



FONTERRA ANNUAL MEETING 2012

Notice of Annual Meeting of Shareholders and Explanatory Notes

10.30am on Monday, 17 December 2012

Mystery Creek Events Centre,
Gate 2 125 Mystery Creek Road, Hamilton



Dairy for life

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Fonterra Co-operative Group Limited Annual Meeting for 2012

Fonterra's Annual Meeting will be held at the Mystery Creek Events Centre, Gate 2 125 Mystery Creek Road, Hamilton at **10.30am on Monday, 17 December 2012**.

Annual Meeting Documents

Each Shareholder has been sent:

- This Notice of Meeting booklet, which includes:
 - Letter from the Chairman
 - Notice of Meeting (including the text of the matters to be voted on by Shareholders) (Part One)
 - Explanatory Notes regarding each of the matters to be voted on by Shareholders (Part Two).
- A Fonterra Board of Directors Election Voting Paper
- A Shareholders' Council Voting Paper (for shareholders in Wards 8, 9, 17, 23 and 32 only)
- A combined Annual Meeting Voting Paper/Proxy Form. Use this Voting Paper:
 - If you are attending the Annual Meeting, to vote in person
 - If you are unable to attend the Annual Meeting, and you do not wish to vote by internet, post or fax, you can appoint a proxy to attend and vote on your behalf by completing the Proxy Form and returning it to the address specified on the freepost envelope included in the Voting Pack or otherwise set out on the form, so that the Returning Officer receives it no later than **10.30am on Saturday, 15 December 2012**
 - If you are a company or other body corporate, you can appoint a representative to attend and vote on your behalf by completing the Proxy Form
 - Further instructions are on the back of the Proxy form.

You can vote in the Fonterra Elections and for the Annual Meeting by **internet, post or fax**. The instructions on how to vote in this manner can be found on the Voting Papers.

electionz.com Limited has been authorised by the Board to receive, at the address specified on the freepost envelope included in the Voting Pack or otherwise set out on the Voting Paper, and count, all **internet, postal and fax** votes.

For the Annual Meeting you can also vote by proxy, or by attending the meeting in person.

All internet, postal, fax and proxy votes must be received by the Returning Officer by **10.30am on Saturday, 15 December 2012**.

Shareholders' Voting Entitlements

Voting at the Annual Meeting will be by poll. In order to vote, you will need to cast an internet, postal or fax vote, attend in person and vote, or appoint a proxy or representative to attend and vote for you.

A Shareholder's voting entitlement is based on their milksolids production, with one vote for every 1,000kg of milksolids supplied during the season ended **31 May 2012**. If a Shareholder did not supply last season but now owns an existing farm that supplied last season, the voting entitlement will be based on that farm's supply last season. In the case of a dry farm conversion and farm amalgamations/divisions, voting entitlement is based on the Board's estimate of milksolids production this season. Milk supplied on Contract Supply and milk which is not backed by shares (Unshared Supply) is excluded from milksolids production when calculating voting entitlements.

In accordance with the Companies Act, the Board has fixed **5.00pm on 19 November 2012** as the date for determining voting entitlements of Shareholders for this meeting. Accordingly, those persons who are, at **5.00pm on 19 November 2012**, registered as Shareholders will be entitled to vote at the Annual Meeting in respect of the Shares registered in their name on that date.

A Shareholder's voting entitlement for a farm is shown on the Voting Paper enclosed for that farm with this pack.

Votes Required and Quorum

The ordinary resolutions will be passed if they are approved by a simple majority of the votes of those Shareholders entitled to vote and voting on the resolutions.

The special resolutions will be passed if they are approved by a majority of **75% or more** of the votes of those Shareholders entitled to vote and voting on the resolution.

The quorum for the meeting is present if not fewer than 50 Shareholders have cast postal votes or are present in person or by a representative, who between them hold or represent the holder or holders of not less than 2% of the voting rights entitled to be exercised on the resolutions to be considered at the meeting.

Results of Voting

The results of voting at the Annual Meeting will be posted on Fencepost at www.fonterra.com as soon as vote counting is complete and the Chairman has declared the results.

26 November 2012

Dear Shareholders,

I would like to invite you to attend this year's Annual Meeting being held in Hamilton.

There will be a review of overall past year's performance and our Chief Executive Officer, Theo Spierings will provide a presentation on the financial performance and operations along with the future business direction and priorities.

Shareholders are being asked to vote on the five ordinary business resolutions to approve the remuneration of Directors, Councillors and the Directors' Remuneration Committee, approve the appointment of the Auditor and approve the Shareholders' Council programme and budget. This year there will also be two resolutions to ratify the appointment of independent Directors. Each of these resolutions requires at least 50% support to be passed.

The meeting will also consider a Special Resolution, Constitutional Changes for Trading Among Farmers. This is the same as Resolution 2 put forward at the TAF Special Meeting in June 2012. The passing of this resolution will further strengthen 100% control and ownership and will put further constitutional protections around the Fund size and Milk Price.

Further detail on each of the resolutions is included in this Notice of Meeting booklet.

If you are unable to attend the meeting, you can still have your say by casting your vote by internet, post or fax, or by way of proxy. Further instructions on how to vote by all these methods can be found on the Voting Papers in your meeting pack.

While the Annual Meeting will not be televised, a video of key items from the meeting will be available on Fencepost at www.fonterra.com from Tuesday, 18 December 2012.

This is my last Annual Meeting. I would like to thank all the Shareholders who have supported me for the past 20 years I have been working for the dairy industry. In particular I want to thank you for your support over the last decade where I have had the privilege to be your Chairman. We have a great strategy and a great CEO. Let's make sure that each of us works to give our Board the mandate to work on our behalf to grow shareholder wealth.

I look forward to seeing many of you at the Annual Meeting.

Yours Sincerely,



Henry van der Heyden
Chairman

Fonterra Co-operative Group Limited

Annual Meeting Agenda

Below is the recommended programme for the Annual Meeting. Shareholders should note that the order may change at the discretion of the Chairman.

10.00am - Registration / Morning Tea
10.30am - Welcome Welcome / Introduction – Henry van der Heyden, Chairman
10.45am – Annual Meeting Proceedings Chairman's Review Chief Executive Officer's Presentation
Approval of Remuneration of Directors, Shareholders' Councillors and Directors' Remuneration Committee Members Directors' Remuneration Committee Review – Rodney Wilson, Chairman - Resolution 1: Approval of remuneration of Directors - Resolution 2: Approval of remuneration of Shareholders' Councillors Resolution 3: Approval of remuneration of members of Directors' Remuneration Committee
Appointment of Auditor Resolution 4: Appointment of PricewaterhouseCoopers as auditor and authorisation of the Directors to fix the auditor's remuneration
Shareholders' Council Report Chairman's Review - Ian Brown Approval of Shareholders' Council Programme and Budget Resolution 5: Approval of the Shareholders' Council programme and budget
Ratification of Appointment of Directors Resolution 6: Ratification of appointment of Sir Ralph Norris Resolution 7: Ratification of appointment of Ralph Waters
Constitutional Changes for Trading Among Farmers Resolution 8: Constitutional Changes for Trading Among Farmers
Shareholder Proposal Resolution 9: McKenzie Proposal
Voting Paper Collection
Announcement of Election Results
General Business
1.00 / 1.30pm - Closing / Lunch (approximately)

PART ONE

NOTICE OF ANNUAL MEETING OF FONTERRA CO-OPERATIVE GROUP LIMITED

Notice is given that the Annual Meeting of the Shareholders of Fonterra Co-operative Group Limited ("Company") will be held on **Monday, 17 December at 10.30am** at the **Mystery Creek Events Centre, Gate 2 125 Mystery Creek Road, Hamilton.**

Business

Welcome/Introduction

Annual Meeting Proceedings

Chairman's Review

Chief Executive Officer's Presentation

Approval of Remuneration of Directors, Shareholders' Councillors and Directors' Remuneration Committee Members

Directors' Remuneration Committee Review

Resolution 1: Approval of remuneration of Directors

To consider the remuneration of Directors recommended by the Directors' Remuneration Committee and, if thought fit, to resolve:

"To approve the remuneration of Directors, as recommended by the Directors' Remuneration Committee."

Resolution 2: Approval of remuneration of Shareholders' Councillors

To consider the remuneration of Shareholders' Councillors recommended by the Directors' Remuneration Committee and, if thought fit, to resolve:

"To approve the remuneration of Councillors, as recommended by the Directors' Remuneration Committee."

Resolution 3: Approval of remuneration of members of the Directors' Remuneration Committee

To consider the remuneration of members of the Directors' Remuneration Committee recommended by the Board and, if thought fit, to resolve:

"To approve the remuneration of members of the Directors' Remuneration Committee, as recommended by the Board."

Appointment of Auditor

Resolution 4: Appointment of PricewaterhouseCoopers as auditor and authorisation of the Directors to fix the auditor's remuneration

To consider the appointment of PricewaterhouseCoopers as auditor of the Company and authorisation of the Directors to fix the auditor's remuneration and, if thought fit, to resolve:

"To appoint PricewaterhouseCoopers as auditor of the Company until the conclusion of the Company's next Annual Meeting and authorise the Directors to fix the auditor's remuneration."

Shareholders' Council Report

Chairman's Review

Approval of Shareholders' Council Programme and Budget

Resolution 5: Approval of Shareholders' Council programme and budget

To receive and discuss the Shareholders' Council Report (including the Milk Commissioner's Report) and the Shareholders' Council's programme and budget for the current season (contained in the Shareholders' Council's Annual Report to Shareholders 2011/2012) and, if thought fit, to resolve:

"To approve the Shareholders' Council's programme and budget for the current season."

Ratification of Appointments of Directors

Resolution 6: Ratification of appointment of Sir Ralph Norris

To consider and, if thought fit, to resolve:

"To ratify the appointment by the Board of Sir Ralph Norris as a Director of the Company, under clause 12.4 of the Constitution."

Resolution 7: Ratification of appointment of Ralph Waters

To consider and, if thought fit, to resolve:

"To ratify the appointment by the Board of Ralph Waters as a Director of the Company, under clause 12.4 of the Constitution."

Constitutional Changes for Trading Among Farmers

Resolution 8: Constitutional Changes for Trading Among Farmers

To consider and, if thought fit, to pass the following resolution as a special resolution:

That, subject to the constitution referred to in the current constitution of the Company as the "New Constitution" coming into force prior to the Annual Meeting, that New Constitution be amended as follows:

(a) *By inserting the following new clause as clause 1.6 following clause 1.5 in the New Constitution:*

1.6 **Authorised Fund:** The primary purpose of the arrangements in clause 7 is to facilitate:

- (a) liquidity in relation to the trading of Co-operative Shares; and
- (b) the ability of Shareholders to exchange some or all of the rights or interests in Co-operative Shares for securities issued by an Authorised Fund, and vice versa,

but subject always to the rights, powers and limitations contained in this Constitution (including in clause 7).

and in clause 7.1 of the New Constitution, by inserting the words "for the purpose set out in clause 1.6" after the words "to acquire, hold, or dispose of some or all of the rights or interests in Co-operative Shares".

Explanatory Note

The effect of the proposed new clause 1.6 of the New Constitution is to clarify that the primary purpose of an Authorised Fund under clause 7 of the New Constitution is to facilitate:

- (i) liquidity in relation to the trading of Co-operative Shares; and
- (ii) the ability of shareholders to exchange some or all of the rights or interests in Co-operative Shares for securities issued by an Authorised Fund, and vice versa (as required by the Dairy Industry Restructuring Amendment Act).

The effect of the amendment to clause 7 of the New Constitution is to clarify that the purpose of an Authorised Fund under that clause will be as set out in clause 1.6.

- (b) *In clause 3.2(a) of the New Constitution, by deleting the reference to “25%” and replacing it with “15%”.*

Explanatory Note

The effect of this amendment is to reduce the threshold on the aggregate number of Shares held in excess of the number of Shares required to be held by Shareholders in accordance with the Share Standard (ie, to reduce the threshold on the aggregate number of “Dry Shares”) from 25% to 15% of the total number of Co-operative Shares then on issue in the capital of the Company (excluding treasury stock).

- (c) *In clause 7.3 of the New Constitution, by deleting the full stop at the end of the clause, inserting a comma and then inserting the following on a new line:*

provided that at any time the maximum number of Co-operative Shares in which any Disposing Holder (except an RVP or any Custodian acting on behalf thereof) may dispose of rights or interests to or for the benefit of any Authorised Fund shall not exceed 33% of the minimum number of Co-operative Shares required to be held by the Disposing Holder at that time in accordance with this Constitution.

Explanatory Note

The effect of this amendment is that any limit specified by the Board on the number of Co-operative Shares in which rights or interests may be placed with the Fonterra Shareholders’ Fund by any Shareholder (except any Registered Volume Provider (RVP) or any Custodian acting on behalf of an RVP) cannot be more than 33% of the minimum number of Co-operative Shares required to be held by the Shareholder under the Constitution.

- (d) *In clause 7.5 of the New Constitution, by deleting the reference to “25%” and replacing it with “20%”.*

Explanatory Note

The effect of this amendment is to reduce the limit on the aggregate number of Co-operative Shares in which rights or interests may at any time be placed with the Fonterra Shareholders’ Fund (“FSF”) from 25% to 20% of the total number of Co-operative Shares then on issue in the capital of the Company (excluding treasury stock).

- (e) *By inserting the following new clause as clause 10.3 following the existing clause 10.2 in the New Constitution:*

10.3 Milk Price Panel: The Board shall establish and maintain a committee known as the “Milk Price Panel” (“**Panel**”). The following requirements shall apply to the Panel:

- (a) The Board shall set the terms of reference for the Panel which must provide that, for each Season, the Panel will:
- (i) supervise the calculation of the Milk Price;
 - (ii) advise the Company on the application of the Milk Price Manual; and
 - (iii) recommend to the Board the Milk Price.
- (b) The Panel may make recommendations to the Board in respect of the Milk Price Manual.
- (c) The Panel must at all times comply with the following requirements:
- (i) it must comprise five members;
 - (ii) not less than 50% of the members must qualify for appointment as “independent” (“**independent**”) members (within the meaning of any applicable enactment or, if there is no applicable enactment, as determined by the Board from time to time);
 - (iii) the Shareholders’ Council is entitled to appoint up to two members (at least one of whom must be independent), and the remaining members shall be appointed by the Board; and
 - (iv) the chairman of the Panel must be independent and shall have no casting vote.
- (d) The Board must identify (and annually disclose) which members it has determined, in its view, to be independent.

and by making consequential amendments to the clause numbers of existing clauses 10.3 to 10.5 of the New Constitution.

Explanatory Note

The effect of this amendment is to add a new clause 10.3 to the New Constitution to include Fonterra's existing arrangements in relation to the Milk Price Panel in the New Constitution. This new clause:

- (a) requires the Board to establish and maintain a Milk Price Panel;
- (b) requires the Board to set the terms of reference for that Panel which must provide that, for each Season, the Milk Price Panel must supervise the calculation of the Milk Price, advise Fonterra on the application of the Milk Price Manual, and recommend the Milk Price to the Board;
- (c) permits the Milk Price Panel to make recommendations to the Board in respect of the Milk Price Manual;
- (d) prescribes that at all times the Milk Price Panel must comply with the following requirements:
 - (i) it must comprise five members;
 - (ii) not less than 50% of the members must qualify for appointment as independent members;
 - (iii) the Shareholders' Council is entitled to appoint up to two members (at least one of whom must be independent), and the remaining members will be appointed by the Board; and
 - (iv) the Chairman of the Milk Price Panel must be independent and will have no casting vote.
- (e) requires the Board to identify (and disclose annually) which members it has determined, in its view, to be independent.

As a consequence of the above amendment, existing clauses 10.3 to 10.5 of the New Constitution will be renumbered to reflect the insertion the new clause as clause 10.3.

This new clause is consistent with the requirements of the Dairy Industry Restructuring Act 2001 and with the rules applying to the FSM. These requirements will continue to apply even if this constitutional change is not passed.

- (f) *in clause 16.10 of the New Constitution, by inserting the following words after the first sentence in this clause:*

In addition the Board will, subject to legislative and regulatory requirements and the Market Rules, consult with the Shareholders' Council in relation to matters on which consultation is contemplated in clause 16.1, including the terms of the Risk Management Policy adopted from time to time by the Board (and on any changes thereto) in relation to an Authorised Fund, and the Board will take all practical steps to facilitate such consultation.

Explanatory Note

The effect of this amendment to clause 16.10 of the New Constitution is to confirm that the Board will consult with the Shareholders' Council in relation to matters on which clause 16.1 of the New Constitution (which sets out the functions of the Council) contemplates consultation will occur. These matters include the terms of the Risk Management Policy adopted by the Board in relation to an Authorised Fund or any changes to that Policy. This obligation on the Board to consult with the Shareholders' Council will be subject to legislative and regulatory requirements and the rules applying to the FSM, but the Board will take all practical steps to facilitate this consultation.

The above resolution is a special resolution required by section 106(1)(a) of the Companies Act 1993. As the alterations to the Constitution of the Company that are contemplated by the above resolution do not impose or remove a restriction on the activities of the Company, Shareholders will not have the benefit of the minority buy-out rights set out in section 110 of the Companies Act 1993.

As required by clause 18 of the Company's Constitution, the proposed constitutional changes have been approved by a majority of the Shareholders' Council and a certificate has been provided to the Board as conclusive evidence of that fact.

Shareholder Proposal

Resolution 9: McKenzie Proposal

To consider and, if thought fit, to resolve as a special resolution:

Change Form A and Form B of the constitution; Clause 12.1 (a) from “not more than” to “not less than” and add to 13.1 “... and elected by only those Directors elected in accordance with clause 12.2.

The new clauses to read:

12. APPOINTMENT ROTATION AND REMOVAL OF DIRECTORS

12.1 *Number of Directors: There shall be:*

(a) *not less than 9 Directors elected by Shareholders in accordance with clause 12.2 or appointed by the Board in accordance with clause 33.1; and*

(b) *not more than 4 Directors appointed by the Board in accordance with clause 12.4.*

13.1 *Management of Company: The business and affairs of the Company shall be managed by, or under the direction or supervision of, the Board, provided that the chairperson of the Board shall be a Director elected in accordance with clause 12.2, and elected by only those Directors elected in accordance with clause 12.2.*

Resolution 9 is a special resolution required by section 106(1)(a) of the Companies Act 1993. As the alterations to the Constitution of the Company that are contemplated by the above resolution do not impose or remove a restriction on the activities of the Company, Shareholders will not have the benefit of the minority buy-out rights set out in section 110 of the Companies Act 1993.

Henry van der Heyden

Chairman, on behalf of the Board

Notice of Meeting dated 26 November 2012.

PART TWO

EXPLANATORY NOTES TO NOTICE OF ANNUAL MEETING

Welcome

The Chairman will welcome Shareholders.

Annual Meeting Proceedings

Approval of Remuneration of Directors, Shareholders' Councillors and Directors' Remuneration Committee Members

Resolution 1: Approval of remuneration of Directors

In accordance with clause 34.1 of the Company's Constitution, the Directors' Remuneration Committee ("the Committee") met in July 2012 to consider, and recommend to Shareholders, the form and amount of the Directors' remuneration. The Committee comprises six Shareholders and is chaired by Mr Rodney Wilson.

In considering their recommendation, the Committee addressed the market expectations and trends for director fees in New Zealand and overseas, the workload expectations of Directors, relativities between different roles and the nature of the Company. The Committee believes it is important to set realistic fee levels, having particular regard to the broader market, to ensure skilled directors are attracted and retained on the Board.

The Committee also had regard for market trends, as well as the path previously identified, to adjust both the absolute and relative fees for Directors to align to market realities. In particular, in 2010 the Committee noted director fees in Fonterra were modest in comparison to other significant New Zealand companies, whether compared on the basis of turnover, assets, or other key measures. Corrections were recommended in 2010 and 2011, essentially returning the Fonterra fees to a level of equivalence with the market consistent with the fees at the time of Fonterra's establishment.

In light of the changes that have been made recently, the Committee is of the view that fee levels are now at a generally appropriate level. Accordingly, the focus of the Committee is to manage the fee levels to avoid the need for substantial adjustments year to year.

The Committee's recommendation to Shareholders in relation to the remuneration of Directors is:

That the remuneration for the Directors be approved at the following amounts from the date of this Annual Meeting:

- Chairman **\$404,000 p.a.** (currently \$400,000, a 1% increase)
- Director **\$161,600 p.a.** (currently \$160,000, a 1% increase)

In addition, at the discretion of the Board, the Chair of each permanent Board Committee may be paid an additional **\$30,300 p.a.**, unless that person is the Chairman of the Board or already in receipt of a Committee Chair allowance (currently \$30,000, a 1% increase).

As the Chairman of the Board is the ex officio Chairman of the Appointments, Remuneration and Development Committee, no additional payment is contemplated in respect of that Committee.

The Committee has also approved the expense reimbursement policy for both Directors and Shareholder Councillors, whereby actual and reasonable expenses associated with their positions are reimbursed. It has also approved, and regularly monitors, the reimbursement of reasonable travel expenses for Directors' spouses/partners.

Resolution 2: Approval of remuneration of Shareholders' Councillors

In accordance with By-law 3.1 of the Shareholders' Council By-laws, the Directors' Remuneration Committee met in July 2012 to consider, and recommend to Shareholders, the form and amount of the remuneration to be paid to Shareholder Councillors.

The Committee had a similar view on Councillor remuneration, that the honoraria approved in 2011, following significant adjustments over recent years, was at a generally appropriate level. As with Directors, only minor increases are proposed.

No change is proposed to the pool for additional honoraria for Councillors. The Committee considered the extent to which this provision is being drawn upon by Council, and is comfortable that sufficient funds are being provided to meet foreseeable needs.

The Committee's recommendation to Shareholders in relation to the remuneration of Shareholders' Councillors is: That the honoraria for the Shareholders' Councillors and the Chairman of the Council be approved at the following amounts from the date of this Annual Meeting:

- Chair **\$90,900 p.a.** (currently \$90,000, a 1% increase)
- Deputy Chair **\$55,550 p.a.** (currently \$55,000, a 1% increase)
- Councillors **\$25,250 p.a.** (currently \$25,000, a 1% increase)
- Committee Chairpersons, Project Leaders allowance in addition to Councillor honorarium of up to **\$17,170 p.a.** from a pool of **\$85,850** (a 1% increase)
- Up to **\$15,000** (unchanged) for the Chair of the Shareholders' Council to allocate, at his discretion, to Councillors who at the request of the Council represent it on external committees. Payments from this fund would not be made to the Council Chair, Deputy Chair or Committee Chairs.

Resolution 3: Approval of remuneration of members of the Directors' Remuneration Committee

The Board met to consider, and recommend to Shareholders, the form and amount of the remuneration to be paid to Members of the Directors' Remuneration Committee. The Directors' Remuneration Committee comprises six elected Shareholders.

The Board's recommendation to Shareholders in relation to the remuneration of Members of the Directors' Remuneration Committee is that the remuneration be set at the following amounts from the date of this Annual Meeting:

- Chairman **\$1,500 p.a.**
- Member **\$500 p.a.**

Furthermore, Members of the Directors' Remuneration Committee are entitled to be paid for reasonable expenses incurred in connection with the business of the Committee, in line with the policy for remuneration of Directors and Shareholders' Councillors.

The recommended remuneration is unchanged from current levels.

Appointment of Auditor

Resolution 4: Appointment of PricewaterhouseCoopers as auditor and authorisation of the Directors to fix the auditor's remuneration

The Companies Act 1993 requires the Company to appoint an auditor at each Annual Meeting to hold office from the conclusion of that meeting until the conclusion of the next Annual Meeting. Section 197 of the Companies Act 1993 provides that the fees and expenses of an auditor appointed at an Annual Meeting can be fixed in the manner determined at that meeting.

PricewaterhouseCoopers has audited the Company's financial statements for the year ended 31 July 2012.

The Directors recommend that PricewaterhouseCoopers be appointed as auditor for the coming year. The Directors recommend that Shareholders authorise the Board to fix the auditor's remuneration.

Approval of Shareholders' Council Programme and Budget

Resolution 5: Approval of Shareholders' Council programme and budget

Under this item of business the Chairman of the Shareholders' Council will, in accordance with the requirements of the Company's Constitution:

- report on the Council's view as to the Company's direction, performance and operations for the preceding season;
- report on the activities undertaken by the Council in the preceding season;
- present the Council's programme and budget for the current season;
- present the Milk Commissioner's Report;
- comment on other dairy industry matters.

Shareholders are then asked to approve the programme and budget of the Shareholders' Council.

The Shareholders' Council has independently finalised its programme and budget and that information is included in the Shareholders' Council's Annual Report to Shareholders 2011/2012.

Ratification of Appointments of Directors

Resolution 6: Ratification of appointment of Sir Ralph Norris

The Company's Constitution requires that the Shareholders of the Company ratify the appointment of each Director appointed by the Board in accordance with clause 12.4 of the Constitution. This is to take place at the first Annual Meeting of the Company following that Director's appointment and, where the appointment is for a term exceeding three years, shall be ratified by Shareholders every three years.

Sir Ralph Norris was appointed by the Board in accordance with clause 12.4 of the Constitution, commencing in May 2012.

In accordance with clause 12.4 of the Constitution, Sir Ralph's appointment needs to be ratified at this Annual Meeting. Details of his qualifications and experience are set out below.

Sir Ralph Norris

Sir Ralph Norris joined the Fonterra Board in May 2012 as an Appointed Director. He sits on the Appointments, Remuneration and Development Committee. Sir Ralph also serves on the board of Origin Energy Limited and on the Council of The University of Auckland.

He was Chief Executive of the Commonwealth Bank of Australia for six years until December 2011 and, prior to that, he served as Chief Executive and Managing Director of Air New Zealand Limited from February 2002 to August 2005.

Sir Ralph had a 40-year career in banking and served as the Managing Director and Chief Executive Officer of ASB Bank Limited from March 1991 to September 2001, and the Head of International Financial Services for the Commonwealth Bank of Australia from August 1999 to September 2001.

He was also Chairman of the New Zealand Banker's Association 1995-1998, Chairman of the New Zealand Roundtable 1998-2001 and Chairman of the Australian Banker's Association 2008-2011.

Sir Ralph was made a Knight Companion of the New Zealand Order of Merit in 2009 and a Distinguished Companion of the New Zealand Order of Merit for services to business in 2006.

The Board has determined that Sir Ralph is an "Independent Director" for the purposes of the rules of the FSM.

Resolution 7: Ratification of appointment of Ralph Waters

The Company's Constitution requires that the Shareholders of the Company ratify the appointment of each Director appointed by the Board in accordance with clause 12.4 of the Constitution. This is to take place at the first Annual Meeting of the Company following that Director's appointment and, where the appointment is for a term exceeding three years, shall be ratified by Shareholders every three years.

Ralph Waters was appointed by the Board in accordance with clause 12.4 of the Constitution in 2006. His appointment was last ratified by Shareholders at the Annual Meeting in November 2009.

In accordance with clause 12.4 of the Constitution, Mr Waters appointment needs to be ratified every three years. Details of his qualifications and experience are set out below.

Ralph Waters

Ralph Waters joined the Fonterra Board in July 2006 as an Appointed Director. He serves on the Appointments, Remuneration and Development Committee.

Ralph is Chairman of Fletcher Building Limited and is also a Director of Asciano Limited and Woolworths Limited, where he assumed the role of Chairman on 22 November 2012. He is also Deputy Chairman of the Local Organising Committee for the ICC Cricket World Cup 2015, to be hosted in New Zealand and Australia.

He was Chief Executive of Fletcher Building Limited from May 2001 until his retirement in August 2006. Before joining Fletcher Building Limited, Ralph was Managing Director of the Australian publicly-listed company Email Limited, and has also held a number of engineering and managerial positions in London and the Middle East.

The Board has determined that Mr Waters is an "Independent Director" for the purposes of the rules of the FSM.

Shareholder Proposal

Resolution 9: McKenzie Proposal

The Company has received the following proposal from RL & HS McKenzie Ltd, 289 Kapukapu Road, Rd6, Rotorua, Shareholder 78561, for Shareholder consideration and resolution at the Annual Meeting.

McKenzie Proposal: Constitutional amendments

Your Board does not support these proposals and recommends that you vote against them. In addition, the Board would like to register its disappointment that the Co-operative's governance structure, philosophy and culture have not been followed in putting these proposals forward.

The Shareholders' Council recommends to Shareholders that they not vote in favour of the changes proposed to Fonterra's Constitution by the McKenzie proposal.

The proposing Shareholder was entitled to provide a statement in support of the proposal. The following was supplied:

Resolution Questions and Answers.

1. What's this about? (The Constitutional flaws)

- *There is no provision in Fonterra's Form A or Form B or the constitution protecting against a 'reduction and or dilution' in the number of farmer directors on the Fonterra Board.*
- *Neither is it stated in our constitution that only the farmer elected Directors shall elect the Chairperson.*

The constitution does require that the chairperson be an elected Director.

2. Why does it matter?

A consequence of this exposure is the risk of ending up with a majority of directors governing Fonterra, who's main income has never been, and never will be, dependant on profitability from dairy farming. The purpose of our Co-operative is to maximise the profit of its members' dairy businesses. It is essential that a clear majority on the Fonterra Board, are people who are incentivised to drive strategy that deliver this purpose. Notwithstanding the skill gaps filled by independent director recruitment, our constitution should protect us from independent directors ever being in a majority, to chair our Co-operative, or determining who should chair our Co-operative.

3. Hasn't it always been like this, why change?

By their very name 'Independents' provide the board a diversity and an outlook that a farmer may not 'naturally' adopt. This independence is invaluable but it must not be at the expense of farmer members' livelihoods. In a co-operative where outside investors may seek to exert greater influence the risk of a divided board could be exacerbated where there is not a clear majority of farmer directors who support the elected chair.

4. What does this mean?

Fonterra farmer members are the owners, uniquely dependent on the co-operative for their livelihood. We have been promised 100% ownership and control of the Co-operative.

The farmer control that has been promised can only be assured if members vote for these two simple changes to our constitution.

This resolution will for the first time, enshrine in our constitution 100% farmer control. The constitution is our bottom line protection from unknown and unintended future influences upon our Co-operative.

5. If I want to act what do I have to do?

It is critical that members vote to incorporate these extra protections in our constitution.

Opportunities to implement change in our constitution by shareholder resolution will be extremely challenging in a future environment which is subject to share market rules. 75% voter support is needed to take this opportunity to address and deliver genuine control as promised.

Appendix

12.2 Election by Shareholders: *Subject to clause 12.1, a person may be elected or removed as a Director from the conclusion of an annual meeting of the Company by a postal ballot of Shareholders held in accordance with the written procedures adopted by the Shareholders' Council from time to time for holding postal ballots by Shareholders for the election or removal of Directors*

33.1 Casual vacancies: Subject to clause 12.1, the Board may at any time appoint a person to fill a casual vacancy in the Directors to be elected by Shareholders pursuant to clause 12.2 who is qualified in terms of clause 12.3 to be a Director and shall appoint such a person if a casual vacancy would otherwise continue for six months or more. A Director so appointed holds office only until the conclusion of the next annual meeting of the Company but is eligible for re-election.

The Board comments on the McKenzie proposal as follows:

Your Board recommends that you vote AGAINST this proposal.

The Board considers the governance and representation processes and structures to be of critical importance to the future of the Co-operative. Accordingly, in conjunction with the Shareholders' Council, the Board has initiated a review to consider development of Fonterra's governance and representation to meet the challenges of the coming decade. A range of different options will be analysed and considered. The process will also involve providing Farmer suppliers with appropriate information on any proposals recommended by the Board and Council, and broad consultation with the shareholder base on any preferred proposals once they have been determined.

If any constitutional changes are sought the views of farmer suppliers will be fully considered, and these will require support from at least 50% of the Council as well as approval from farmer suppliers holding 75% of the voting rights at a meeting where these are proposed.

The McKenzie Proposal pre-empts this detailed consideration of the Co-operative's needs, and any meaningful consultation with Shareholders. The proposed structure lacks the analysis, discussion and debate that is appropriate to achieve the best outcome for the Co-operative.

In summary, the proposal has not been well thought through and would not be in the best interests of our Co-operative for the following reasons:

1. 100% farmer control of the composition of the Board is already entrenched in the Constitution.
2. Only farmers supplying milk to Fonterra have the ability to vote for elected Directors, and only those farmers can vote to ratify the appointment of Board appointed Directors. This year supplying Shareholders will be voting to ratify the appointments of Sir Ralph Norris and Mr Ralph Waters.
3. Farmer suppliers can also vote to remove any of the Directors (including Board appointed Directors) by ordinary resolution. Suppliers holding 5% of the voting rights, or 75% of the Shareholders' Council, can call a special meeting to do so if they wish.
4. In addition to the control already in place for farmer suppliers, it is already clear from clause 12.1(b) of the Constitution that there cannot be more than 4 Directors appointed by the Board.
5. The proposal suggests there is currently no protection against a reduction in the number of elected Directors. In fact, this protection is present in the current constitutional provisions for filling casual vacancies, which ensures the number of elected Directors will remain at nine, except where a casual vacancy may exist for up to six months (in which case the Board may elect not to fill such a vacancy). Any permanent change to the number of elected Directors (or appointed Directors), would require constitutional change and a 75% vote.
6. A key objective of clause 12.1 of the Constitution is to limit the size of the Board to 13 Directors, comprising 9 elected Directors and 4 Board appointed Directors. The proposal removes this important protection.
7. The proposal suggests that elected Directors can or should act differently from appointed Directors. In fact all Directors are subject to the same duties and responsibilities in law, including a duty to always act in the best interests of the Co-operative.
8. If only elected Directors were to appoint the Chairman, it would be hard to attract skilled, quality professional Directors to Fonterra's Board. This would severely disadvantage the Co-operative's governance and decision making.

The Shareholders' Council has reviewed the McKenzie proposal.

The Council respects the rights of Shareholders to propose resolutions for consideration by all Shareholders.

Having noted the matters referred to below but without pre-empting the decision of the Council under clause 18.1 of Fonterra's Constitution (such a resolution will not be considered by the Council until after it has the benefit of the outcome of the Shareholder vote on the McKenzie Proposal), the Council recommend to Shareholders that they not vote in favour of the changes proposed to Fonterra's Constitution in the McKenzie Proposal.

1. The Board of Directors of Fonterra have advised the Council that a Shareholder, RL & HS McKenzie Ltd, has submitted a proposal to put a resolution to Shareholders at Fonterra's Annual Meeting in December. Fonterra has shared Mr McKenzie's proposed resolution with the Council. The McKenzie Proposal would amend Part A of Fonterra's Constitution. A copy of the McKenzie Proposal has been circulated to all Councillors.
2. The Board of Directors of Fonterra have advised the Council that they do not support the McKenzie Proposal and will oppose it at the Annual Meeting.
3. The Council notes that both they and the Board of Directors of Fonterra have recently commenced a "Governance and Representation" Review and that the McKenzie Proposal is pre-emptive of that process being completed.
4. The Council also notes that the McKenzie Proposal to have no maximum number of farmer-elected Directors could cause practical difficulties.
5. As the McKenzie Proposal would change Part A of Fonterra's Constitution it cannot take effect (even if supported by a special resolution of shareholders) without the support of 50% or more of Councillors under clause 18.1 of Fonterra's Constitution.
6. Any proposed changes to the Constitution MUST be taken to Shareholders and receive 75% support before those changes can be made. This is the case if any changes are proposed after the Governance and Representation Review ends or at any other time. Shareholders can be confident that no changes can be made without consultation and a 75% vote in favour.



Dairy for life