply to hold Shares as a Secondary Shareholder if:
- you are a Sharemilker for a Farm where there is a Supplying Shareholder;
  - you have a sharemilking agreement (**Sharemilking Agreement**), showing a genuine sharemilking arrangement with your Supplying Shareholder;
  - you own or provide the dairy herd from which milk or milksolids are obtained under the Sharemilking Agreement on the Farm; and  
*For example, (i) if the Farm has a dairy herd of 400 cows from which you produce milk or milksolids, you will meet the criteria if you own or provide these 400 cows, but not if you only own or provide 200 of them, even if you are milking all 400 cows; and (ii) if there are two separate dairy herds on the same Farm, you will only qualify as a Secondary Shareholder in respect of the dairy herd that is owned or provided by you.*
  - your Supplying Shareholder has agreed to allocate to you a proportion of the Shares it is eligible (or, for the Minimum Holding only, required) to hold.
- 1.2 **How to apply:** To apply, you and your Supplying Shareholder need to complete the application form available here ([Nzfarmsource.co.nz/my-shareholding/application-forms](http://Nzfarmsource.co.nz/my-shareholding/application-forms)). This includes providing:
- the Supply Number for the Farm;
  - the percentage (**Agreed Percentage**) of Shares which each of the Supplying Shareholder and you as the Secondary Shareholder will be eligible (or, for the Minimum Holding only, required) to hold for the purposes of these Rules;
  - your GST number and bank account details;
  - a copy of your Sharemilking Agreement; and
  - information about you and your beneficial owners for anti-money laundering purposes.
- 1.3 **Decision on application:** We may approve your application if we agree that you meet the criteria to be a Secondary Shareholder. The reasons we may decline your application include:
- we are not satisfied that you are a Sharemilker on the Farm; or
  - the arrangements are not genuine.

### 1.4 What happens if your application is approved:

- We will advise you of your Party Number and CSN (Common Shareholder Number), and the share registrar will advise your FIN (Faster Identification Number). Your CSN and FIN are required to buy and sell Shares.
- You will be deemed to be a registered supplying shareholder of the Co-op for the Farm, and you will be bound by the Fonterra Farmers' Terms of Supply in addition to the Constitution and these Rules.
- You will be able to hold (and cast votes on) "wet" Shares, or Shares backed by Milk supply from the Farm, up to the Agreed Percentage of the Share Standard for the Farm (and will be required to hold the Agreed Percentage of the Minimum Holding for the Farm).
- You will be able to hold Shares in excess of the Agreed Percentage of the Share Standard for the Farm, up to the Agreed Percentage of the Maximum Holding for the Farm and these will be "dry" Shares.

### 1.5 No involvement with Sharemilking Agreement:

Approval of your application does not mean we approve or accept the terms of your Sharemilking Agreement – that is for you and the Supplying Shareholder to agree between yourselves.

1.6 **Separate applications:** If you have Sharemilking Agreements with more than one Supplying Shareholder or for more than one Farm, a separate application is required, and a separate CSN will be issued, for each Farm.

1.7 **More than one Secondary Shareholder:** It is possible for there to be more than one Secondary Shareholder on a Farm, but the Supplying Shareholder and each Secondary Shareholder needs to make a separate application to us. If more than one application is made, the Supplying Shareholder will notify us of any changes to the Agreed Percentage with an existing Secondary Shareholder under Rule 2.1 below.

### 2. Maximum Shareholding for Secondary Shareholders

- 2.1 **Variation of Agreed Percentage:** You and your Supplying Shareholder may agree to vary the Agreed Percentage. The Supplying Shareholder must notify us of any such variation. The variation will take effect when we confirm to you in writing that it has been received and is effective.
- 2.2 **Reduction in line with Risk Management Policy:** Under the Risk Management Policy noted in clause 16.14(b) of the Constitution, we may by notice at any time require you to reduce the number of Shares you hold as a Secondary Shareholder.

### 3. Transfer of Shares to, or acquisition of Shares by, the Secondary Shareholder

#### 3.1 Initial transfer or acquisition of Shares:

- Following our approval of your application:
  - the Supplying Shareholder may transfer some of its Shares to you; and/or
  - you may purchase Shares on the Fonterra Shareholders' Market, up to your Agreed Percentage of the Maximum Holding.
- You will have until the next Compliance Date to hold the number of Shares required to satisfy your Agreed Percentage of the Minimum Holding.

3.2 **Subsequent transfers of Shares:** You (and the Supplying Shareholder) may each trade Shares on the Fonterra Shareholders' Market, provided that at all times, you and the Supplying Shareholder:

- hold at least 1,000 Shares;
- each hold not less than your Agreed Percentage of the Minimum Holding;
- each hold no more than your Agreed Percentage of the Maximum Holding; and
- follow all other rules and limits in the Constitution.

3.3 **Enforcement:** The enforcement provisions of clauses 3 and 4 of the Constitution apply if you (at any time) hold fewer Shares than you are required to hold, or more Shares than you are allowed to hold, under these Rules or the Constitution.

3.4 **New Entrants provisions will not apply:** The provisions in clause 3.9 of the Constitution regarding "New Entrants" will not apply to Secondary Shareholders.

### 4. Relationship as Shareholders

#### 4.1 Rights and Obligations of Secondary Shareholder:

- Because you are deemed to be a registered supplying shareholder of the Co-op, you will have the rights, discretions and powers as the holder of Shares as a Supplying Shareholder in the Co-op.
- For the purposes of these Rules, these rights include voting rights exercised solely under Rule 4.2 below, but not the right to make Supply Decisions as noted in Rule 5 below.
- You will also be obliged to hold Shares not less than the Agreed Percentage of the Minimum Holding for the Farm and to provide a cease notice to the Co-op under Rule 6.1(a) if you wish to cease to be (or will cease to qualify as) a Secondary Shareholder at the Farm.

#### 4.2 Voting:

- We will recognise votes cast at Shareholder meetings, or on the election of Directors, under the Constitution and:
  - where voting is by show of hands or by voice, under clause 8.1 of the Constitution you and the Supplying Shareholder will each have one vote; and
  - where voting is on a poll or postal ballot under clause 8.2 of the Constitution:
    - we will determine the total number of votes (**Total**) for the Farm; and
    - you and the Supplying Shareholder will each be able to direct a number of votes equal to your Agreed Percentage of the Total, to the extent you each hold Shares matching your Agreed Percentage of the Total.
- The Supplying Shareholder and Secondary Shareholder can take any steps needed to give effect to sub-paragraph (B) above.

### 5. Relationship for the supply of Milk to the Co-op

#### 5.1 Supplying Shareholder makes Supply Decisions:

Regardless of anything else in these Rules, the Supplying Shareholder is entitled to make all decisions, and give all directions or requests, relating to the supply of Milk to the Co-op (**Supply Decisions**).

#### 5.2 Secondary Shareholder not to give any direction on Supply Decisions:

- Subject to Rule 4.2 above, you will not give any direction or request to us on Supply Decisions, and we will ignore any such direction or request from you.
- You irrevocably authorise us to act on the directions of the Supplying Shareholder on Supply Decisions, without consulting you and even if you have given us a different instruction.
- By way of example, the Supplying Shareholder may instruct us on:
  - payments to be made to you for Milk or on any other account for supply from the Farm;
  - allocation as between the Supplying Shareholder and you, of payments, premiums, allowances or deductions for different grades or classes of Milk or Milk components; and
  - applications to increase the volume of Milk supplied, reduce supply, or cease supply from the Farm.

### 5.3 Other agreements and disputes:

- (a) You and the Supplying Shareholder may agree between yourselves as you see fit, including how the proportion of the gross Milk income will be paid. However, if such agreement conflicts with these Rules, these Rules will prevail.
- (b) You and the Supplying Shareholder are responsible for resolving any issues between you, including any disputes as to directions or requests given or made to us under Rules 5 and 6.

## 6. Ceasing to be a Secondary Shareholder

### 6.1 Cease application and notification of material change to eligibility:

- (a) You must notify us (without delay) of any material change that may affect your eligibility to be a Secondary Shareholder, including if:
  - (i) your Sharemilking Agreement is amended in any material respect or expires;
  - (ii) the Supplying Shareholder ceases or intends to cease to supply Milk to us from the Farm; or
  - (iii) you cease to own or provide all of the dairy herd from which milk or milksolids are obtained under the Sharemilking Agreement on the Farm.
- (b) If you would like to have longer than the next Compliance Date to dispose of your Shares, you must apply in writing not later than three months before the commencement of the Season in which you will cease to be a Secondary Shareholder (or will cease to qualify as a Secondary Shareholder) for the Farm. An application under this clause will be deemed to be a cease application for the purposes of clause 3.10(a) of the Constitution, and (subject to Rule 6.2 below) the remainder of clause 3.10 of the Constitution will apply accordingly, with such adjustments as may be necessary to apply to Secondary Shareholders.
- (c) The Supplying Shareholder must also notify us immediately if you cease to be a Sharemilker at the Farm.

### 6.2 Disposal of Shares on ceasing to be a Secondary Shareholder:

- (a) If you cease to be a Secondary Shareholder and the Board does not give notice in writing accepting any application made (or treated as having been made) under Rule 6.1(b), you must dispose of any Shares you hold by the next Compliance Date, unless you are allowed to hold those Shares on some other basis (e.g. because you have applied to hold Shares under another Sharemilking Agreement for that Farm or another Farm, and that application has been approved by us – see Rule 6.3 below). However, if the Co-op's approval is revoked under Rule 6.4, then Rule 6.5 applies instead of this Rule 6.2(a).
- (b) If the Board gives notice in writing to you accepting your application made (or treated as having been made) under Rule 6.1(b), you must dispose of any Shares you hold within a Reduction Period commencing on the date which is the start of the Season in which you will cease to be a Secondary Shareholder for a Farm (**Reduction Date**) and expiring:
  - (i) for any person that was a Secondary Shareholder on 9 December 2021, on the later of 31 May 2037 or the end of the tenth complete Season after the applicable Reduction Date; and
  - (ii) for any other Secondary Shareholder, at the end of the fifth complete Season after the applicable Reduction Date, unless:
    - (A) you are allowed to hold those Shares on some other basis (e.g. because you have applied to hold Shares under another Sharemilking Agreement for that Farm or another Farm, and that application has been approved by us – see Rule 6.3 below); or
    - (B) we have notified you of a change to the Reduction Period, including under the Risk Management Policy noted in clause 16.14(b) of the Constitution.
- (c) If the Supplying Shareholder continues to supply Milk to the Co-op from the Farm, it will need to hold the number of Shares required to satisfy the Minimum Holding by the next Compliance Date.

### 6.3 Fresh application for new or replacement Sharemilking Agreement:

- (a) If you enter into a new or replacement Sharemilking Agreement relating to the same or another Farm, you need to re-apply to us to hold Shares as a Secondary Shareholder.
- (b) If that application is approved, you must transfer the relevant Shares to your new CSN by the Compliance Date in the first Season in which the new Sharemilking Agreement applies – this can be done by completing an off-market transfer form, available [here](https://nzfarmsource.co.nz/off-market-transfer-form) (nzfarmsource.co.nz/off-market-transfer-form).

**6.4 Revocation of approval in the Co-op's discretion:** We may decide to revoke your approval to hold Shares, including if we think that these Rules have not been complied with or that the arrangements are not genuine.

### 6.5 Disposal of Shares on approval being revoked:

- (a) If your approval to hold Shares is revoked, you must dispose of all Shares you hold by a time set by us (not being less than 10 Working Days).
- (b) The Supplying Shareholder will have until the next Compliance Date to hold the number of Shares required to satisfy the Minimum Holding.

## 7. General

**7.1 Confirmation of eligibility:** You must on request provide evidence to confirm that your Sharemilking Agreement remains in force and reflects a genuine arrangement between you and the Supplying Shareholder. This will usually be required at least once per Season and may be by way of online confirmation.

### 7.2 Relationship between Shareholding and Milk payments:

- (a) The proportion of the gross Milk payments paid to you does not need to reflect the proportion of Shares you hold.
- (b) The Milk payment proportions are to be agreed between you and the Supplying Shareholder. For example, you may receive 50% of the gross Milk payments but hold less (or more) than 50% of the Minimum Holding for the Farm.

### 7.3 Measurement Statement and Compliance Statement:

- (a) The Supplying Shareholder and you will receive a Measurement Statement and Compliance Statement each Season, confirming the number of Shares required, or allowed, to be held in that Season and your compliance with this.
- (b) We may re-issue Measurement Statements and (if relevant) Compliance Statements as needed to reflect any updates in a Season.

**7.4 Split Farm Dairy:** As you hold Shares relating to a Farm, no request may be made under clause 2.6 of the Constitution for that Farm to be split.

**7.5 Diverted Milk Percentage:** When calculating the Diverted Milk Percentage under clause 3.20 of the Constitution, calculations will be based on the total Milk production supplied to us by the Supplying Shareholder and you from the Farm and by aggregating the milk production to be supplied by each of the Supplying Shareholder and you from the Farm to another purchaser.

**7.6 Co-operative Companies Act:** These Rules are subject to section 44 of the Co-operative Companies Act 1996, which will prevail to the extent of any inconsistency.

## Part C: Rules for Permitted Transferees

### 1. Applying to transfer Shares to a Permitted Transferee

#### 1.1 Who can apply:

- (a) If you are a Supplying Shareholder or Secondary Shareholder and you have submitted an application to cease supplying Milk to the Co-op under clause 3.10(a) of the Constitution or to cease to be a Secondary Shareholder at the Farm under Rule 6.1(a) of Part B (in either case, a **Ceased Shareholder**), you may also apply to us for permission to transfer some or all of your Shares to one or more Permitted Transferee(s). If granted, that permission will be conditional on your cease application also being accepted and becoming effective (cease applications usually become effective on 1 June).
- (b) If a Ceased Shareholder that is an individual dies, an application can be made by the relevant Personal Representative. If any member of a partnership that is a Ceased Shareholder, direct or indirect shareholder holding 25% or more of the Ceased Shareholder, or trustee of that Ceased Shareholder dies, an application can be made by any person with authority to act on behalf of the Ceased Shareholder.
- (c) In this Part C, references to a cease application include an application that is deemed to have been submitted under clause 3.10(a) of the Constitution.

- 1.2 **How to apply:** To apply, you (or the relevant Personal Representative) and the proposed Permitted Transferee need to complete the application form available here ([Nzfarmsource.co.nz/my-shareholding/application-forms](https://nzfarmsource.co.nz/my-shareholding/application-forms)), including:
  - (a) the number of Shares that you (or the relevant Personal Representative) propose to transfer to the proposed Permitted Transferee, noting that you may not make more than five transfers to one or more Permitted Transferees, excluding joint owners (unless, in exceptional circumstances, we allow a greater number);
  - (b) the GST number and bank account details of the proposed Permitted Transferee;
  - (c) evidence of your relationship to the proposed Permitted Transferee, including the certifications from a Justice of the Peace, lawyer or chartered accountant set out in the form; and
  - (d) information about the proposed Permitted Transferee and their beneficial owners for anti-money laundering purposes.

### 1.3 Timeframes for applying and transferring Shares:

- (a) You (or the relevant Personal Representative) and the Proposed Permitted Transferee need to submit a completed application for approval within one of the following timeframes:
  - (i) before the end of the third complete Season after your cease application (whether as a Supplying Shareholder or Secondary Shareholder) is accepted and becomes effective; or
  - (ii) at any time during the relevant Reduction Period, if the Ceased Shareholder dies or any member of a partnership that is a Ceased Shareholder, or a direct or indirect shareholder holding 25% or more of the Ceased Shareholder, or a trustee of the Ceased Shareholder, dies.

We may grant extensions in relation to, or waivers of, the timeframes in paragraph (a)(i) above. In deciding whether to give a waiver or extension, we may consider factors such as (but not limited to) the factors listed in Rule 1.3 of Part D.

- (b) If the application to transfer Shares to a Permitted Transferee is approved, the Shares can only be transferred by completing an off-market transfer form, which will be available as part of the application process. You must complete this transfer within the overall timeframes in paragraph (a) above.

*For example, if you submit your cease application on 1 February 2025, the Co-op accepts it on 31 March 2025 effective from 1 June 2025, and you cease from 1 June 2025, then you need to complete an application transfer to a Permitted Transferee, have it accepted, and carry out that transfer before 31 May 2028.*

### 1.4 Decision on application:

We may approve an application if we agree that the proposed Permitted Transferee meets the qualifying criteria. The reasons we may decline an application include:

- (a) we are not satisfied that there is a genuine relationship between you and the proposed Permitted Transferee; or
- (b) the arrangements do not otherwise appear to be genuine.

### 1.5 Details provided if application approved:

If an application is approved, we will advise you (or the relevant Personal Representative) and the Permitted Transferee of the Permitted Transferee's Party Number and CSN (Common Shareholder Number), and the share registrar will advise the Permitted Transferee of their FIN (Faster Identification Number), each of which is required to sell Shares.

### 2. Who is a Permitted Transferee?

#### 2.1 Definition of Permitted Transferee:

The following persons will, if approved by us, be **Permitted Transferees** of you as a Ceased Shareholder:

- (a) If you are an **individual**:
  - (i) your relatives; or
  - (ii) any entity or trust controlled by you or your relatives, as long as it remains controlled by you or your relatives.

In these Rules, "**relatives**" means:

- your spouse, civil union partner or de facto partner;
- a parent, child, grandchild, brother or sister of you or your spouse/partner; or
- a nominee or trustee for any such person.

Examples:

1. *Your cease becomes effective and you wish to transfer 5% of your shareholding to your sharemilker. Unless the sharemilker is a relative (as outlined above), you cannot transfer Shares to them as they are not your Permitted Transferee.*
2. *Your cease becomes effective and you wish to transfer 50% of your shares to your family trust. You and your wife are the settlors and trustees, and your four children are beneficiaries. The transfer of shares to the trust (trustees) will be allowed given the trust is controlled by you and your relatives (i.e., your wife).*

#### (b) If you are a **company, limited partnership** or other **body corporate**:

- (i) An entity that is 50% or more ultimately owned by the same owners that own 50% or more of you;
- (ii) any entity or trust controlled by a person that controls you, as long as it remains controlled by that person; or
- (iii) your direct or indirect shareholders, limited partners or other owners that have 25% or more ultimate ownership.

Examples:

1. *You are a company which is a Supplying Shareholder. One of the company's shareholders (who has a 50% shareholding) wants to retire and all of the shareholders want to transfer some Shares to that retiring shareholder. However, the company is continuing to supply the Co-op. The company cannot transfer Shares to the retiring shareholder as the company has not ceased to supply the Co-op.*
2. *You are a limited partnership which is a Supplying Shareholder and your cease becomes effective. The partners want to transfer all of the Shares to one of the limited partners (who has a 45% limited partnership interest). This transfer of the Shares will be allowed given the limited partner has over 25% ultimate ownership in the limited partnership, so they are a Permitted Transferee.*

#### (c) If you are a **trust or partnership**:

- (i) a settlor or beneficiary of the trust; or
- (ii) a member of the partnership and if any member is an individual or a body corporate controlled by an individual (provided it remains controlled by that individual), then:
  - (A) any relative of that individual; or
  - (B) any entity or trust controlled by that individual or their relatives, provided that it remains controlled by such persons.

Examples:

1. *Your trust has ceased supplying the Co-op and sold the farm to a completely separate third-party trust that is not supplying milk to the Co-op. The vendor trustees (you and your wife) want to transfer all of the trust's Shares to the purchasing trust. The Shares cannot be transferred to the purchaser trust as a Permitted Transferee, because the purchaser trust is not a relative of the farmer and his wife, and is not a settlor or beneficiary of the vendor trust; and there is no common control of the two trusts. If the purchasing trust was supplying Milk to the Co-op, then Shares could be transferred to it as the new Supplying Shareholder.*
2. *You and your daughter are in a partnership which is a Supplying Shareholder. You want to retire from the partnership and hold onto 20% of the shares, and your daughter intends to continue supplying Fonterra under her own name and hold 80% of the shares. The partnership provides a cease notification which has been accepted and becomes effective. This transfer to you as a Permitted Transferee will be allowed because you were a member of the partnership.*
3. *Your trust has ceased supplying the Co-op and the trust's cease notification has been accepted and becomes effective. One of the trustees (who is a partner at an accounting firm) is retiring and your trust wishes to replace her with another partner from the firm. The Shares will still be held in the same trust that currently holds them, so there is no change in beneficial ownership of the Shares. You do not need to apply to us to transfer the Shares to the replacement trustee as a Permitted Transferee (and they would not qualify as a Permitted Transferee in any event) – rather, you can just notify our Share Compliance team who will update our records to reflect the change in trustee as a matter of procedure.*

- 2.2 **Definition of “controls”:** A person “controls” another person if the first person:
- has, or may have, the power to appoint or remove the majority of the members of the governing body of the other person (including the directors of a company or the trustees of a trust);
  - controls or has the power, or may have the power, to control the affairs or policies of the other person; or
  - is in a position to derive more than 50% of the benefit of the existence or activities of the other person, in each case whether directly or indirectly, and whether by the legal or beneficial ownership of share capital, securities or other equity, by the possession of voting power, by contract, by trust, or otherwise.
- 2.3 **Joint Ceased Shareholders:** If more than one person holds Shares jointly (other than as trustees or a partnership), each joint holder’s Permitted Transferees will qualify as Permitted Transferees of the joint Ceased Shareholders.
3. **Shareholding requirements for Permitted Transferees**
- 3.1 **No acquisition of additional Shares:** A Permitted Transferee may dispose of Shares they hold but will not be able to acquire any additional Shares as your Permitted Transferee, after the initial transfer to them of Shares by you (or the relevant Personal Representative) under Rule 2.3 above, unless you make a further application under Rule 2.1 above and we approve that application.
- 3.2 **Compliance with “Reduction Period” and “Reduction Maximum” of Ceased Shareholder:** Permitted Transferees must comply with the “Reduction Period” and “Reduction Maximum” which apply to you as the Ceased Shareholder, as may be re-determined by us from time to time under the Constitution (but, for the “Reduction Maximum”, in proportion to the number of Shares transferred to the Permitted Transferee).
- 3.3 **Reduction in line with Risk Management Policy:** We may at any time by notice to one or more Permitted Transferees require them to further reduce the number of Shares they hold in that capacity, under the Risk Management Policy noted in clause 16.14(b) of the Constitution.
- 3.4 **Measurement Statement and Compliance Statement:**
- Permitted Transferees will receive a Measurement Statement and Compliance Statement each Season, confirming the maximum number of Shares they are allowed to hold in that Season and their compliance with this.
  - We may re-issue Measurement Statements and (if relevant) Compliance Statements as needed to reflect any updates to that maximum shareholding in a Season.
- 3.5 **Enforcement:** The enforcement provisions of clauses 3 and 4 of the Constitution apply to any Permitted Transferee that (at any time) holds more Shares than it is allowed to hold under these Rules or the Constitution.

4. **Ceasing to be a Permitted Transferee**
- 4.1 **No longer meeting the criteria to be a Permitted Transferee:** Permitted Transferees that hold any Shares must notify us (without delay) of any matter affecting their eligibility to be Permitted Transferees, including any change in control of the Permitted Transferee (e.g. because of a sale of shares in a Permitted Transferee that is a company).
- 4.2 **Revocation of approval in the Co-op’s discretion:** We may decide to revoke a Permitted Transferee’s approval to hold Shares, including if we think that these Rules have not been complied with or that the arrangements are not genuine.
- 4.3 **Disposal of Shares on ceasing to qualify or approval being revoked:** If a Permitted Transferee no longer meets the criteria to be a Permitted Transferee (for example, where there has been a change of control) or we revoke the Permitted Transferee’s approval to hold Shares, the Permitted Transferee must dispose of all Shares by the time set by us (not being less than 10 Working Days).
5. **Ongoing requirements for Permitted Transferees**
- 5.1 **Confirmation of eligibility:** A Permitted Transferee (other than an individual) must on request provide evidence that there has been no change in control of the Permitted Transferee. This will usually be required at least once per Season and may be by way of online confirmation.
- 5.2 **No entitlement to vote:** Because Permitted Transferees do not supply Milk to the Co-op, they will not be able to vote any Shares held by them in that capacity (as provided for in the Constitution).
- 5.3 **Instructions to the Co-op from Permitted Transferees:**
- Permitted Transferees must:
    - give all instructions and notices to us in writing or following any procedure or standard form given by us for this purpose; and
    - ensure an attorney who signs an instruction or notice sends the power of attorney and a certificate of non-revocation to us.
  - We may rely on written instruction(s) provided in any format as the valid and binding instructions of the named Permitted Transferee, including where the instruction is signed or given by only one joint owner, one partner or one trustee or by a person for a company.

## Part D: Rules relating to cease notices

1. **Ability to waive timing requirements for cease notices**
- 1.1 **Reference to Constitution:** Clause 3.10 of the Constitution allows us to waive the requirement for a cease notice to be submitted not later than three months before the start of the relevant Season, in which case a Reduction Period may be set for the relevant Shareholder (instead of the ceased Shareholder being required to sell all their Shares by the next Compliance Date).
- 1.2 **Co-op’s discretion:** Any waiver is at our discretion.
- 1.3 **Factors the Co-op may take into account:** In deciding whether to give a waiver, we may consider factors such as (but not limited to):
- the length of time the Shareholder has been supplying the Co-op;
  - whether the Shareholder has helped transition Milk supply to another person that is supplying, or will supply, Milk to the Co-op; and
  - the individual circumstances of the Shareholder (including any personal hardship or similar circumstances).





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