

FONTERRA ANNUAL MEETING 2015

Notice of Annual Meeting of Shareholders and Explanatory Notes

10.30am on Wednesday, 25 November 2015

Fonterra Waitoa UHT Site

Cnr No. 1 Rd

State Highway 26

Waitoa



FONTERRA
SHAREHOLDERS'
COUNCIL



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FONTERRA CO-OPERATIVE GROUP LIMITED ANNUAL MEETING FOR 2015

Fonterra's Annual Meeting will be held at the Fonterra Waitoa UHT Site, Cnr No. 1 Rd, State Highway 26, Waitoa at **10.30am on Wednesday, 25 November 2015**.

It is a safety requirement of the site that all attendees wear flat, closed-in footwear.

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 14, 17, 23 and 26 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 Monday, 23 November 2015**
 - 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 Monday, 23 November 2015**.

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 2015**. 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 is excluded from milksolids production when calculating voting entitlements.

In accordance with the Companies Act, the Board has fixed **28 October 2015** as the

date for determining voting entitlements of Shareholders for this meeting. Accordingly, those persons who are, on **28 October 2015**, registered as Shareholders will be entitled to vote at the Annual Meeting in respect of the Shares registered in their name on that date backed by production.

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 relating to the Shareholder Proposals will be passed if approved by a majority of 75% 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 (including by electronic means) or are present in person or by a representative, who between them hold or represent the holder or holders of not less than two per cent 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 Farm Source at www.nzfarmsource.co.nz as soon as vote counting is complete and the Chairman has declared the results.

Meeting Attendees

The Annual Meeting is held for the benefit of Shareholders and their authorised proxies and representatives. Fonterra management will also be in attendance, as well as invited members of the media.

2015 Fonterra Elections and Annual Meeting

30 October 2015

Dear Shareholders,

I would like to invite you to attend this year's Annual Meeting being held at one of our sites – our UHT site in Waitoa.

The Waitoa UHT Site has more than 80 permanent staff and the capacity to process an estimated 100 million litres of milk each year. In April last year, the first 25,000 Anchor UHT cream packs ready for export came off the line and since then Waitoa UHT has been commercially producing fortified milk and cream products destined for the growing markets of China and wider Asia.

At the meeting there will be a review of the past year's performance and Chief Executive, Theo Spierings, will provide a presentation on our Co-operative's financial performance and operations along with the future business direction and priorities.

Shareholders are being asked to vote on six ordinary business resolutions to approve the remuneration of Directors, Councillors and the Directors' Remuneration Committee, approve the appointment of the Auditor, approve the Shareholders' Council programme and budget and approve the proposed changes to the Co-operative Principles. This year there will also be a resolution to ratify the appointment of our new Independent Director, Mr Clinton Dines. Each of these resolutions requires at least 50 per cent support to be passed.

There are also four proposals for consideration by Shareholders. Further detail on each of the proposals and 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 voting pack.

While the Annual Meeting will not be televised, a video of key items from the meeting will be available on Farm Source at www.nzfarmsource.co.nz from Thursday, 26 November 2015.

I look forward to seeing you at the Annual Meeting.

Yours sincerely,



John Wilson
Chairman

FONTERRA CO-OPERATIVE GROUP LIMITED

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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. Shareholders should allow sufficient time to register their attendance upon arrival prior to the start of the meeting.

10.00am - Registration / Morning Tea

10.30am - Welcome

Welcome / Introduction – John Wilson, 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 – David Gasquoine, 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

Ratification of Appointment of Director

Resolution 5: Ratification of appointment of Mr Clinton Dines

Shareholders' Council Report

Chairman's Review - Duncan Coull

Approval of Shareholders' Council Programme and Budget

Resolution 6: Approval of the Shareholders' Council programme and budget

Approval of amendments to the Fonterra Co-operative Principles

Resolution 7: Approval of amendments to the Co-operative Principles

Shareholder Proposals

Resolution 8: Mr Beach's First Proposal

Resolution 9: Mr Beach's Second Proposal

Resolution 10: Mr Croucher's Proposal

Resolution 11: Mr Armer and Mr Gent's 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 **Wednesday, 25 November at 10.30am at the Fonterra Waitoa UHT Site, Cnr No. 1 Rd, State Highway 26, Waitoa.**

John Wilson

Chairman, on behalf of the Board

Notice of Meeting dated 30 October 2015.

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."

Ratification of Appointment of Director

Resolution 5: Ratification of appointment of Mr Clinton Dines

To consider and, if thought fit, to resolve:

“To ratify the appointment by the Board of Mr Clinton Dines as a Director of the Company, under clause 12.4 of the Constitution.”

Shareholders’ Council Report

Chairman’s Review

Approval of Shareholders’ Council Programme and Budget

Resolution 6: 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 2014/2015) and, if thought fit, to resolve:

“To approve the Shareholders’ Council’s programme and budget for the current season.”

Approval of amendments to the Fonterra Co-operative Principles

Resolution 7: Approval of amendments to the Co-operative Principles

To consider and, if thought fit, to resolve:

“To approve the proposed amendments to the Co-operative Principles.”

Shareholder Proposals

Resolution 8: Mr Beach’s First Proposal

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

“To replace the existing share system with the New Share Proposal so that all suppliers are equal.”

Resolution 9: Mr Beach’s Second Proposal

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

“That the Guaranteed Milk Price be stopped indefinitely.”

Resolution 10: Mr Croucher’s Proposal

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

“That the following provision is added to clause 16.1 of the Constitution:

(r) Consulting with the Board in relation to any changes to the terms and conditions of supply.”

Resolution 11: Mr Armer and Mr Gent’s Proposal

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

“That the Constitution of the Company be amended as follows:

1. *By deleting clause 12.1 and replacing it with the following new clause 12.1:*

*“12.1 - **Number of Directors:** There shall be:*

*(a) **Shareholder elected Directors:** not more than 6 Directors elected by Shareholders in accordance with clause 12.2A or clause 12.2 or appointed by the Board in accordance with clause 33.1; and*

*(b) **Board appointed Directors:** not more than 3 Directors appointed by the Board in accordance with clause 12.4.”; and*

2. *By inserting the following new clauses 12.2A, 12.2B and 12.2C immediately after clause 12.2:*

“12.2A - Election of up to 6 Directors by Shareholders by 31 March 2016: A postal ballot of Shareholders shall be held and completed on or before 31 March 2016 as follows:

- (a) the postal ballot of Shareholders shall be held in accordance with written procedures adopted by the Shareholders Council;
- (b) the purpose and effect of the postal ballot shall be to elect up to 6 Directors as Shareholder elected Directors under clause 12.1(a) to hold office from 5 pm on the date the postal ballot is completed;
- (c) any person who is not already a Director and who wishes to be elected as a Director by that postal ballot must be nominated in accordance with the following provisions:
 - (i) that person must qualify to be appointed as a Director in terms of clause 12.3;
 - (ii) that person must be nominated by a Shareholder, and that nomination must be seconded by another Shareholder, entitled to vote in the postal ballot by written notice to the Company on or before 31 January 2016;
 - (iii) the written notice must be accompanied by the consent in writing of that person to the nomination;
- (d) notice of every valid nomination of a Director received by the Company on or before 31 January 2016 shall be sent by the Company to all persons entitled to vote in the postal ballot in accordance with written procedures adopted by the Shareholders Council referred to in clause 12.2A(a);
- (e) notwithstanding any other provision of this Constitution, any Director who holds office on the date the postal ballot is completed as a Director elected by Shareholders in accordance with clause 12.2 or appointed by the Board in accordance with clause 33.1 and who is not elected by that postal ballot shall cease to be a Director at 5 pm on the date the postal ballot is completed; and
- (f) for the purposes of clauses 12.7 and 13.1, the Directors elected pursuant to the postal ballot shall be deemed to have been elected pursuant to or in accordance with clause 12.2.”

“12.2B - Transitional Provision for Shareholder elected Directors:

Notwithstanding clause 12.1(a), the number of Directors elected by shareholders in accordance with clause 12.2 or appointed by the Board in accordance with clause 33.1 may be more than 6, but not more than 9, until 5 pm on the date the postal ballot referred to in clause 12.2A is completed.”

“12.2C - Transitional Provision for Board appointed Directors:

Notwithstanding clause 12.1(b), until the conclusion of the Company’s 2016 annual meeting of shareholders the number of Directors appointed by the Board may be more than 3, but not more than 4.”

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 ("Committee") met in July 2015 to consider, and recommend to Shareholders, the form and amount of the Directors' remuneration. The Committee comprises six Shareholders and is chaired by Mr David Gasquoine.

In considering their recommendation, the Committee reviewed the market expectations and trends for director fees in New Zealand and overseas, the workload expectations of Directors, relativities between different roles, the nature of the Company and the challenging conditions currently being experienced by Shareholders. 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 is of the view that fee levels are at a generally appropriate level, and as per the 2014 recommendation, for the current year the Committee has recommended that the present remuneration levels should remain unchanged.

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 **\$405,000 p.a.** (no change)
- Director **\$165,000 p.a.** (no change)

In addition, at the discretion of the Board, the Chair of each permanent Board Committee may be paid an additional **\$31,000 p.a.**, unless that person is the Chairman of the Board or already in receipt of a Committee Chair allowance. (No change)

The Committee has also approved the expense reimbursement policy for both Directors and Shareholders' 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 2015 to consider, and recommend to Shareholders, the form and amount of the remuneration to be paid to Shareholders' Councillors.

The Committee notes the priorities and expectations on Councillors. The Committee considers the Councillor role to be an important one for the Co-operative, and that the level of the honoraria needs to be sufficient to attract and recognise Shareholders of a high calibre serving in that capacity. The Committee understands that the 2013 increase in Councillor honoraria continues to achieve that objective.

The Committee reviews with the Chair of the Shareholders' Council the allocations made from the discretionary pool in the prior year, and is comfortable that the pool was utilised in a reasonable manner consistent with the intent of the recommendation.

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.** (no change)
- Deputy Chair **\$55,550 p.a.** (no change)
- Councillors **\$30,000 p.a.** (no change)
- Discretionary Pool

Up to **\$100,000** per annum (in aggregate), be provided for additional honoraria of Project Leaders and Subcommittee Chairpersons of the Shareholders' Council (in each case not to exceed \$17,500 per annum per person); and for ordinary Councillors representing the Council at its request on external Committees; such provisions to be allocated in whole or part at the discretion of the Chairman of the Shareholders' Council and the tabling of details of such honoraria payments to the Directors' Remuneration Committee annually.

(No change to the amount of the current pool arrangement.)

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.** (no change)
- Member **\$500 p.a.** (no change)

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.

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. Section 207S 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 2015.

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.

Ratification of Appointment of Director

Resolution 5: Ratification of appointment of Mr Clinton Dines

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.

Mr Clinton Dines was appointed by the Board in accordance with clause 12.4 of the Constitution and his appointment is required to be ratified by Shareholders at the 2015 Annual Meeting.

The Fonterra Board has determined that Mr Dines qualifies as an Independent Director.

Mr Dines' remuneration and benefits, as with all of the Independent Directors, are determined by the Board in accordance with section 161 of the Companies Act and are not subject to Resolution 1. However, the Fonterra Board remunerates Independent Directors at the same level as Elected Directors.

Details of his qualifications and experience are set out below.

Clinton Dines was President of BHP Billiton China for 7 years and worked within the BHP Billiton business in China for over 20 years, initially as the Company's Senior Country Executive. Prior to joining BHP Billiton Clinton worked for a number of entities based in China and in total spent 36 years living and working in China and is a fluent Mandarin speaker.

Since retiring from BHP Billiton in 2009 Clinton has acted as a Non-Executive Director of a number of entities and currently serves as a Non-Executive Director of North Queensland Airports, Aurecon Group, Zanaga Iron Ore Company, KAZ Minerals plc and Griffith University. Clinton also works as a Partner in the Strategic Corporate Advisory of Morton Bay Partners and worked as a Strategy Advisor to GE Mining Equipment China from 2013 to 2014. He was the Executive Chairman of Caledonia Asia from 2010 to 2013.

Approval of Shareholders' Council Programme and Budget

Resolution 6: 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 Council has independently finalised its programme and budget and that information is included in the Shareholders' Council's

Annual Report to Shareholders 2014/2015. This Annual Report has been sent to Shareholders and is available on fonterra.com and Farm Source (<https://nzfarmsource.co.nz/business/advice-support/shareholders-council/>).

Approval of amendments to the Fonterra Co-operative Principles

Resolution 7: Approval of amendments to the Co-operative Principles

The Council has undertaken a review of the Company's Co-operative Principles, and is recommending that Shareholders indicate their support for the updated Co-operative Principles.

In support of this recommendation, the Council has provided the following statement:

Our Co-operative Principles lie at the heart of Fonterra and in our role as the guardian of the Co-operative Principles your Council has thoroughly reviewed the Principles and proposed some amendments to ensure they remain robust in light of our Co-operative's evolving requirements.

Of particular importance is that they better reflect the changes made to the Constitution when Trading Among Farmers was implemented.

The Council has consulted with the Board and management on our proposed revisions and in December 2014 entered into consultation with Shareholders on the amendments; the feedback we received from Shareholders overwhelmingly supported our proposal.

The Constitution contemplates that the Council will work with the Board in relation to the Co-operative Principles, however, we are seeking Shareholder support for the proposed amendments.

The Council is confident that the changes are robust and will serve our Shareholders and our Co-operative well, as such the Council's recommendation to Shareholders is that they support the Council's amendments to the Fonterra Co-operative Principles.

Below is a summary of the proposed Principles and our reasons for any amendments:

Principles 1 - 4

- 1. Shares in Fonterra Co-operative Group can only be acquired by persons supplying milksolids to Fonterra.**
 - This Principle is still valid and does not require change.
 - We considered that a right for an exiting shareholder to sell down their holding over a three year period does not materially affect this Principle.
- 2. Fonterra supplying shareholders agree to the dual commitment to supply milk and invest capital.**
 - This Principle does not require change.
- 3. Supplying shareholders must comply with the Co-operative Share Standard in respect of their milksolids supplied.**
 - This Principle did require change as not all shares need to be backed by milk supply as was the case before.
 - The requirement for all milk supply to be backed by shares remains.
- 4. Control of Fonterra is exercised by its supplying shareholders who have voting rights in proportion to their total milksolids supplied.**
 - This Principle does not require change.

Principles 5 and 6

For the sake of keeping our Principles clear the Council decided that adding a sixth Principle was preferred over expanding the existing fifth Principle.

The rationale for this is:

- *The capital structure changes approved by shareholders affected the sharing of financial benefits and obligations relating to cornerstone activities.*
- *The income from the processing and selling of milk as a commodity is now expressed as the Milk Price and is returned to shareholders in direct proportion to milk supplied.*
- *The proceeds from other activities, including those that add further value to shareholders milk, are now expressed as a Dividend and are returned to shareholders in direct proportion to total shares held.*

Principles 5 and 6 have been written to reflect this.

- 5. Financial benefits and obligations that arise from supplying milk are allocated to supplying shareholders in proportion to their total milksolids supplied.**
- 6. Financial benefits and obligations that arise from invested capital are allocated to shareholders in proportion to their shareholding.**

Shareholder Proposals

Under clause 15.1 of the Constitution, a Shareholder may give written notice to the Board of a matter which the Shareholder proposes to raise for discussion or resolution at the next meeting of Shareholders at which the Shareholder is entitled to vote. Under the provisions of section 9 of the first schedule to the Companies Act, the Shareholder may include a statement of not more than 1000 words in support of the proposal, together with the name and address of the proposing shareholder.

Constitutional Amendments

Where shareholders have advised that they wish that their proposal, if adopted, to be binding on the Board, Part A of the Constitution may require amendment. With the exception of changes to clause 16 of the Constitution, changes to Part A of the Constitution require the support of Shareholders holding 75% of the voting rights at the Annual Meeting and the support of 50% or more of Shareholders' Councillors. Therefore, a resolution may be passed, but without the required support for the constitutional amendments, will not be binding on the Board.

Resolution 8: Shareholder Proposal - Mr Murray Beach's First Proposal

The Company has received the following proposal from Mr Murray Beach for shareholder consideration and resolution at the Annual Meeting.

"To replace the existing share system with the New Share Proposal so that all suppliers are equal."

Your Board unanimously does not support this proposal and recommends that you vote against it.

The Shareholders' Council has also advised that it unanimously does not support the proposal.

Constitutional amendments

Mr Beach has advised that he wishes the proposal, if adopted, to be binding on the Board. To achieve that, Part A of the Constitution would require amendment. This requires the support of Farmer shareholders holding 75% of the voting rights at the Annual Meeting.

The Constitution also provides that the support of 50% or more of Shareholders' Councillors is needed for such an amendment.

Support for an amendment to the Constitution has not been obtained from the Shareholders' Council.

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

New Share Proposal

- A farmer has a 100,000 shares at \$5.50 = \$550,000
- Change these to \$2.00 shares
- This gives the farmer 275,000 \$2.00 shares

The farmer must keep 100,000 shares worth \$2.00. These could be called his milking quota shares.

This farmer still has 175,000 shares worth \$2.00 that he can sell or transfer. We'll call these his saleable/transferable shares. The saleable/transferable shares can only be sold to a Fonterra farmer.

If the farmer increases production by 10,000 Milk Solids, he can transfer 10,000 of his saleable/transferable shares to his milking quota shares.

This will give him 110,000 milking quota shares and reduce his saleable/transferable shares to 165,000.

The outsiders shares, known as the units could be changed to \$2.00 shares and the dividend will have to be honoured on them.

All existing schemes, 6 years to share up, 10 years to share up, contract milk and Mymilk to be replaced by the \$2.00 share over a period

of time, say 3 years.

These can be bought from any farmer wishing to sell some of his saleable/transferable shares.

Farm Sales

The farm can be sold with the milking quota shares either incorporated in the price or added on top of the price.

Fonterra will have to buy back the saleable/transferable shares. These can be sold to new conversions. (Hopefully, this will balance out about the same.)

So now we have the Co-op in a position where in 3 years every farmer will have \$2.00 shares to their milking quota. This will encourage farmers to stay with Fonterra. It will put all farmers on an even playing field. This will eliminate the discontent. It will stop farmers leaving, this will safeguard Fonterra's milk supply. As farmers increase production it will start to take the saleable/transferable shares out of the system. This will make it easier for farmers that are struggling as they won't have to buy \$5.50 shares for their extra effort, They'll think this is not such a bad Co-op to milk for.

Example as to how the New Share Proposal will work.

A farmer milks to 100,000 MSolids. He's previously sold 20% of his shares at \$7.92 which were replaced with vouchers. This means he owns 80,000 shares.

- 80,000 shares at 5.50 = \$440,000.00
- Change these to \$2.00 shares = 220,000 shares

This gives him 80,000 milking quota shares at \$2.00 and 140,000 saleable/transferable shares. He transfers 20,000 saleable/transferable shares to his milking quota shares getting rid of his vouchers and increasing his milking quota shares to 100,000. He's now fully shared-up with full voting rights. By doing this the saleable/transferable shares drop back to 120,000, Fonterra saves 20% redemption. Assuming the shareholder stays with Fonterra.

He has a good season and increases production by 10,000 milk solids, so he transfers 10,000 of his saleable/transferable shares to his milking quota shares. He now has 110,000 milking quota shares and 110,000 saleable/transferable shares. This can save Fonterra another 9% redemption.

He now decides to sell 3% of his saleable/transferable shares to a new identity or contract milker. That's another 6,000 shares sold. He now has 110,000 milking quota shares and his saleable/transferable shares are down to 104,000. Fonterra saves another 3% redemption.

Now this guy decides to sell his farm so he sells the 110,000 milking quota shares to the new purchaser.

Fonterra only have to pay out the 104,000 saleable/transferable shares which are left at \$2.00 costing the Co-op \$208,000. That's a lot better than 440,000. It's cut the redemption by over 50%.

The new farm buyer is in at \$2.00 a share so the chances of him moving to another milk company are less.

Every time there is a farm sale all the existing farmers get more added to their dividend as there are less shares to divide it up amongst.

To Summarise:

Worst case scenario, a farmer shifts to another milk company and Fonterra have to pay him out. But then this guy has paid for all his shares, so on fair entry fair exit he deserves his money back.

At the moment 150 farmers doing 100,000 milk solids would have to leave Fonterra to equal the loss of dividend we are paying to outsider investors and dry shares (non backed shares).

So you have to weigh it up a little bit of redemption offset by an increase in dividend as the saleable/transferable shares drop out of the system and the right to increase production at no cost.

At the moment we have wet shares, dry shares, shareholders fund, units, vouchers, stock exchange, dividend, reinvestment plan, Mymilk, 6 years to share up, 10 years to share

up and contract milk.

That's 10 things that can be replaced by 2, milking quota shares and saleable/transferable shares.

It's straight forward, simple and cuts a heap of administration costs. It makes every shareholder the same and Fonterra are back to being a Co-op. Every shareholder and Fonterra all benefit out of this New Share Proposal.

The ultimate goal is for the saleable/transferable shares to phase out, leaving all suppliers with \$2.00 milking quota shares. This way everybody is the same and it gets rid of a lot of complicated administration also saving the Co-op money.

The contract milk, new identities Mymilk and increased production will take out a lot of the farmer saleable/transferable shares.

We need to know the percentage of contract milk and New Identities and Mymilk milk so that the farmers with saleable/transferable shares can sell to that percentage.

So there is no confusion:

Contract milk, Mymilk, 6 years to share up and 10 years to share up amount to about 3%.

Therefore you can only sell 3% of your saleable/transferable shares, the rest of your saleable/transferable shares sit there and receive the dividend.

If the dividend is 27 ½ cents on a \$5.50 share, the dividend on a \$2.00 share is 10 cents but you have 2 ¾ times as many shares, giving you exactly the same amount of dividend money.

Farmers that took the 20% special share offer at \$7.92 two years ago and were given vouchers in their place will be able to transfer 20% of their saleable/transferable shares to their milking quota shares. This will not cost the farmer a cent and will give the farmer full voting rights. The farmer will have exactly the same share value.

It will take 20% of the saleable/transferable shares out of the system and won't cost the co-op a cent either.

It will stop shares going to outsiders that we have to honour the dividend on. The banks won't lose any security.

The New Identities, Contract Milk and Mymilk will be able to fully share up to their milking quota at \$2.00 per share, so there's something in this for them as well. This way everybody will be the same.

The Board comments on Mr Beach's First Proposal as follows:

Your Board recommends that you vote AGAINST this proposal.

In summary, the proposal would not be in the best interests of our Co-operative for the following reasons:

1. The proposal is detailed but contains a number of inconsistencies and unworkable features. Any proposal to change fundamental features of the Company's capital structure should be properly considered and debated before being recommended to Shareholders.
2. The proposal is inconsistent with the Company's current capital structure, and would re-introduce redemption risk which was removed by the changes made to the Constitution by Shareholders as part of Trading Among Farmers. The proposal is also inconsistent with the current statutory framework provided for in the Dairy Industry Restructuring Act 2001. The re-introduction of redemption risk would undermine the Company's financial strength which would impact the Company's strong credit rating and its ability to secure debt funding on favourable terms.
3. The proposal appears to be economically unsound in a number of key respects, and aspects would not be able to be put in place legally. Mr Beach has provided no analysis of the impact of the proposal on the Company and its Shareholders, including any risk analysis, financial benefits and costs, public policy impact or unintended consequences.
4. The Board considers that a nominal share that fails to reflect the investment

being made by Shareholders over time in the Company would not be in the best interests of Shareholders or the Company, and could result in decisions and incentives that undermine value.

5. The proposal would undermine the ability of the Company to pursue its strategy, and would be an unnecessary distraction to management, the Board and Shareholders, especially at a time when there is a focus on ensuring that the Company is well-placed to respond to global economic and political challenges and ongoing volatility in the global dairy industry.

The Shareholders' Council has reviewed Mr Beach's First Proposal.

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

Having noted the matters referred to below the Council has voted to not support Mr Beach's First Proposal and under clause 18.1 of the Constitution, to not support any changes to the Constitution to effect Mr Beach's First Proposal.

The Council recommends to Shareholders that they **do not** vote in favour of Mr Beach's First Proposal.

1. The Board of Directors of Fonterra has advised the Council that Mr Murray Beach has submitted a proposal to put a resolution to Shareholders at Fonterra's Annual Meeting in November. Fonterra has shared Mr Beach's proposed resolution with the Council. Mr Beach's proposal would require an amendment to Part A of Fonterra's Constitution. A copy of Mr Beach's proposal has been circulated to all Councillors.
2. The Board of Directors of Fonterra has advised the Council that they do not support Mr Beach's First Proposal and will oppose it at the Annual Meeting.
3. The Council considered Mr Beach's First Proposal and unanimously voted not to support it.

4. The Council considers that Mr Beach's First Proposal should not be supported for the following key reasons:
 - (a) It would bring back redemption risk to the Co-operative and put pressure on the balance sheet and constrain growth.
 - (b) It would remove some measurements of performance of the Co-operative.
 - (c) A nominal share does not recognise increasing value in the business.
 - (d) A nominal share removes value from Shareholders.
5. As Mr Beach's First 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. This support was not achieved.

Resolution 9: Shareholder Proposal - Mr Murray Beach's Second Proposal

The Company has received the following proposal from Mr Murray Beach for shareholder consideration and resolution at the Annual Meeting.

"That the Guaranteed Milk Price be stopped indefinitely."

Your Board unanimously does not support this proposal and recommends that you vote against it.

The Shareholders' Council has advised that it does not support the proposal.

Constitutional amendments

Mr Beach has advised that he wishes the proposal, if adopted, to be binding on the Board. To achieve that, Part A of the Constitution would require amendment. This requires the support of Shareholders holding 75% of the voting rights at the Annual Meeting.

The Constitution also provides that the support of 50% or more of Shareholders' Councillors is needed for such an

amendment.

Support for an amendment to the Constitution has not been obtained from the Shareholders' Council.

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

My reasons for putting this remit forward are that I consider all Shareholders should be treated the same, I realise that it is a win or lose situation, however if Fonterra are able to secure a contract, then the money from the contract should be split evenly amongst all Shareholders.

The Board comments on Mr Beach's Second Proposal as follows:

Your Board recommends that you vote AGAINST this proposal.

The Board considers that the action required by the proposal is unnecessary. The Board had earlier considered feedback from Shareholders and resolved to end the Guaranteed Milk Price programme from the end of the current season. This resolution was supported by the Council, and communicated to all Shareholders.

The end of the Guaranteed Milk Price programme was discussed with Shareholders at meetings across the country in early October, and the Board considers that no further action is appropriate or necessary in relation to the proposal.

The Shareholders' Council has reviewed Mr Beach's Second Proposal.

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

Having noted the matters referred to below the Council has voted to not support Mr Beach's Second Proposal and under clause 18.1 of the Constitution, to not support changes to the Constitution to effect Mr Beach's Second Proposal.

The Council recommends to Shareholders that they **do not** vote in favour of Mr Beach's Second Proposal.

1. The Board of Directors of Fonterra has advised the Council that Mr Murray Beach has submitted a proposal to put a resolution to Shareholders at Fonterra's Annual Meeting in November. Fonterra has shared Mr Beach's proposed resolution with the Council. Mr Beach's proposal would require an amendment to Part A of Fonterra's Constitution. A copy of Mr Beach's proposal has been circulated to all Councillors.
2. The Board of Directors of Fonterra has advised the Council that they do not support Mr Beach's Second Proposal and will oppose it at the Annual Meeting.
3. The Council voted on Mr Beach's proposal and voted not to support it for the following key reasons:
 - (a) Guaranteed Milk Price is no longer being offered after this season and so a resolution to end Guaranteed Milk Price is not necessary.
 - (b) Having regard to Fonterra's representation/governance model, the Council believes the correct approach is that the Council can and does raise issues with the Board and provides the views of shareholders for the Board to take into consideration. This approach was followed with regard to Guaranteed Milk Price.
 - (c) It is not appropriate to include in the Constitution anything that affects the ability of the Board to govern the Co-operative and make decisions in the best interests of the Co-operative.
4. The Council has considered the Board's reasons for not supporting the proposal and supports the Board's position.
5. As Mr Beach's 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. This support was not achieved.

Resolution 10: Shareholder Proposal - Mr Mark Croucher's Proposal

The Company has received the following proposal from Mr Mark Croucher for shareholder consideration and resolution at the Annual Meeting.

"That the following provision is added to clause 16.1 of the Constitution:

- (r) *Consulting with the Board in relation to any changes to the terms and conditions of supply."*

Your Board unanimously does not support this proposal and recommends that you vote against it.

The Shareholders' Council has also advised that it unanimously does not support the proposal.

Constitutional amendments

Mr Croucher has advised that he wishes the proposal, if adopted, to be binding on the Board. To achieve that, Part A of the Constitution would require amendment. This requires the support of Shareholders holding 75% of the voting rights at the Annual Meeting.

Under the Constitution, the support of 50% or more of Shareholders' Councillors is not needed for such an amendment to clause 16 of the Constitution even though it is in Part A of the Constitution.

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

The reasons for this resolution are

Many changes to the Fonterra Terms and conditions of supply have been made since the formation of Fonterra. Many of these have added considerable cost to suppliers with little or no consultation. They could have been handled a lot better regards the timing and the explanation as to why they were required if our Shareholders representatives (Shareholders Council as a whole) were consulted beforehand.

If this resolution is successful I would expect the Shareholders council will report

annually to shareholders on if and how they have been consulted with regards to any changes to the Fonterra Terms and conditions of supply.

The Board comments on Mr Croucher's Proposal as follows:

Your Board recommends that you vote AGAINST this proposal.

The Board considers that it is not necessary to amend clause 16.1 of the Constitution to give effect to Mr Croucher's proposal for the following reasons:

1. The Constitution already provides that the Council will represent the views of Shareholders, and contains the mechanisms and authority needed to allow the Council to have input into the Farmers' Handbook (being the terms and conditions between Fonterra and its suppliers and previously known as the Fonterra Suppliers Handbook).
2. The Council has in the past been consulted in relation to any changes to the Farmers' Handbook, and will continue to be consulted as changes are made.
3. The Board values the role of the Council in providing input into a range of issues, including the terms and conditions in the Farmers' Handbook.
4. There are requirements for consultation provided for in the Constitution which cover matters such as the Farmers' Handbook, and the proposal does not add to that in any way that provides value to Shareholders.

The Shareholders' Council has reviewed Mr Croucher's Proposal.

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

The Fonterra Shareholders' Council do not support this proposal for the reasons below

1. The Constitution already contains clauses on Council consultation with the Board (clauses 16.1(i) and 16.10) and the Council and Board have clear processes agreed in relation to consultation.

2. The Council and particularly its Representation Committee is already involved in a process to review and consult on the Farmers' Handbook and any changes in it each year.
3. The proposal does not ensure that the Board consults with the Council but only ensures that the Council consults with the Board which is already in the Constitution in another form. The process for consultation is well-established between the Council and the Board.

The Council recommends to Shareholders that they **do not** vote in favour of Mr Croucher's Proposal.

Resolution 11: Shareholder Proposal - Mr Colin Armer and Mr Greg Gent's Proposal

The Company has received the following proposal from Mr Colin Armer and Mr Greg Gent for Shareholder consideration and resolution at the Annual Meeting.

"That the Constitution of the Company be amended as follows:

1. *By deleting clause 12.1 and replacing it with the following new clause 12.1:*

"12.1 - Number of Directors: There shall be:

 - (a) Shareholder elected Directors:** not more than 6 Directors elected by Shareholders in accordance with clause 12.2A or clause 12.2 or appointed by the Board in accordance with clause 33.1; and
 - (b) Board appointed Directors:** not more than 3 Directors appointed by the Board in accordance with clause 12.4.";
2. *By inserting the following new clauses 12.2A, 12.2B and 12.2C immediately after clause 12.2:*

"12.2A - Election of up to 6 Directors by Shareholders by 31 March 2016: A postal ballot of Shareholders shall be held and completed on or before 31 March 2016 as follows:

- (a) the postal ballot of Shareholders shall be held in accordance with written procedures adopted by the Shareholders Council;*
- (b) the purpose and effect of the postal ballot shall be to elect up to 6 Directors as Shareholder elected Directors under clause 12.1(a) to hold office from 5 pm on the date the postal ballot is completed;*
- (c) any person who is not already a Director and who wishes to be elected as a Director by that postal ballot must be nominated in accordance with the following provisions:*
 - (i) that person must qualify to be appointed as a Director in terms of clause 12.3;*
 - (ii) that person must be nominated by a Shareholder, and that nomination must be seconded by another Shareholder, entitled to vote in the postal ballot by written notice to the Company on or before 31 January 2016;*
 - (iii) the written notice must be accompanied by the consent in writing of that person to the nomination;*
- (d) notice of every valid nomination of a Director received by the Company on or before 31 January 2016 shall be sent by the Company to all persons entitled to vote in the postal ballot in accordance with written procedures adopted by the Shareholders Council referred to in clause 12.2A(a);*
- (e) notwithstanding any other provision of this Constitution, any Director who holds office on the date the postal ballot is completed as a Director elected by Shareholders in accordance with clause 12.2 or appointed by the Board in accordance with clause 33.1 and who is not elected by that postal ballot shall cease to be a Director at 5 pm on the date the postal ballot is completed; and*

(f) *for the purposes of clauses 12.7 and 13.1, the Directors elected pursuant to the postal ballot shall be deemed to have been elected pursuant to or in accordance with clause 12.2.”*

“12.2B Transitional Provision for Shareholder elected Directors:

Notwithstanding clause 12.1(a), the number of Directors elected by shareholders in accordance with clause 12.2 or appointed by the Board in accordance with clause 33.1 may be more than 6, but not more than 9, until 5 pm on the date the postal ballot referred to in clause 12.2A is completed.”

“12.2C Transitional Provision for Board appointed Directors: *Notwithstanding clause 12.1(b), until the conclusion of the Company’s 2016 annual meeting of shareholders the number of Directors appointed by the Board may be more than 3, but not more than 4.”*

Your Board unanimously does not support this proposal and recommends that you vote against it.

The Shareholders’ Council has also advised that it does not support the proposal.

Constitutional amendments

Messrs Armer and Gent have indicated that they wish the proposal, if adopted, to be binding on the Board. To achieve that, Part A of the Constitution would require amendment. This requires the support of Farmer shareholders holding 75% of the voting rights at the Annual Meeting.

The Constitution also provides that the support of 50% or more of Shareholders’ Councillors is needed for such an amendment.

Support for an amendment to the Constitution has not been obtained from the Shareholders’ Council

The proposing Shareholders, Mr Colin Armer and Mr Greg Gent were entitled to provide a statement in support of the proposal. The following was supplied:

A smaller board for a fitter, leaner Fonterra

Proposition: to reduce the size of the Fonterra board from 13 to nine directors of

whom six are elected and three are appointed.

Sponsors: Greg Gent; Colin Armer

Background

The Armer-Gent Proposition seeks your support to reduce the size of the board and achieve a leaner and fitter Fonterra.

We all want our cooperative to be more globally competitive and successful. As supplying shareholders our businesses and livelihoods depend on that.

The two sponsors of this proposal are former Fonterra directors as well as being experienced directors of other companies. Our proposal is based on our knowledge and experience of boardroom dynamics.

This proposal to reduce the number of directors does not target any individual directors on the board. The process has been designed to make sure that shareholders retain the absolute power to elect the candidates they regard as the best candidates for the job. For clarity, neither of the sponsors will seek election during this process.

Company performance

Accountability for the performance of the company begins at the top. A meaningful reduction in the size of the board will improve board efficiency and decision-making. A smaller board will give greater clarity to our cooperative’s strategic direction for the future.

Boards with double-digit numbers of directors are rare. Other New Zealand-based cooperatives have smaller boards, such as Tatua and Ballance each with eight, yet they are high-performing companies. When Air New Zealand was rescued from collapse it had a board of thirteen; today it is a high-performing company with a board of seven directors. Amongst New Zealand’s top listed companies global transport company Mainfreight has six, Fisher & Paykel Healthcare seven and Fletcher Building has eight directors.

The performance of companies with large boards can be adversely influenced because:

- decision-making is slower;
- board dynamics are cumbersome;

- priorities lack clarity; and
- factional groups develop rather than strong individual debate, discussion and resolution.

Our large board was never seen as the optimal size when Fonterra was formed. Rather it was a pragmatic number which facilitated the merger necessary to form the company in 2001. A smaller group of directors is needed to ensure that all directors are accountable for performance with no ‘passengers’ on the board.

Governance review that never was

Three years ago, in the pack sent to shareholders for the 2012 Annual Meeting, the board said:

“Fonterra Board position stated in 2012 Notice of Meeting

- (i) The Board considers the governance and representation processes and structures to be of critical importance to the future of the Co-operative.*
- (ii) In conjunction with the Shareholders’ Council, the Board initiated a review to consider development of Fonterra’s governance and representation to meet the challenges of the coming decade.*
- (iii) 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.*
- (iv) 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.”*

What happened to Fonterra’s principle of

“Velocity” over the past three years? Our concern is that this important review has gone into the ‘too hard’ basket so nothing changes. This proposal gives shareholders the opportunity to require the company to make a real change for the better in governance and representation.

The Process

The proposal also outlines a process whereby shareholders retain absolutely their right to elect their representatives to the board. The proposal requires the Shareholders’ Council to conduct an election for all six elected directors in March 2016. We did not want the process of reducing the number of elected directors to target any individuals such as those who may either have just been elected or who may be retiring by rotation. It is the role of shareholders to elect the best directors available and our key objective in proposing this process was to give every candidate a fair chance

Consultation

This proposal seeks your support for a fundamental change to the governance of our cooperative. We understand the importance of a full process of consultation with shareholders and the Shareholders’ Council which has a privileged responsibility in relation to changes to the constitution.

For this resolution to succeed it requires 50% Council support and 75% or more of shareholder votes in favour. At the time of writing we do not know what the position of the Council is. However we will aim to get clarity for shareholders on the Council’s position prior to the Annual Meeting.

We believe it is imperative that shareholders should have the opportunity to fully understand the pros and cons of our proposal and the implications of any change. You can do so in any of the following ways.

Discussion Group

Shareholders who would like to hold a discussion group are welcome to contact either Colin Armer or Greg Gent and we would be happy to attend such a group and outline our rationale for the proposal. We would welcome

the attendance of the local Shareholders' Councillor and any of the company directors at such meetings.

One-on-One

Any shareholder who would like to discuss the proposal one-on-one is welcome to do so by phoning either Colin Armer or Greg Gent. Naturally we would encourage you to contact your Councillor and/or a company director for their views as well.

Email

Any shareholder should feel free to contact Colin Armer and Greg Gent by email. You can email us on this subject at:

colin@armergroup.co.nz or
greggent@gmail.com

Colin Armer
027 4920521

Armer Farms (NI) Ltd
P O Box 404
Te Puke 3153

Greg Gent
021 478021

Six O Farms
52 Mitchell Road
RD 2, Ruawai 0592

The Board comments on Mr Armer and Mr Gent's Proposal as follows:

Your Board considers that the Co-operative's governance and representation should be fully discussed and debated by all Shareholders to ensure outcomes that are in the best interests of the Co-operative. Therefore, the Board recommends that you vote AGAINST this particular proposal for the following reasons:

1. Through the Governance and Representation Review, the Board and Shareholders' Council are looking at all aspects of Fonterra's governance and representation. A discussion document will be presented to shareholders early in 2016. This will be followed by extensive consultation with shareholders, and any constitutional changes will be considered at an extraordinary shareholders' meeting in May or June 2016.
2. It is important that any review is comprehensive and that Fonterra's governance and representation is looked at in its entirety, and does not focus on just one aspect such as the size

and composition of the Board. The review needs to encompass representation as well as governance and needs to take into account changes in the global operating environment particularly over the last three years. Significant progress has been made in the Governance and Representation Review, but the final phases were delayed as a result of unexpected events such as the WPC80 precautionary recall. Due to the particular conditions, the focus over the last 12 - 18 months has been on the Fonterra business, to maximise returns to Farmer Shareholders and to support farmers at a time of extraordinarily low global milk prices.

3. It is well established in the Co-operative that significant changes require genuine and constructive consultation with farmer shareholders led by the Board and Shareholders' Council. We want to hear the opinions of all of our farmers on this critical subject and know that this process ensures that all views are heard and for a range of solutions to be considered. Your Board considers that solutions like the one being put forward in the proposal should form part of this discussion. Our experiences in promoting change strongly demonstrate the need for a good process – and that going straight to solutions and constitutional changes is not always the right option. Consultation is the right way to deal with these types of issues.
4. The Board and Council welcome input from all shareholders, and the proposal should form part of that discussion along with input from Mr Armer and Mr Gent. This should be done as part of a broader consultation and not on a single issue, so that the broader views of all Shareholders are heard.

The Shareholders' Council has reviewed Mr Armer and Mr Gent's Proposal.

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

As elected representatives the Council has

a responsibility to Shareholders to take a leadership role in reviewing Shareholder proposals and make decisions on them which are in the best interests of the ownership and control of our Co-operative.

Having noted the matters referred to below the Council has voted not to support Mr Armer's and Mr Gent's proposal and under clause 18.1 of the Constitution, to not support the changes to the Constitution to effect said proposal.

The Council recommends to Shareholders that they **do not** vote in favour of Mr Armer's and Mr Gent's proposal.

1. The Board of Directors of Fonterra has advised the Council that Mr Colin Armer and Mr Greg Gent have submitted a proposal to put a resolution to Shareholders at Fonterra's Annual Meeting in November. Fonterra has shared Mr Armer's and Mr Gent's proposal with the Council. The proposal would require an amendment to Part A of Fonterra's Constitution. A copy of the proposal has been circulated to all Councillors.
2. The Board of Directors of Fonterra has advised the Council that they do not support Mr Armer's and Mr Gent's proposal and will oppose it at the Annual Meeting.
3. The Council considered Mr Armer's and Mr Gent's proposal and voted not to support it.
4. The Council considers that Mr Armer's and Mr Gent's proposal should not be supported for the following key reasons:

- (a) The proposed process to achieve the reduction in the number of Directors, as outlined in the resolution, constitutes a significant and unnecessary risk to our Co-operative.
 - (b) The proposed process, which dictates that all Directors effectively stand down and seek re-election at the same time, presents a risk in terms of the potential to undermine the market's confidence in the Co-op, thus affecting its value and Shareholders' investments.
 - (c) Given the significance of proposed changes, the proposal does not allow sufficient time for comprehensive consultation with Shareholders.
 - (d) There is a Governance and Representation Review in progress which involves a wide-ranging and in-depth look at our governance and representation structure. The Council and Board have joint responsibility for this and aim to have a consultation document out to Shareholders for their review in late January.
5. As Mr Armer's and Mr Gent's 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. This support was not achieved.

If undelivered please return to:

The Returning Officer
Fonterra Elections 2015
PO Box 3138
Christchurch 8140
Free phone 0800 666 034

FONTERRA ELECTIONS 2015 ANNUAL MEETING PROXY PAPER INFORMATION

FONTERRA ELECTIONS 2015 COMBINED ANNUAL MEETING VOTING/PROXY PAPER



HOW TO COMPLETE THE PROXY PAPER AND APPOINT A PROXY:

- 1. Appoint a proxy:** Provide the full name and address of your chosen proxy in the box labelled "Primary Proxy".
The Chairman of the Meeting is willing to act as your primary proxy. If you wish to appoint the Chairman of the Meeting you can simply write "Chairman of the Meeting".
It is recommended that you appoint an alternate proxy as well, in case your primary proxy is unable to attend on the day of the Annual Meeting. Please provide the full name and address of your alternate proxy in the box labelled "Alternate Proxy".
Please note: You do NOT need to appoint an alternate proxy if the Chairman of the Meeting is your primary proxy.
- 2. Instruct your proxy how to vote:** You can instruct your proxy how to vote on each matter by placing a tick in either the "For" or "Against" box. Your proxy CANNOT change the direction of your vote if you instruct them how to vote in this manner. If you do not instruct your proxy how to vote by placing a tick in either the "For" or "Against" box, then your proxy can vote as s/he determines.
- 3. Sign the form:** Each Shareholder must sign the paper:
 - Individuals/Sole Proprietors: the Shareholder must sign the paper.
 - Companies: a duly authorised representative of the company must sign the paper.
 - Joint Shareholders (including trusts, partnerships and estates): it is your responsibility to ensure that the person(s) signing this paper is/are authorised to sign on behalf of, and bind, all joint holders.
 - Attorneys: if the paper is signed under a power of attorney, it must be accompanied by a signed certificate of non-revocation of the power of attorney. The power of attorney under which the paper is signed must be sent with the paper if the power of attorney has not been previously produced to the Company.
- 4. Return the form:** Return the proxy paper as soon as possible. It must be received by the Returning Officer no later than 10.30am on Monday, 23 November 2015.
 - Fax it to **03 377 1474 (+64 3 377 1474** if faxing from overseas).
 - Or mail by separating, folding and inserting the proxy paper into the freepost envelope provided.

To ensure your Voting Paper reaches the Returning Officer before the close of voting please **post no later than Tuesday, 17 November 2015.**

HOW TO APPOINT A CORPORATE REPRESENTATIVE:

In the case of a Shareholder that is a company or other body corporate, a representative can be appointed to attend the Annual Meeting by completing the proxy form. In this form, proxy can mean proxy or representative appointed for a company or other body corporate or entity.

ERRORS AND OMISSIONS:

By signing and returning the proxy paper, you authorise Fonterra, in its sole discretion, to rectify any errors in, or omissions from, the paper form, including by inserting and correcting details.

REVOKING YOUR APPOINTMENT:

If you change your mind on the appointment of a proxy or representative, you can revoke the appointment by written notice of the Company. Such notice must be received at the registered office of the Company - Fonterra Annual Meeting, Fonterra Co-operative Group Limited, Private Bag 92032, Auckland 1142 (or fax to 09 374 9451) no later than 10.30am on Wednesday, 25 November 2015.

You can vote in **ONE** of the following five ways:

1. INTERNET VOTING

Vote via Farm Source website (at nzfarmsource.co.nz and/or fonterra.com)

- Login using your Farm Source login and password
- Follow the voting links from the homepage
- Enter your Personal Identification Number (PIN) and password – see below.

IMPORTANT: By entering the PIN and password you warrant and undertake that you are authorised to exercise the vote of this shareholder.

After voting online, you do not need to submit this Voting Paper and it can be destroyed.

PIN

PASSWORD

2. POSTAL VOTING

Post the completed Voting Paper to electionz.com in the freepost reply envelope provided.

To ensure your Voting Paper reaches the Returning Officer before the close of voting please **post no later than Tuesday, 17 November 2015.**

3. FAX VOTING

Fax the completed Voting Paper to **03 377 1474** (or **+64 3 377 1474** if faxing from overseas).

After voting by fax, please destroy this Voting Paper.

4. AT THE MEETING

If you plan to attend the meeting, bring this form with you.

Voting instructions:

- Indicate your vote with a tick
- When advised by the Chairman of the Meeting, pass the completed Voting Paper to an official of the meeting.

5. BY PROXY

Appoint a person to attend the Annual Meeting and vote on your behalf.

Internet, postal, fax votes and proxy appointments must be received by [electionz.com Ltd](http://electionz.com) no later than: **10.30am on Monday, 23 November 2015**

For enquiries phone the ELECTION HELPLINE: **0800 666 034**

FONTERRA
SHAREHOLDERS'
COUNCIL



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FONTERRA ELECTIONS 2015 ANNUAL MEETING VOTING PAPER

Use this paper to vote by post, fax, internet or by attending the Annual Meeting to vote in person.



	Supply No.:	<input type="text"/>
	Details of person completing this Voting Paper:	
	First Name:	<input type="text"/>
	Surname:	<input type="text"/>
	Signature:	<input type="text"/>

		Indicate your vote with a tick ✓	FOR	AGAINST
1	Resolution 1: Approval of remuneration of Directors		<input type="radio"/>	<input type="radio"/>
2	Resolution 2: Approval of remuneration of Shareholders' Councillors		<input type="radio"/>	<input type="radio"/>
3	Resolution 3: Approval of remuneration of members of Directors' Remuneration Committee		<input type="radio"/>	<input type="radio"/>
4	Resolution 4: Appointment of PricewaterhouseCoopers as auditor and authorisation of the Directors to fix the auditor's remuneration		<input type="radio"/>	<input type="radio"/>
5	Resolution 5: Ratification of appointment of Mr Clinton Dines		<input type="radio"/>	<input type="radio"/>
6	Resolution 6: Approval of Shareholders' Council programme and budget		<input type="radio"/>	<input type="radio"/>
7	Resolution 7: Approval of amendments to the Co-operative Principles		<input type="radio"/>	<input type="radio"/>

Shareholder Proposals		Indicate your vote with a tick ✓	FOR	AGAINST
8	Resolution 8: Mr Beach's First Proposal		<input type="radio"/>	<input type="radio"/>
9	Resolution 9: Mr Beach's Second Proposal		<input type="radio"/>	<input type="radio"/>
10	Resolution 10: Mr Croucher's Proposal		<input type="radio"/>	<input type="radio"/>
11	Resolution 11: Mr Armer and Mr Gent's Proposal		<input type="radio"/>	<input type="radio"/>

FONTERRA ELECTIONS 2015 ANNUAL MEETING PROXY PAPER



! Only use this paper if you **do not** plan to attend the meeting but wish to be represented by a proxy holder at the meeting.
• This paper can also be used by a Shareholder that is a company or other body corporate to appoint a representative.

A: Shareholder Details	
Name	Supply Number:
	Party Number:

B: Appointment of Proxy
If you wish to appoint someone as your proxy, insert their full name and address below. The Chairman of the Meeting is willing to act as a proxy and, if you do not insert another person's name, the Chairman of the Meeting will be appointed as your proxy.

Primary Proxy: I/We appoint:

Full name of your proxy:

Full address of your proxy:

as my/our proxy to vote for me/us on my/our behalf at the Annual Meeting of Shareholders to be held at 10.30am on Wednesday, 25 November 2015 and at any adjournment of that Annual Meeting.

Alternate Proxy: You do not need to appoint an alternate proxy but it is recommended that you do so, unless you are appointing the Chairman of the Meeting as proxy. The Chairman of the Meeting is willing to act as an alternate proxy and if you do not insert another person's name, the Chairman of the Meeting will be appointed as your alternate proxy. If the person I/we have appointed is unable to be my/our proxy then I/we appoint:

Full name of your alternate proxy:

Full address of your alternate proxy:

C: Voting Instructions You only need to complete this section if you want to instruct your proxy holder how to vote.

		FOR	AGAINST	Shareholder Proposals		FOR	AGAINST
1	Resolution 1 Approval of remuneration of Directors	<input type="radio"/>	<input type="radio"/>	8	Resolution 8 Mr Beach's First Proposal	<input type="radio"/>	<input type="radio"/>
2	Resolution 2 Approval of remuneration of Shareholders' Councillors	<input type="radio"/>	<input type="radio"/>	9	Resolution 9 Mr Beach's Second Proposal	<input type="radio"/>	<input type="radio"/>
3	Resolution 3 Approval of remuneration of members of Directors' Remuneration Committee	<input type="radio"/>	<input type="radio"/>	10	Resolution 10 Mr Croucher's Proposal	<input type="radio"/>	<input type="radio"/>
4	Resolution 4 Appointment of PricewaterhouseCoopers as auditor and authorisation of the Directors to fix the auditor's remuneration	<input type="radio"/>	<input type="radio"/>	11	Resolution 11 Mr Armer and Mr Gent's Proposal	<input type="radio"/>	<input type="radio"/>
5	Resolution 5 Ratification of appointment of Mr Clinton Dines	<input type="radio"/>	<input type="radio"/>				
6	Resolution 6 Approval of Shareholders' Council programme and budget	<input type="radio"/>	<input type="radio"/>				
7	Resolution 7 Approval of amendments to the Co-operative Principles	<input type="radio"/>	<input type="radio"/>				

Signature(s) of Shareholder(s) named in Section A (Please see signing instructions on the next page.)

By signing this form, I/we warrant and undertake that I/we are authorised to sign on behalf of, and bind, the Shareholder(s) named in Section A.

Name of Shareholder	Signature
Full name and title of signatory	Date
Name of Shareholder	Signature
Full name and title of signatory	Date
Name of Shareholder	Signature
Full name and title of signatory	Date

If you are appointing a proxy, return this paper as soon as possible. It must be received by the Returning Officer no later than 10.30am Monday, 23 November 2015. Fax to 03 377 1474 (+64 3 377 1474 if faxing from overseas). or separate, fold and insert

FONTERRA ELECTIONS 2015 PROXY HOLDER VOTING PAPER

Annual Meeting of Shareholders, 10.30am on Wednesday, 25 November 2015.



Dairy for life

	Supply No.:	<input type="text"/>
	Details of person completing this Voting Paper:	
	First Name:	<input type="text"/>
	Surname:	<input type="text"/>
	Signature:	<input type="text"/>

Indicate your vote with a tick ✓		FOR	AGAINST	UNDIRECTED
1	Resolution 1: Approval of remuneration of Directors	<input type="checkbox"/>	<input type="checkbox"/>	
2	Resolution 2: Approval of remuneration of Shareholders' Councillors	<input type="checkbox"/>	<input type="checkbox"/>	
3	Resolution 3: Approval of remuneration of members of the Directors' Remuneration Committee	<input type="checkbox"/>	<input type="checkbox"/>	
4	Resolution 4: Appointment of PricewaterhouseCoopers as auditor and authorisation of the Directors to fix the auditor's remuneration	<input type="checkbox"/>	<input type="checkbox"/>	
5	Resolution 5: Ratification of appointment of Mr Clinton Dines	<input type="checkbox"/>	<input type="checkbox"/>	
6	Resolution 6: Approval of Shareholders' Council programme and budget	<input type="checkbox"/>	<input type="checkbox"/>	
7	Resolution 7: Approval of amendments to the Co-operative Principles	<input type="checkbox"/>	<input type="checkbox"/>	

8	Resolution 8: Mr Beach's First Proposal	<input type="checkbox"/>	<input type="checkbox"/>	
9	Resolution 9: Mr Beach's Second Proposal	<input type="checkbox"/>	<input type="checkbox"/>	
10	Resolution 10: Mr Croucher's Proposal	<input type="checkbox"/>	<input type="checkbox"/>	
11	Resolution 11: Mr Armer and Mr Gent's Proposal	<input type="checkbox"/>	<input type="checkbox"/>	

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