

**FONTERRA FARMER
SHAREHOLDERS'
SUPPLY OFFER BOOKLET**

FONTERRA CO-OPERATIVE GROUP LIMITED
MAY 2013



Dairy for life

YOUR OPPORTUNITY.





LETTER FROM FONTERRA



One of the most difficult challenges of managing a farming business is dealing with the impact of extreme weather.

This year, the drought has put many of our Farmer Shareholders under real pressure. A long, dry summer eventually comes to an end, but the financial impacts of paying for supplementary feed and reducing milk volumes will be felt long after the rain comes.

Coping with the climate is part of farming and we have had dry periods before.

In the past, a serious drought would result in some farmers being forced to cash up their Shares and leave the Co-operative.

Now, you have the benefit of another choice.

The Fonterra Shareholders' Fund provides additional flexibility for Farmer Shareholders looking for tools to manage their shareholding and cash flow – in the hard times and good times.



One of those tools is the ability to sell the Economic Rights of some of your Wet Shares to the Fund – while retaining all your rights in respect of the Share-backed Farmgate Milk Price and voting rights.

The initial Farmer Shareholder Supply Offer was conducted in November 2012. At the time, your Board said that a further offer was likely to take place in the first half of 2013.

That intention is now being honoured.

Between 2 May and 23 May you will have the opportunity to take part in the second Farmer Shareholder Supply Offer.

Fonterra will fund this Supply Offer by using the amount received last November when Fonterra issued approximately 90 million Shares to support a Fund size of \$525 million at launch.

Your decision to participate in the Farmer Shareholder Supply Offer will be influenced by factors including the current health of your farming business, projected cash flows, your future on-farm plans and how you expect to finance them.



The Supply Offer will enable you to release some of the value of your Shareholding, if you decide to do so.

The information in this Booklet will help you analyse your options and assess whether the time is right for you to participate.

We encourage you to read it closely, and consult with your advisers.

JOHN WILSON,
FONTERRA CHAIRMAN

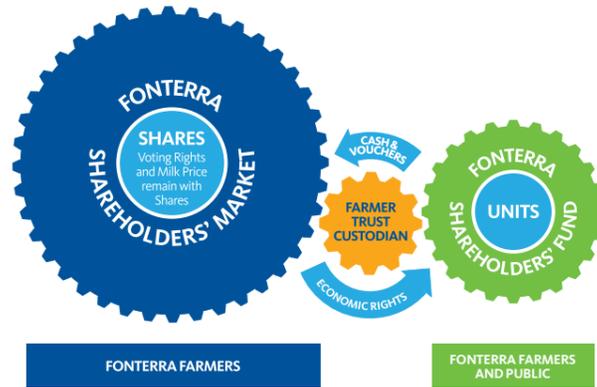
IAN BROWN,
FONTERRA SHAREHOLDERS'
COUNCIL CHAIRMAN

THEO SPIERINGS,
FONTERRA CHIEF EXECUTIVE

HIGHLIGHTS OF THIS BOOKLET

1

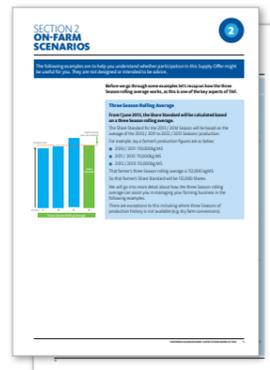
Section 1 outlines an opportunity where you can choose to sell Economic Rights of Wet Shares to the Fund. Any Units issued as a result of this Supply Offer would be acquired by Fonterra. You will receive cash from Fonterra and one Voucher for each of the Economic Rights which you sell.



2

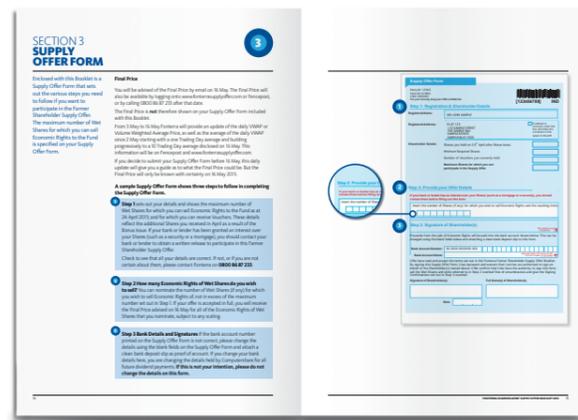
Section 2 describes how you can offer to sell Economic Rights of Wet Shares. Vouchers would be recorded in your name for Economic Rights of Wet Shares you sell to the Fund. Subject to limits, these Vouchers would be treated in the same way as Shares for voting, compliance with

the Share Standard and milk payment purposes. You can continue to sell at any time Dry Shares that you hold on the Fonterra Shareholders' Market (or Economic Rights of Dry Shares to the Fund).



3

Section 3 explains the steps to follow if you want to participate in the Supply Offer, including how to fill in the enclosed Supply Offer Form. See page 14.



4

Section 4 describes how the Farmer Shareholder Supply Offer will work.

5

Section 5 provides further background on key concepts such as the Fund Transfer Limit, the role of Vouchers and the sale of Economic Rights of Wet Shares.

6

Section 6 gives you information on other important considerations.

7

Section 7 answers frequently asked questions.

8

Section 8 lists a glossary of important terms used in this document.

Key Dates

<p>OFFER OPENS</p> <p>2 MAY</p>	<p>FINAL PRICE WILL BE ADVISED BY EMAIL AND ON WEBSITES (SEE BELOW)</p> <p>16 MAY</p>	<p>SUPPLY OFFER CLOSES. ONLINE APPLICATION AND SUPPLY OFFER FORMS TO BE RECEIVED BY COMPUTERSHARE BY 5PM</p> <p>23 MAY</p>	<p>OUTCOME OF FARMER SHAREHOLDER SUPPLY OFFER ANNOUNCED</p> <p>27 MAY</p>	<p>PAYMENT MADE TO FARMER SHAREHOLDERS UNDER THIS SUPPLY OFFER NO LATER THAN</p> <p>6 JUNE</p>
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Except as noted on page 19, these dates are subject to change and are indicative only, and may be amended or extended by Fonterra. If these dates change, the dates set out in this Booklet will also change. Any such changes will be advised to you by notice being included on the Supply Offer website (www.fonterrasupplyoffer.com) and on Fencepost. Fonterra may also, in its absolute discretion, withdraw this Supply Offer at any time.

FINAL PRICE

Final Price you will receive

The price you will receive (“the Final Price”) will be the average of the daily average sale prices (weighted by the volume of each trade) observed on the NZSX for Units for each Trading Day between 2 May and 15 May (inclusive). The daily average sale price (weighted by the volume of each trade) is referred to as the “Volume Weighted Average Price” or “VWAP”. Fonterra will retain discretion to ignore unusual sales when determining the daily VWAP.

The chart to the right shows the VWAP of the Unit price on the NZSX since 30 November and the 10 Trading Day average VWAP.



You will be advised of the Final Price on 16 May by email from the Chairman, on the Supply Offer website (www.fonterrasupplyoffer.com), on Fencepost, or by calling 0800 86 87 233. To assist you to track the Final Price in the period leading up to 16 May, we will post on Fencepost for the immediately prior Trading Day, commencing on 3 May, the daily VWAP as well as the average of the daily VWAPs since 2 May (starting with a one Trading Day average and building progressively to a 10 Trading Day average disclosed on 16 May).

There will still be a week from 16 May before the Closing Date (which is 5pm on 23 May). So if you wish to know the Final Price with certainty, you should check for the Final Price as set out above after 15 May, before completing the Supply Offer Form.

You may check the current market price for Units on the NZX website at www.nzx.com, or in newspapers under the Fund's stock code, which is “FSF”.

Key Actions

If you want to take part in this Supply Offer, it is important that you:

- read and understand this Booklet. You may also wish to obtain advice from your lawyer, accountant or financial adviser;
- contact your bank or lender if they hold a security or mortgage over your Fonterra Shares; and
- go online (www.fonterrasupplyoffer.com) or complete the enclosed Supply Offer Form and ensure it is received by Computershare by 5pm 23 May.

IMPORTANT NOTICES

This Booklet explains how you can take part in this Farmer Shareholder Supply Offer. It also looks at some of the things you might want to think about as you decide whether to participate.

Please note that:

- the meaning of “sell Economic Rights of Wet Shares” is set out in Section 5 on page 23;
- the Farmer Shareholder Supply Offer is being made by Fonterra. Neither the Manager of the Fund nor its directors have been involved in the preparation of this Booklet, or the formulation of the essential terms of the Farmer Shareholder Supply Offer;
- Fonterra will be the purchaser of the Units that arise as a result of the sale of Economic Rights to the Fund at the Final Price;
- once the Units are transferred to Fonterra, Fonterra will “redeem” them – in effect the Fund will cancel such Units and the Fonterra Farmer Custodian will transfer to Fonterra one Share for each Unit redeemed by Fonterra. This will mean that there is a temporary increase in the size of the Fund (because the Fund will issue one Unit for each Economic Right sold to it) but because Fonterra will purchase all of the Units issued in this process and will immediately redeem them, the Fund size will immediately reduce back to the size it would have been if the Supply Offer had not been made;

- Fonterra can elect to retain (as Treasury Stock) the Shares it receives on redemption of Units, or cancel them. If it cancels these Shares, the total number of Shares on issue in Fonterra will reduce; and

- where we use a capitalised term in this Booklet it means that the term is defined in the Glossary in Section 8.

If you want to take part in this Farmer Shareholder Supply Offer, you need to read this Booklet. You may also want to talk to your lawyer, accountant or financial adviser. If your bank or lender has an interest over your Fonterra Shares (such as a security or a mortgage), you should contact your bank or lender before participating in this Farmer Shareholder Supply Offer. You must ensure that the Wet Shares in respect of which you sell Economic Rights to the Fund under this Farmer Shareholder Supply Offer are not subject to any charge or other encumbrance.

More Information – Supply Offer

If you have any queries about how to participate in this Farmer Shareholder Supply Offer, or about the number of Wet Shares shown on the Supply Offer Form which was sent to you with this Booklet, please contact your Area Manager or Fonterra on **0800 86 87 233**.



SECTION 1 OUTLINE OF THE OPPORTUNITY

1

In the Initial Supply Offer in October and November 2012, a small number of our Farmer Shareholders chose to use the financial flexibility offered by the Fonterra Shareholders' Fund ("Fund") by selling Economic Rights of Shares to the Fund.

Fonterra therefore issued to the Fonterra Farmer Custodian, at the end of November 2012, sufficient Shares so that the total value of the Shares in which Economic Rights were held for the Fund was \$525 million. Excluding the costs to Fonterra in establishing Trading Among Farmers, Fonterra raised about \$475 million as a result of that Share issue.

Fonterra said at the time that it did not intend to permanently retain this additional equity and that Farmer Shareholders may be offered further opportunities to sell Economic Rights of Wet Shares to the Fund in exchange for Units and Vouchers. Fonterra indicated that it would acquire any Units issued in this process. The result would be that the equity raised by Fonterra would, in effect, be used to pay cash to Farmer Shareholders who sell Economic Rights in Wet Shares to the Fund under subsequent supply offers.

This Supply Offer represents the first subsequent supply offer since the launch of the Fund. In this Booklet we describe the opportunity for you to offer to sell Economic Rights of Wet Shares up to 25% of your minimum required Shareholding (Wet Shares) in May. You will receive cash for these Economic Rights at the Final Price described in this Booklet and you will also receive Vouchers. Subject to limits, these Vouchers count in the same way as Wet Shares for the purpose of satisfying your minimum Shareholding requirements (the "Share Standard") and voting rights¹.

¹ Refer to pages 21 and 22 for more information on Vouchers, including the effect of an increase or reduction in production, or of an increase or reduction in the proportion of Vouchers that are recognised by Fonterra for the Share Standard.



SECTION 2 ON-FARM SCENARIOS

The following examples are to help you understand whether participation in this Supply Offer might be useful for you. They are not designed or intended to be advice.

Before we go through some examples let's recap on how the three Season rolling average works, as this is one of the key aspects of TAF.

Three Season Rolling Average

From 1 June 2013, the Share Standard will be calculated based on a three Season rolling average.

The Share Standard for the 2013 / 2014 Season will be based on the average of the 2010 / 2011 to 2012 / 2013 Seasons' production.

For example, say a farmer's production figures are as below:

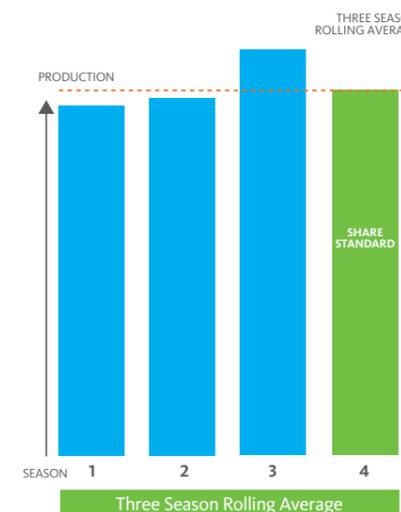
- 2010 / 2011: 110,000kg MS
- 2011 / 2012: 111,000kg MS
- 2012 / 2013: 115,000kg MS

That farmer's three Season rolling average is 112,000 kgMS.

So that farmer's Share Standard will be 112,000 Shares.

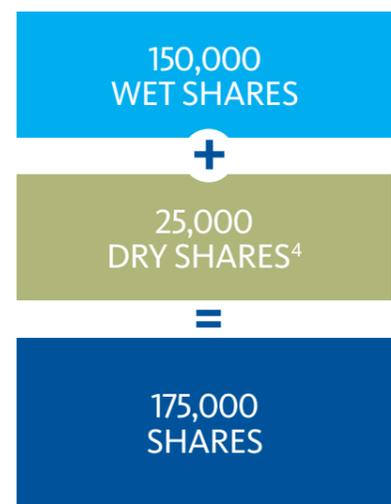
We will go into more detail about how the three Season rolling average can assist you in managing your farming business in the following examples.

There are exceptions to this including where three Seasons of production history is not available (e.g. dry farm conversions).



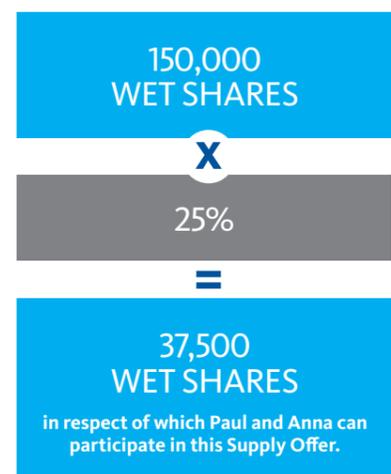
It's easiest to explain how the Farmer Shareholder Supply Offer will work by using a straightforward example. You will recognise features of this example, but some may be new to you.

Example 1:



Wet Shares and Dry Shares:

- Paul and Anna's minimum required Shareholding for the current 2012 / 2013 Season is 150,000 Shares, based on their production last Season. We call these their **Wet Shares** because they are the minimum number Paul and Anna must hold to meet the Share Standard.
- Paul and Anna did not participate in the Initial Supply Offer.
- They expect to produce 160,000 kgMS in the current 2012 / 2013 Season.
- They currently own 175,000 Shares which includes the additional Shares they received on 24 April as a consequence of the Bonus Issue; 25,000 Shares more than they need to meet the Share Standard. We call these extra Shares **Dry Shares** because they aren't required to be held under the Share Standard (although Paul and Anna could eventually need some of those Shares to back their expected higher production this Season).



Under this Farmer Shareholder Supply Offer, Paul and Anna can offer to sell up to 25%¹ of the Economic Rights of their Wet Shares, equaling up to 37,500 Shares (i.e. 150,000 Wet Shares x 25%). If their offer is accepted in full this will result in Paul and Anna:

- transferring the legal title of 37,500 Wet Shares to the Fonterra Farmer Custodian (see an explanation of this in Section 5);
- receiving from Fonterra in cash the Final Price²; and
- having 37,500 Vouchers recorded against their name.

Subject to limits, Vouchers will be counted in the same way as Shares in determining whether Paul and Anna meet the Share Standard and for working out their production-related voting entitlements³.

Paul and Anna can continue to hold Dry Shares. Alternatively, they can sell their Dry Shares on the Fonterra Shareholders' Market (or Economic Rights of Dry Shares to the Fund) at any time. However, the sale of Economic Rights of these Dry Shares would not result in Paul and Anna receiving any additional Vouchers.

1 The reason that this is 25% is because the Fonterra Board has determined that this is currently the maximum percentage of Wet Shares which an individual Farmer Shareholder may sell the Economic Rights of under this Supply Offer.
2 Fonterra will determine the Final Price that Paul and Anna will receive. (Refer to page 4 for more information on the Final Price and VWAP.)
3 Refer to pages 21 and 22 for more information on Vouchers, including the effect of an increase or reduction in production, or of an increase or reduction in the proportion of Vouchers that are recognised by Fonterra for the Share Standard.
4 Includes Shares obtained in the Bonus Issue.

Example 2:

Fonterra Farmer Shareholder who has faced dry conditions in the current 2012 / 2013 Season

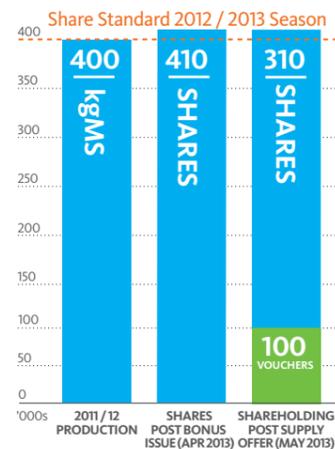
- John and Mary operate a dairy farming business that produces between 150,000 and 160,000 kgMS in most Seasons.
- However, 2011 / 2012 was a good Season and the farm produced 163,000 kgMS, which is their minimum required Shareholding for the current 2012 / 2013 Season. However, they expect production in the current 2012 / 2013 Season to fall back to 150,000 kgMS due to dry conditions.
- They purchased Shares in July 2012 and after the Bonus Issue hold 167,075 Shares.
- John and Mary have focused on reducing debt over the last few years, but had planned catch-up expenditure on a new plant during the winter of 2013. However, because of supplementary feed purchases to combat dry conditions and other capital demands, they're considering deferring the expenditure until mid-2014.
- John and Mary did not participate in the Initial Supply Offer.
- The Farmer Shareholder Supply Offer could be of interest to John and Mary. They could, if they wish, offer to sell the Economic Rights of up to 40,750 Shares (being the maximum permitted 25% of the 163,000 Wet Shares they hold).
- If they choose to offer the Economic Rights of 20,000 Wet Shares (which is less than their permitted maximum), they would receive 20,000 Vouchers, provided there was no scaling (refer to Section 4 for more details on scaling). Subject to limits, those Vouchers are treated in the same way as Shares for the purposes of meeting the minimum required Shareholding and for voting entitlements. The cash they receive from participating in the Supply Offer would enable them to invest in the new plant, as they had originally planned.
- John and Mary would then hold 147,075 Shares and 20,000 Vouchers.
- Because the 2011 / 2012 Season was so exceptional in production terms, John and Mary are aware that their minimum required Shareholding based on a three-Season rolling average of production from 1 June 2013 will be less than the 167,075 Shares and Vouchers they will hold. So even after they've sold the Economic Rights of 20,000 Wet Shares, John and Mary will still have Dry Shares that will give them additional financial flexibility.
- John and Mary can choose to realise cash for any portion of their Dry Shares, by selling any portion of their Dry Shares on the Fonterra Shareholders' Market or the Economic Rights of Dry Shares to the Fund.



Example 3:

Fonterra Farmer Shareholder whose production is growing

- Mark and Ruth operate a dairy farm that is part way through its development to full production. Their 2011 / 2012 Season's production was 400,000 kgMS, and they are on track to increase by 50,000 kgMS in the current 2012 / 2013 Season.
- Prior to the Bonus Issue, they held 400,000 Shares, which is the minimum required Shareholding (their "Wet" Shares).
- They received an additional 10,000 Shares through the Bonus Issue, so they now hold 410,000 Shares.
- Mark and Ruth did not participate in the Initial Supply Offer.
- They are following a cash flow and staged investment plan and have good support from their bank.
- Under their development programme, they plan in mid-2014 to improve farm races, further develop irrigation infrastructure and improve the farm dairy to lift the unit's carrying capacity.
- They have also budgeted to purchase further Shares from July next year to cover increased future production.
- Mark and Ruth intend to discuss with their farming and financial adviser the merits of participating in the Supply Offer. They have in mind offering up to the maximum permitted 25% of Wet Shares to the Fund. This would enable them to offer Economic Rights of 100,000 Shares in the Supply Offer. They would receive Vouchers for all those Shares if their application was accepted in full.
- They would then have 310,000 Shares and 100,000 Vouchers to back their current production. And they have budgeted for the additional funds required in due course to purchase Shares to cover anticipated future production growth including the lift in production this Season.



Example 4:

Fonterra Farmer Shareholder who participated in the Initial Supply Offer

- Bruce and Margaret are in the process of upgrading their effluent system in a staged process. After consulting with their financial adviser, they decided to participate in the Initial Supply Offer to a level of 15% to fund the first stage of their effluent system upgrade.
- Bruce and Margaret's minimum required Shareholding for the current 2012 / 2013 Season is 100,000 Shares, based on their production last Season.
- Their Share Standard is satisfied by 85,000 Shares and 15,000 Vouchers, due to their participation in the Initial Supply Offer.
- After the Bonus Issue, they hold an additional 2,125 Dry Shares, giving them a total of 87,125 Shares.
- Farm production is stable and they have a target of 100,000 kgMS in the current 2012 / 2013 Season, so they don't need to acquire further Shares.
- The second stage of their effluent system investment involves upgrading and running new lines from the effluent pond to a pod sprinkler system.
- Bruce and Margaret intend to meet with their financial adviser to discuss the options to fund the second stage of this upgrade.
- The Farmer Shareholder Supply Offer could be of interest to Bruce and Margaret. They could, if they wish, offer to sell more Economic Rights of their Wet Shares to take them up to the 25% Fund Transfer Limit (being the maximum permitted percentage of Economic Rights of their Wet Shares they can sell to the Fund). This gives them a further 10,000 Wet Shares they can sell the Economic Rights of to the Fund (25,000 maximum Fund Transfer Limit – 15,000 Vouchers currently held as a result of participation in the Initial Supply Offer).



SECTION 3 SUPPLY OFFER FORM

3

Enclosed with this Booklet is a Supply Offer Form that sets out the various steps you need to follow if you want to participate in the Farmer Shareholder Supply Offer. The maximum number of Wet Shares for which you can offer to sell Economic Rights to the Fund is specified on your Supply Offer Form.

Final Price

You will be advised of the Final Price by email on 16 May. The Final Price will also be available by logging onto www.fonterraoffer.com or Fencepost, or by calling 0800 86 87 233 after that date.

The Final Price is **not** therefore shown on your Supply Offer Form included with this Booklet.

From 3 May to 16 May Fonterra will provide an update of the daily VWAPs or Volume Weighted Average Price, as well as the average of the daily VWAP since 2 May starting with a one Trading Day average and building progressively to a 10 Trading Day average disclosed on 16 May. This information will be on Fencepost and www.fonterraoffer.com.

If you decide to submit your Supply Offer Form before 16 May, this daily update will give you a guide as to what the Final Price could be. But the Final Price will only be known with certainty on 16 May 2013.

You may check the current market price for Units on the NZX website at www.nzx.com, or in newspapers under the Fund's stock code, which is "FSF".

A sample Supply Offer Form shows three steps to follow in completing the Supply Offer Form.

1 Step 1 sets out your details and shows the maximum number of Wet Shares for which you can sell Economic Rights to the Fund as at 24 April 2013; and for which you can receive Vouchers. These details reflect the additional Shares you received in April as a result of the Bonus Issue. If your bank or lender has been granted an interest over your Shares (such as a security or a mortgage), you should contact your bank or lender to obtain a written release to participate in this Farmer Shareholder Supply Offer.

Check to see that all your details are correct. If not, or if you are not certain about them, please contact Fonterra on **0800 86 87 233**.

2 Step 2 How many Economic Rights of Wet Shares do you wish to sell? You can nominate the number of Wet Shares (if any) for which you wish to sell Economic Rights of, not in excess of the maximum number set out in Step 1. If your offer is accepted in full, you will receive the Final Price, advised on 16 May, for all of the Economic Rights of Wet Shares that you nominate, subject to any scaling.

3 Step 3 Bank Details and Signatures If the bank account number printed on the Supply Offer Form is not correct, please change the details using the blank fields on the Supply Offer Form and attach a clean bank deposit slip as proof of account. If you change your bank details here, you are changing the details held by Computershare for all future dividend payments. **If this is not your intention, please do not change the details on this form.**

Supply Offer Form

Party ID: 12345
Farm ID: 67890
CSN: 0000001
For your security, keep your CSN confidential.

[123456789] IND

1 Step 1: Registration & Shareholder Details

Registered Name: MR JOHN SAMPLE

Registered Address: FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE 1000 If address is incorrect, mark this box and make the correction in the space to the left

Shareholder Details: Shares you hold on 24th April after Bonus Issue.
Minimum Required Shares
Number of Vouchers you currently hold
Maximum Shares for which you can participate in this Supply Offer.

2 Step 2: Provide your Offer Details

If your bank or lender has an interest over your Shares (such as a mortgage or a security), you should contact them before filling out this form.

Insert the number of Shares for which you wish to sell Economic Rights and the resulting Units:

3 Step 3: Signature of Shareholder(s)

This section must be completed

Proceeds from the sale will be paid into the bank account shown below. This can be changed using the blank fields below and attaching a clean bank deposit slip to this form.

Bank Account Number: XX-XXXX-XXXXXXX-XXX
Bank Account Name: Required field. The name of the account holder as recorded by the bank

I/We have read and accept the terms set out in the Fonterra Farmer Shareholders' Supply Offer Booklet. By signing this Supply Offer Form, I/we represent and warrant that I am/we are authorised to sign on behalf of the Shareholder(s) named above. I/We confirm that I/we have the authority to sign this form, sell the Wet Shares and Units referred to in Step 2 overleaf free of encumbrances and give the Signing Confirmations set out in Step 3 overleaf.

Signature of Shareholder(s): Full Name(s) of Shareholder(s):
Date:

CONTINUED

Example Form:

Refer to Example 1 on page 10.

Paul and Anna hold 25,000 Dry Shares which is the difference between these two numbers.

Paul and Anna are offering to sell 37,500 Economic Rights of Wet Shares.

Supply Offer Form

Party ID: 12345
Farm ID: 67890
CSN: 0000001
For your security, keep your CSN confidential.


[123456789] IND

Step 1: Registration & Shareholder Details

Registered Name: PAUL AND ANNA SMITH

Registered Address: FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE 1000 If address is incorrect, mark this box and make the correction in the space to the left

Shareholder Details: Shares you hold on 24th April after Bonus Issue. 175,000

Minimum Required Shares 150,000

Number of Vouchers you currently hold 0

Maximum Shares for which you can participate in this Supply Offer. 37,500

Step 2: Provide your Offer Details

If your bank or lender has an interest over your Shares (such as a mortgage or a security), you should contact them before filling out this form.

Insert the number of Shares for which you wish to sell Economic Rights and the resulting Units:

03 7 5 0 0

Step 3: Signature of Shareholder(s)

This section must be completed

Proceeds from the sale will be paid into the bank account shown below. This can be changed using the blank fields below and attaching a clean bank deposit slip to this form.

Bank Account Number: XX-XXXX-XXXXXXXX-XXX

Bank Account Name: Required field. The name of the account holder as recorded by the bank.

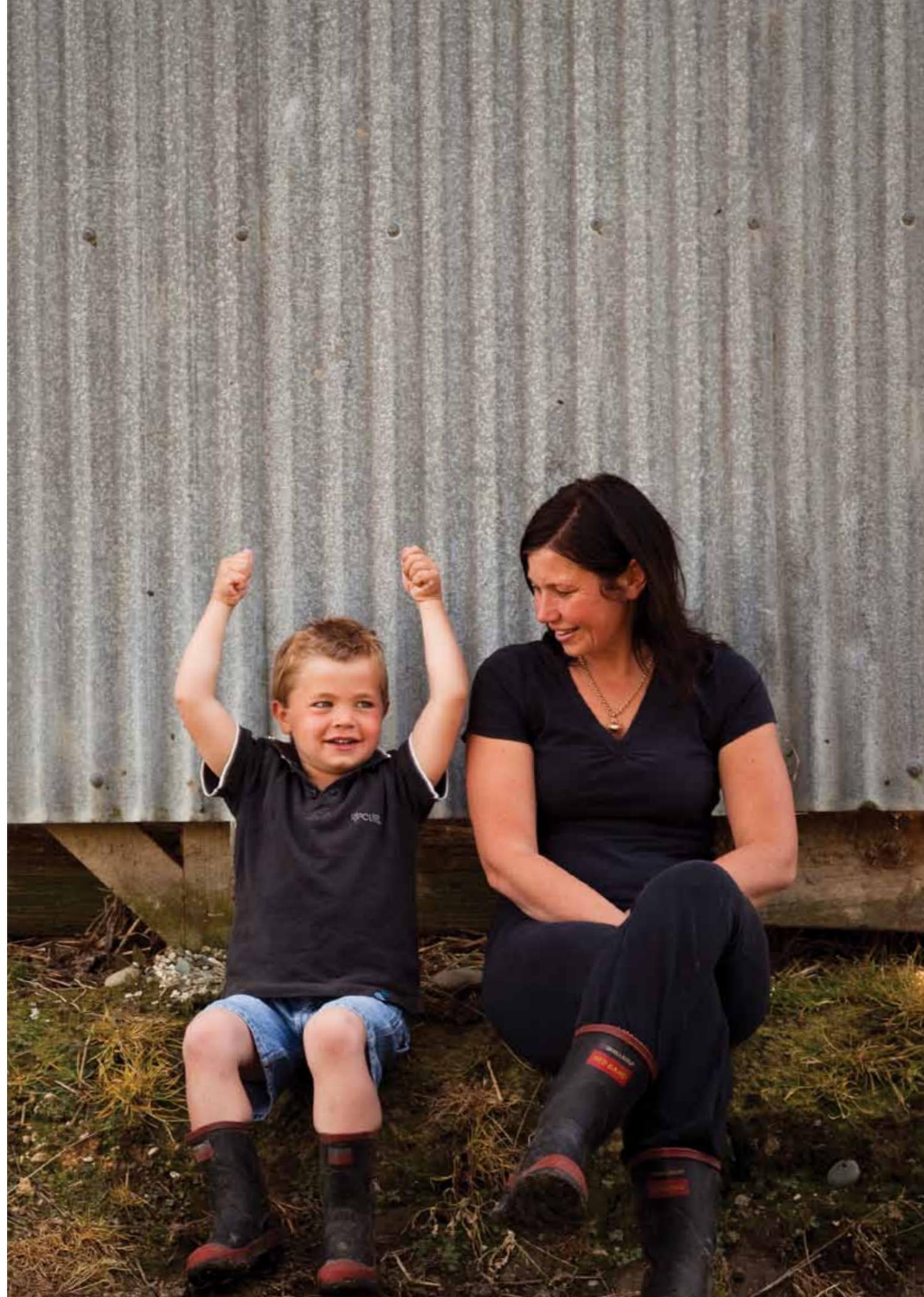
I/We have read and accept the terms set out in the Fonterra Farmer Shareholders' Supply Offer Booklet. By signing this Supply Offer Form, I/we represent and warrant that I am/we are authorised to sign on behalf of the Shareholder(s) named above. I/We confirm that I/we have the authority to sign this form, sell the Wet Shares and Units referred to in Step 2 overleaf free of encumbrances and give the Signing Confirmations set out in Step 3 overleaf.

Signature of Shareholder(s): Full Name(s) of Shareholder(s)

PAUL SMITH
ANNA SMITH

Date: 10 MAY 2013

25% X
150,000



SECTION 4

HOW THE FARMER SHAREHOLDER SUPPLY OFFER WILL WORK

4

Fonterra has limited the number of Economic Rights of Wet Shares that can be sold to the Fund. It has done so by using the Fund Transfer Limit mechanism (see Section 5 for further detail on the Fund Transfer Limit) as follows:

- The maximum proportion of Economic Rights of Wet Shares that a Farmer Shareholder can offer to sell to the Fund under this Farmer Shareholder Supply Offer is 25% of that Farmer Shareholder's Wet Shares. However, if a Farmer Shareholder participated in the Initial Supply Offer then the extent that that Farmer Shareholder can participate in this Supply Offer will be reduced by the level of the earlier participation. This is illustrated in Example 4 on page 13. In that example, the Farmer Shareholder offered Economic Rights of 15% of their Wet Shares in the Initial Supply Offer and will therefore be entitled to offer up to 10,000 Economic Rights of Wet Shares in this Supply Offer¹ (being 25,000 maximum Fund Transfer Limit – 15,000 Vouchers held as a result of the Initial Supply Offer).
The actual proportion of Economic Rights of Wet Shares that a Farmer Shareholder will be able to sell during the Farmer Shareholder Supply Offer will depend on the total number of Economic Rights of Wet Shares offered by all Farmer Shareholders. If the Farmer Shareholder Supply Offer is oversubscribed, the Fund Transfer Limit for individual Farmer Shareholders may end up being less than 25% as a result of scaling.

- Farmer Shareholders will receive Vouchers for the Economic Rights of Wet Shares they sell to the Fund (and Units will be created). The role of Vouchers is explained in more detail in Section 5.
- The Units will be purchased by Fonterra at the Final Price on-market with the Farmer Shareholder receiving cash.
- Farmer Shareholders are not eligible to participate in this Supply Offer if they will hold less than 1,000 Shares as a result of participating.

ACCEPTANCE OF OFFERS

Once your Supply Offer Form has been received by Computershare it is binding and you cannot withdraw, revoke or alter it. Fonterra can determine whether you may participate in this Supply Offer for some or all of the Wet Shares that you specify in your Supply Offer Form without further notice to you, without giving any reason, and can cancel this Farmer Shareholder Supply Offer at any time. There is therefore no assurance that Economic Rights of Wet Shares offered by a Farmer Shareholder will be able to be sold in full.

In particular, in the event that the total number of Economic Rights of Wet Shares offered by Farmer Shareholders (when multiplied by the Final Price) exceeds \$475 million, or such lesser amount that Fonterra may determine, offers by Farmer Shareholders will be scaled down.

NOTIFICATION OF OUTCOME AND PAYMENT

The total number of Wet Shares for which Farmer Shareholders offer to sell Economic Rights is expected to be announced on 27 May. All Farmer Shareholders who participate in the Farmer Shareholder Supply Offer will be sent a personalised notice in the form of a revised Holding Statement by 6 June 2013. This will tell Farmer Shareholders how many of their Economic Rights of Wet Shares were accepted as well as how many Vouchers they now have. The payment by Fonterra will be made by way of a lump sum payment into each Farmer Shareholder's bank account by 6 June 2013.

DISCRETION REGARDING THE FARMER SHAREHOLDER SUPPLY OFFER

Fonterra in its absolute discretion can do any of the following:

- withdraw the Farmer Shareholder Supply Offer at any time;
- extend the Farmer Shareholder Supply Offer;
- extend or alter the period over which the Final Price is determined;
- accept any late Supply Offer Forms;
- reject any Supply Offer Forms;
- scale Farmer Shareholders' offers; and
- change any of the dates set out in this Booklet, but not so as to:
 - a) shorten the offer period to less than 10 working days;
 - b) result in the Final Price not being disclosed at least five working days before the Closing Date;
 - c) result in the Final Price being paid to you after 6 June 2013.

If Fonterra amends any of the dates of the Farmer Shareholder Supply Offer, any such amendment will be announced to Farmer Shareholders.

If Fonterra makes any material variation to the terms and conditions of this Supply Offer, the Supply Offer will remain open for at least five working days after the date that material variation is notified to Farmer Shareholders.

Fonterra's intention is to scale applicants proportionately.

¹ If a Farmer Shareholder's minimum holding has increased since the Initial Supply Offer the percentages would be calculated on that revised minimum holding.

SECTION 5

FUND TRANSFER LIMIT, VOUCHERS AND SALE OF ECONOMIC RIGHTS OF WET SHARES

5

The Supply Offer includes a number of features. Key among these are:

- **the Fund Transfer Limit:** the tool Fonterra uses to manage the size of the Fund by controlling the number of Economic Rights of Wet Shares that can be sold by an individual Farmer Shareholder to the Fund;
- **Vouchers:** a Farmer Shareholder who sells Economic Rights of Wet Shares to the Fund receives Vouchers, which can be counted towards complying with the Share Standard up to the Fund Transfer Limit; and
- **Sale of Economic Rights of Shares:** it is important that you understand that you are selling Shares to the Fonterra Farmer Custodian. The Fund acquires only the Economic Rights of Shares, while the Shares are transferred to the Fonterra Farmer Custodian. The Fund issues you Units which you sell to Fonterra for the Final Price.

FUND TRANSFER LIMIT

The Fonterra Board can specify limits on the extent to which a Farmer Shareholder can sell Economic Rights of Wet Shares to the Fund. This is done through the Fund Transfer Limit. Dry Shares held by Farmer Shareholders can be sold freely on the Fonterra Shareholders' Market or the Economic Rights of those Dry Shares can, in the normal course, be sold without restriction to the Fund. The Fonterra Constitution provides that the Fund Transfer Limit will not exceed 33% of Wet Shares for an individual Farmer Shareholder. However, the Fonterra Board has set the Fund Transfer Limit for the Farmer Shareholder Supply Offer at 25%. This means that a Farmer Shareholder can offer, if they wish, up to 25% of their Wet Shares in this Supply Offer to the Fund, depending upon whether they have already sold any Economic Rights in Wet Shares to the Fund under the Initial Supply Offer. The Fonterra Board can change the Fund Transfer Limit (but not so as to exceed the 33% limit) at any time and on any basis it considers appropriate. It can allow Farmer Shareholders additional opportunities to sell Economic Rights of Wet Shares to the Fund, or reduce or halt completely the sale of further Economic Rights of Wet Shares to the Fund.

VOUCHERS

When a Farmer Shareholder sells Economic Rights of Wet Shares to the Fund, the Wet Shares will be transferred to the Fonterra Farmer Custodian. The Farmer Shareholder will be recorded as having one Voucher for each Wet Share transferred to the Fonterra Farmer Custodian. Subject to limits, Vouchers can be used by a Farmer Shareholder to comply with the Share Standard. The sale of Economic Rights of Wet Shares will therefore not affect the Farmer Shareholder's production-based voting rights and will be taken into account in determining compliance with the Share Standard.

As a result of changes in production, the proportion of Vouchers held by a Farmer Shareholder may end up being different from the Fund Transfer Limit. For example, a Farmer Shareholder may increase production and their Vouchers may fall below 25% of their minimum required Share Standard. If this happens then the Farmer Shareholder may need to buy additional Shares to meet their Share Standard. In contrast, a Farmer Shareholder's production may decrease and their Vouchers as a proportion of their minimum required Shareholding may therefore increase above 25%. In that case, only Vouchers up to 25% of their minimum required Shareholding will be recognised for the purposes of the Share Standard. Any additional Vouchers will not be recognised, but the Farmer Shareholder can keep them and they may be able to be recognised if production increases in the future.

Example 5:

The Role of Vouchers

Here's an example of a Farmer Shareholder who sells Economic Rights of 25% of their Wet Shares and whose production falls:

- Sam and Nicola had 100,000 Wet Shares based on production of 100,000 kgMS.
- They sold Economic Rights of 25% of their Wet Shares in the Initial Supply Offer.
- This means they meet their Share Standard with 75,000 Wet Shares and 25,000 Vouchers.

Here's what happens if Sam and Nicola's three Season rolling average production subsequently falls to 80,000 kgMS:

- This means that they meet their Share Standard with 60,000 Wet Shares and a maximum of 20,000 Vouchers (25% of their new 80,000 Share Standard requirement).
- Sam and Nicola have 15,000 Dry Shares they can sell at any time, and 5,000 Vouchers that are not recognised now but will be available to support future increases in production.

The Fonterra Board has the discretion under the Constitution to set the threshold at which it will recognise Vouchers. It can set a threshold for all Farmer Shareholders or for individual Farmer Shareholders. As a result, Farmer Shareholders may, at some time in the future, be required to buy Shares to satisfy the Share Standard, instead of using Vouchers for this purpose. Anyone considering offering Economic Rights of Wet Shares under the Farmer Shareholder Supply Offer needs a reasonable level of certainty. That is why Fonterra has committed that, for those who participate in this Farmer Shareholder Supply Offer, it will not reduce before December 2016 the proportion of Vouchers that are recognised for the Share Standard, except where:

- the Fund is wound up; or
- the actual size of the Fund exceeds 15% of the total number of Shares on issue (excluding Treasury Stock).

If, after December 2016, the Fonterra Board decides to reduce the proportion of Vouchers that are counted for the Share Standard, then Farmer Shareholders may be required to buy Shares to meet their Share Standard (depending on their production movement). This may expose Farmer Shareholders to the risk that the Share price has risen since selling their Economic Rights and they are required to buy Shares at a higher price. If a decision was made to reduce (or eliminate) the proportion of Vouchers that are counted for the Share Standard, Farmer Shareholders with Vouchers would be given at least three Seasons to buy Shares to meet the Share Standard.

SALE OF ECONOMIC RIGHTS OF WET SHARES

Farmer Shareholders sell Economic Rights of a Wet Share to the Fund in the following way:

- when they sell Economic Rights of Wet Shares to the Fund, the legal title to those Wet Shares is transferred to the Fonterra Farmer Custodian. The Farmer Shareholder will receive Units for the Shares transferred to the Fonterra Farmer Custodian;
- the Fonterra Farmer Custodian holds the Economic Rights of those Wet Shares on trust for the Fund, under the Fonterra Economic Rights Trust; and
- the Farmer Shareholder is not permitted to hold the Units received in this process and must sell those Units on-market. Pursuant to this Supply Offer, Fonterra will purchase these Units at the Final Price.

This is what is meant in this Booklet when there is a reference to a Farmer Shareholder "selling Economic Rights of Wet Shares".

Under this Supply Offer, Farmer Shareholders are agreeing to transfer to Fonterra all of the Units which they will receive for the sale of Economic Rights of Wet Shares. This sale will happen automatically through the settlement system. You will not pay any brokerage in relation to this transaction.

The result will be that:

- Fonterra will pay the Final Price for each Unit transferred to it. This payment will be made out of the proceeds of the issue of Shares made by Fonterra at the Launch Date. In effect those proceeds will now be used to pay Farmer Shareholders who participate in this Supply Offer;
- once the Units are transferred to Fonterra, Fonterra will "redeem" them – in effect the Fund will cancel such Units and the Fonterra Farmer Custodian will transfer to Fonterra one Share for each Unit redeemed by Fonterra;
- this will mean that there is a temporary increase in the size of the Fund (because the Fund will issue one Unit for each Economic Right sold to it) but because Fonterra will purchase all of the Units issued in this process and will immediately redeem them, the Fund size will immediately reduce back to the size it would have been if the Supply Offer had not been made; and
- Fonterra can elect to retain (as Treasury Stock) the Shares it receives on redemption of Units, or cancel them. If it cancels these Shares, the total number of Shares on issue in Fonterra will reduce.

It is important to note that:

- when Economic Rights of Shares are sold to the Fund, the underlying Shares are transferred to the Fonterra Farmer Custodian. Only the Fonterra Farmer Custodian can hold those Shares; and
- the Fund does not hold or own the Shares. The only rights of the Fund in relation to the Shares are those provided to it by the Fonterra Economic Rights Trust.

SECTION 6 OTHER IMPORTANT CONSIDERATIONS

6

POSSIBLE FUTURE OPPORTUNITIES TO SELL ECONOMIC RIGHTS OF WET SHARES

Not all Farmer Shareholders will take full advantage of the financial flexibility that the Fund offers at the time of this Farmer Shareholder Supply Offer. If this is the case and the Supply Offer is not fully subscribed, Fonterra may provide one or more future opportunities for Farmer Shareholders to sell Economic Rights of Wet Shares to the Fund.

Any future opportunity is likely to be similar to this Farmer Shareholder Supply Offer:

- with the effect that Farmer Shareholders would ultimately receive cash and Vouchers in exchange for Economic Rights of Wet Shares sold to the Fund and the sale of the resulting Units to Fonterra;
- the Board would set a Fund Transfer Limit that would apply to the sale of Economic Rights of Wet Shares in each of these opportunities;
- the limit set could differ from the Fund Transfer Limit in this Farmer Shareholder Supply Offer; and
- it is envisaged that a Farmer Shareholder who has already participated in this Farmer Shareholder Supply Offer and/or the Initial Supply Offer could only participate in the future opportunity to the extent of the difference between the number of Vouchers that are recorded in their name and the maximum number of Vouchers they could receive in the new opportunity.

Depending on the extent that new Farmer Shareholders have an opportunity to participate in these future offers, the Board may allow them to have a “one off” opportunity to sell Economic Rights of Wet Shares up to the limits that applied to existing Farmer Shareholders in the most recent Supply Offer.

After December this year, the Fonterra Board will also consider whether, and to what extent, it may set a general Fund Transfer Limit that is available to Farmer Shareholders on a day-to-day basis. Under this approach, any Farmer Shareholder could, at any time, sell Economic Rights of Wet Shares to the Fund up to this Fund Transfer Limit, with the resulting Units sold on the NZSX at the then prevailing market price. It is unlikely that Fonterra would be the purchaser of such Units. Farmer Shareholders who already have a recorded number of Vouchers above this limit would not be able to sell any further Economic Rights of Wet Shares to the Fund. Prior to such a program being introduced, Farmer Shareholders have no ability to sell Economic Rights of Wet Shares to the Fund except for the opportunities referred to above. This is achieved by having set the Fund Transfer Limit for existing Farmer Shareholders to zero until this time.

SECTION 7 FREQUENTLY ASKED QUESTIONS

7

WHAT IS THE FARMER SHAREHOLDER SUPPLY OFFER?

The Farmer Shareholder Supply Offer gives Farmer Shareholders a further opportunity to offer to sell the Economic Rights of some of their Wet Shares to the Fonterra Shareholders' Fund. This will result in the participating Farmer Shareholders being recorded as holding Vouchers and being issued Units which are then purchased by Fonterra on-market for the Final Price.

WHO IS ELIGIBLE TO PARTICIPATE IN THE FARMER SHAREHOLDER SUPPLY OFFER?

Farmer Shareholders who hold Shares on the record date for the Farmer Shareholder Supply Offer, including those who hold Vouchers (if they participated in the Initial Supply Offer held in November 2012) that represent less than 25% of their Wet Shares. All Farmer Shareholders need to meet their Share Standard, including through the use of Vouchers.

Farmer Shareholders are not eligible to participate in this Supply Offer if they will hold less than 1,000 Shares as a result of participating.

WHAT ARE MY OPTIONS WITH REGARD TO THE FARMER SHAREHOLDER SUPPLY OFFER?

You can elect to participate to your full entitlement (subject to scaling as discussed on page 19), or to a lesser extent, or not participate at all.

WHAT HAPPENS IF I DO NOTHING?

If you choose not to participate there will be no impact on your Shareholding.

WHAT WILL I RECEIVE IN RETURN FOR SELLING ECONOMIC RIGHTS OF SOME OF MY WET SHARES INTO THE FARMER SHAREHOLDER SUPPLY OFFER?

Ultimately, if you decide to participate in the Supply Offer, you will receive:

- cash (being a sum equal to the number of Economic Rights you sell multiplied by the Final Price); and
- Vouchers.

Refer to pages 21 and 22 for more information on Vouchers, including the effect of an increase or reduction in production, or of an increase or reduction in the proportion of Vouchers that are recognised by Fonterra for the Share Standard.

HOW IS THE PRICE I SELL AT CALCULATED?

The price you will receive (“the Final Price”) will be the average of the daily average sale prices (weighted by the volume of each trade) observed on the NZSX for Units for each Trading Day between 2 May and 15 May (inclusive). The daily average sale price (weighted by the volume of each trade) is referred to as the “Volume Weighted Average Price” or “VWAP”. Fonterra will retain discretion to ignore unusual sales when determining the daily VWAP.

WHY IS THERE NOT A RANGE OF PRICES I CAN CHOOSE FROM LIKE LAST TIME?

As Trading Among Farmers is now live, we can use an average of the actual traded prices to define the Final Price, rather than the Bookbuild process that was used last time. In the Initial Supply Offer in November, the price resulting from the Bookbuild was not available until after the Initial Supply Offer closed, so a range was given.

WHAT IF THE MARKET PRICE CHANGES AFTER THE FINAL PRICE HAS BEEN SET?

The Final Price will be determined towards the end of the Supply Offer period to reduce the risk of the price moving substantially before payments are received. The Final Price advised on 16 May will be the price you receive, regardless of the price at which Units are then trading on the NZSX or the price Shares are trading on the FSM. Once you have submitted an offer, it cannot be revoked.

HOW MANY SHARES CAN I OFFER INTO THE FARMER SHAREHOLDER SUPPLY OFFER?

Provided that you did not participate in the Initial Supply Offer, you can offer the Economic Rights of up to 25% of your Share Standard. However, if there is an oversubscription, scaling may occur. If you participated in the Initial Supply Offer refer to the answer to the next question below.

CONTINUED

HOW MANY SHARES CAN I SELL IF I TOOK PART IN THE LAST SUPPLY OFFER?	If you sold the full allocation of 25% of your Economic Rights of Wet Shares in the Initial Supply Offer, then you will not be able to take part (unless your minimum holding has been increased in accordance with the procedure set out in Fonterra's constitution). If you only sold a portion of the 25%, you will be able to offer further Economic Rights to Wet Shares (see Example 4, page 13).
CAN I SELL THE SHARES I RECEIVED THROUGH THE BONUS ISSUE?	For most Shareholders, the additional Shares received via the Bonus Issue will be Dry Shares, and these cannot be sold through the Supply Offer. To the extent that they are Dry Shares, they can, however, be sold at any time on the Fonterra Shareholders' Market or the Economic Rights of any Dry Shares to the Fund after they have been allotted to you. You can sell these via the Fencepost Broker, or via a full service broker such as Craigs Investment Partners, First NZ Capital or Forsyth Barr.
HOW LONG IS THE FARMER SHAREHOLDER SUPPLY OFFER OPEN FOR?	From 2 May 2013 until 5.00pm on 23 May 2013. (As noted on page 19, this offer period can be altered by Fonterra, but will, in any event, be at least 10 working days.)
WHEN WILL I RECEIVE PROCEEDS FROM THE FARMER SHAREHOLDER SUPPLY OFFER?	All Farmer Shareholders who participate in this Farmer Shareholder Supply Offer will receive notification, by way of a revised Holding Statement, of the outcome of the Supply Offer after 3 June 2013. In addition, Farmer Shareholders who participate will be paid the cash proceeds by no later than 6 June 2013.
WHAT ARE THE TAX IMPLICATIONS OF THE FARMER SHAREHOLDER SUPPLY OFFER?	You should seek advice based on your individual business.
WHAT ARE THE COSTS AND FEES PAYABLE BY FARMER SHAREHOLDERS IN RELATION TO THE FARMER SHAREHOLDER SUPPLY OFFER?	There are no direct costs or fees to be paid by Farmer Shareholders.
HOW MANY ECONOMIC RIGHTS OF SHARES WILL BE ACCEPTED THROUGH THE FARMER SHAREHOLDER SUPPLY OFFER?	The maximum number can be determined by dividing \$475 million (or such lesser amount as the Fonterra Board determines) by the Final Price. Scaling will occur if more than this number is offered.
WHY IS THE SECOND FARMER SHAREHOLDER SUPPLY OFFER BEING UNDERTAKEN?	Fonterra said at the time of the Initial Supply Offer that its intention was not to permanently retain the additional equity of \$475 million which arose at the commencement of TAF, when Fonterra issued Shares to ensure that the total value of Economic Rights held for the Fund was \$525 million. It was Fonterra's intention that Farmer Shareholders would be offered further opportunities to sell Economic Rights of Wet Shares to the Fund in exchange for Units and Vouchers. Fonterra would acquire for cash on-market the number of Units issued and, by this means, the \$475 million (or such lesser amount determined by the Board) would, in effect, be paid out to Farmer Shareholders who sell Economic Rights in Wet Shares to the Fund by these further opportunities.

DOES THIS MEAN THAT THE SHARES I SELL WILL BECOME UNITS AND INCREASE THE SIZE OF THE FUND?	Ultimately there will be no net increase in the number of Units as a consequence of this Supply Offer. Any Economic Rights sold by Farmer Shareholders will be held by the Fonterra Farmer Custodian. Units will be issued which Fonterra will purchase. Fonterra will then redeem those Units (and be transferred Shares from the Fonterra Farmer Custodian, which Fonterra can hold as Treasury stock or cancel).
WHEN WILL THE NEXT SUPPLY OFFER BE AFTER THIS ONE?	The Fonterra Board has not decided if or when a further Supply Offer will be undertaken.
WHAT IF I HAVE MADE A MISTAKE AND WANT TO CHANGE MY SUPPLY OFFER FORM?	Once your Supply Offer Form has been received by Computershare, it is binding and you cannot withdraw, revoke or alter it. This underlines the importance of obtaining advice.
WHAT IF I LOSE MY SUPPLY OFFER FORM?	You can order a new form by contacting 0800 86 87 233. An online option is also available at www.fonterrasupplyoffer.com .
WHAT DOES THIS MEAN FOR VOTING AND MILK PAYMENTS?	Voting will continue to be linked to milk production in the previous Season that is backed by Shares. However, subject to limits, Vouchers will be treated in the same way as Shares in determining voting entitlements. Likewise, you will receive the Farmgate Milk Price for your production if you comply with the Share Standard, which can be satisfied through Shares and (within limits) Vouchers.
WHAT DOES THIS MEAN FOR ME AS A CONTRACT SUPPLY FARMER?	Contract Supply Farmers will only be able to participate in the Farmer Shareholder Supply Offer by selling the Economic Rights of up to 25% of their Wet Shares.
WILL I KEEP ANY RIGHTS TO SHARES THAT I SELL?	No, you will sell your Shares absolutely. You will not be able to acquire those Shares back (although you will be able to buy other Shares on the Fonterra Shareholders' Market or buy Units and convert them to Shares). You will not receive any dividends on the Shares you sell, and you will not participate in the gains or losses in the capital value of those Shares.
WHAT DOES THIS MEAN FOR MILK PRICE?	Vouchers will be recognised in the same way as Shares in determining whether you satisfy the Share Standard and therefore receive the Farmgate Milk Price, up to 25% of your minimum required Shareholding. If you satisfy the Share Standard, you will receive the full Farmgate Milk Price on all of your production (other than milk supply that is subject to contract, if any). Refer to pages 21 and 22 for more information on Vouchers, including the effect of an increase or reduction in production, or of an increase or reduction in the proportion of Vouchers that are recognised by Fonterra for the Share Standard.
I DON'T HAVE AN ACCOUNT WITH AN INDEPENDENT BROKER OR A FENCEPOST BROKER, CAN I STILL TAKE PART?	Yes, all applications are via the Supply Offer Form enclosed or through the website at www.fonterrasupplyoffer.com . You will need your CSN (Common Shareholder Number) and FIN (Farmer Identification Number) that you received from Computershare to log on to the website. If you have lost these, please contact Computershare.

SECTION 8 GLOSSARY

In this Booklet, unless the context otherwise requires:

“\$” and “cents” means the lawful currency of New Zealand (unless otherwise stated).

“**Bonus Issue**” means the 1 for 40 issue of Shares to Farmer Shareholders on the Share register on 12 April 2013.

“**Bookbuild**” means the process where parties interested in investing in Units lodged bids indicating the number of Units they wished to apply for at a range of prices. This process was used to determine the final price for the Initial Supply Offer.

“**Booklet**” means this Fonterra Farmer Shareholder Supply Offer Booklet.

“**Closing Date**” means 5pm on 23 May 2013 (unless amended as provided for in this Booklet).

“**Computershare**” means Computershare Investor Services Limited.

“**Constitution**” means the constitution of Fonterra in effect from time to time.

“**Contract Supply Farmers**” means those farmers whose milk supply is not backed by Shares.

“**Custody Trust Deed**” means the custody trust deed between the Fonterra Farmer Custodian, the Trustee, the Manager, and Fonterra.

“**Dry Shares**” means any Shares held by a Farmer Shareholder in excess of the number of Shares required to be held by that Farmer Shareholder in accordance with the Share Standard for a Season.

“**Economic Rights**” means the interest in Shares held by the Fonterra Farmer Custodian for the benefit of the Trustee in its capacity as the trustee of the Fund as set out in the Custody Trust Deed.

“**Farmer Shareholder**” means a Shareholder who is supplying milk to Fonterra.

“**Farmer Shareholder Supply Offer**” or “**Supply Offer**” means the offer made to Fonterra Farmer Shareholders to offer to sell Economic Rights of some of their Wet Shares to the Fonterra Shareholders’ Fund, as stated in this Booklet.

“**Farmgate Milk Price**” means the price for milk supplied in New Zealand to Fonterra by Farmer Shareholders in a Season.

“**Final Price**” means the price per Unit at which Units will be acquired under this Supply Offer (representing the amount ultimately received by Shareholders).

“**Fonterra**” means Fonterra Co-operative Group Limited and, where relevant, includes the Fonterra Group.

“**Fonterra Board**” or “**Board**” means the board of directors of Fonterra.

“**Fonterra Economic Rights Trust**” means the trust that holds the Economic Rights of Shares which have been sold to the Fund. These rights are held on trust for the Fund, by the Fonterra Farmer Custodian under the Custody Trust Deed.

“**Fonterra Farmer Custodian**” means Fonterra Farmer Custodian Limited.

“**Fonterra Group**” means Fonterra and its subsidiaries.

“**Fonterra Shareholders’ Market**” or “**Market**” or “**FSM**” means the exchange or trading facility selected by Fonterra which provides a facility for the trading of Shares.

“**Fund**” or “**Fonterra Shareholders’ Fund**” means the unit trust constituted under the Trust Deed, which is authorised under the Constitution to acquire, hold or dispose of rights or interests in Shares.

“**Fund Transfer Limit**” means the maximum proportion of Wet Shares that a Farmer Shareholder can sell the Economic Rights of to the Fund (which can differ over time and among Farmer Shareholders, and can be set to zero).

“**Holding Statement**” means a statement that provides information regarding your Shareholding in Fonterra, including Vouchers.

“**Initial Supply Offer**” means the initial offer dated 26 October 2012 whereby Farmer Shareholders were given the opportunity to sell Economic Rights in Shares to the Fund.

“**kgMS**” means a kilogram of Milksolids.

“**Launch Date**” means the date specified in the Order in Council made by the Governor-General for the commencement of Trading Among Farmers, being 30 November 2012.

CONTINUED

“Manager” means the person appointed as the manager of the Fund in accordance with the Trust Deed from time to time, being initially FSF Management Company Limited.

“Milksolids” means the valued components of milk which are determined by the Fonterra Board from time to time.

“NZX” means NZX Limited.

“NZX Main Board” or **“NZSX”** means the main equities board of NZX.

“Season” means a period of 12 months ending on 31 May (or such other date as the Fonterra Board may specify from time to time) in each year.

“Sell Economic Rights of Shares” has the meaning given to that term in Section 5, and references to the “sale” of such rights or to “selling” such rights have a corresponding meaning. Likewise, references to “sell Economic Rights of Wet Shares” and “sell Economic Rights of Dry Shares” have a corresponding meaning in relation to the relevant Shares.

“Share” or **“Fonterra Share”** means a fully paid co-operative share in Fonterra.

“Share Standard” means the number of Shares a Farmer Shareholder is required from time to time to hold as determined in accordance with the Constitution, being at the date of this Booklet, one Share for each kilogram of Milksolids obtainable from milk supplied to Fonterra by a Farmer Shareholder in the relevant Season (excluding milk supplied on contract supply). The Fonterra Board may permit the Share Standard to be satisfied through the holding of both Shares and Vouchers.

“Shareholder” means a holder of Shares in Fonterra.

“Shareholding” means a holding of Shares in Fonterra.

“Supply Offer Form” means the form headed Supply Offer Form accompanying this Booklet (and the online version of the form available at www.fonterrasupplyoffer.com).

“Trading Among Farmers” or **“TAF”** means the Share trading system known as Trading Among Farmers.

“Trading Day” means a day on which trading may occur on the NZX Main Board.

“Treasury Stock” means Shares or Units acquired and held by Fonterra.

“Trust Deed” means the trust deed constituting the Fonterra Shareholders’ Fund between Fonterra, the Trustee and the Manager.

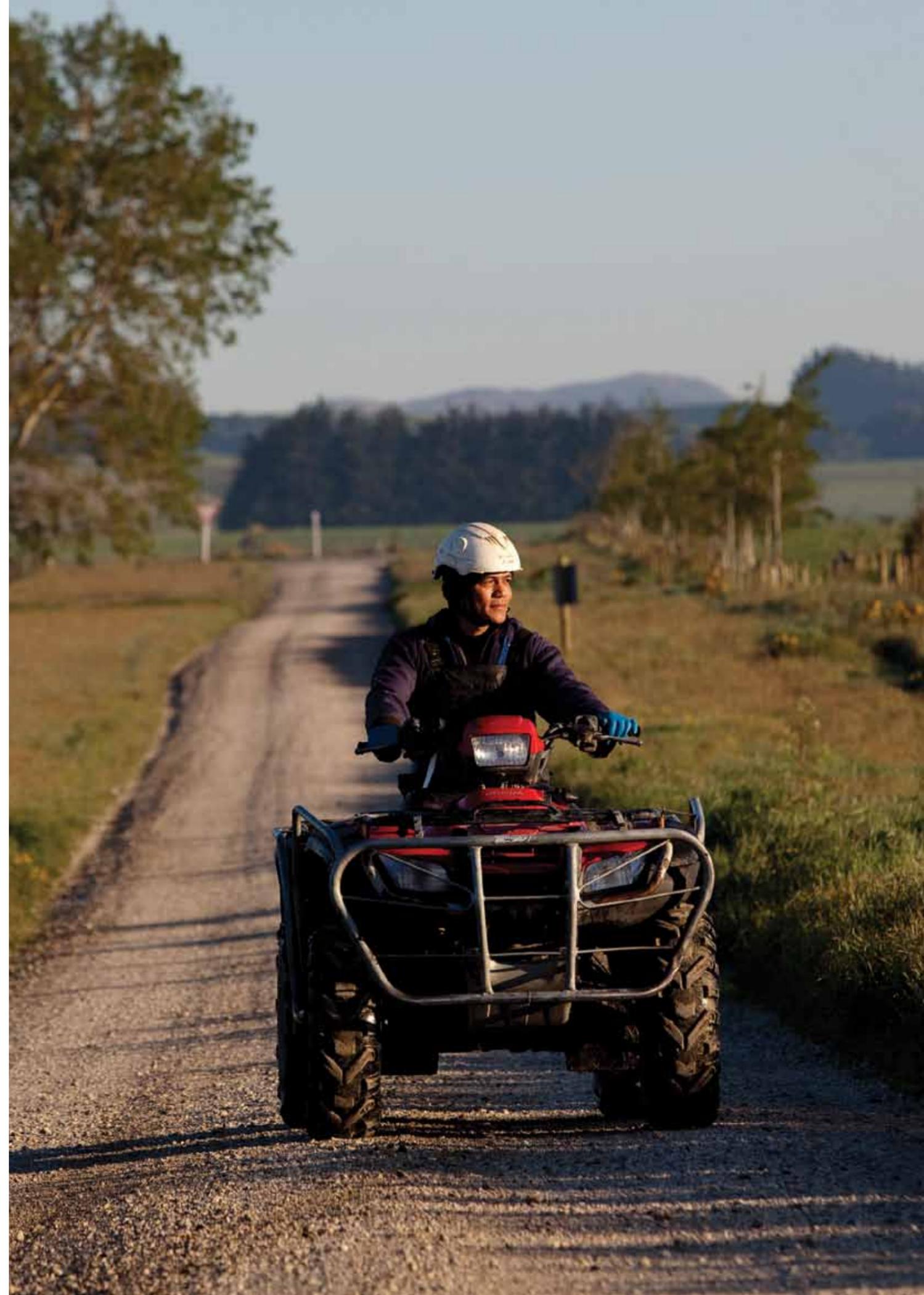
“Trustee” means the trustee for the time being of the Fund, being initially The New Zealand Guardian Trust Company Limited.

“Unit” means a unit issued by the Manager of the Fund.

“VWAP” means the volume weighted average price.

“Voucher” means the certificate referred to in clause 3.4 of the Constitution to be provided to a Farmer Shareholder upon the transfer of the Economic Rights of a Wet Share to the Fund in accordance with the Trust Deed.

“Wet Shares” means any Shares held by a Farmer Shareholder which are required to be held in accordance with the Share Standard for a Season.



KEY ACTIONS

If you want to take part in this Supply Offer, it is important that you:

- read and understand this Booklet, and you may also wish to obtain advice from your lawyer, accountant or financial adviser;
- contact your bank or lender if they hold a security or mortgage over your Fonterra Shares; and
- go online or complete and return the enclosed Supply Offer Form by 5pm 23 May.

The Farmer Shareholder Supply Offer may be withdrawn by Fonterra at any time. If this happens, all Farmer Shareholders who have offered to sell the Economic Rights of Wet Shares into the Farmer Shareholder Supply Offer will be advised.

You will find a personalised Supply Offer Form with this Booklet. If you have misplaced it, or if your personal details recorded on it are incorrect, please contact 0800 86 87 233.

There are two ways to take part:

1

complete an online Supply Offer Form by visiting:

www.fonterrasupplyoffer.com

2

or complete and sign the Supply Offer Form and deliver it to:

Computershare Investor Services Limited
Level 2
159 Hurstmere Road
Takapuna
Auckland 0622

or

Postal Address:

Private Bag 92119
Victoria Street West
Auckland 1142

FARMER SHAREHOLDER SUPPLY OFFER CLOSES

(final date for Supply Offer Forms to be received)

BY 5PM



If you do not wish to participate in the Supply Offer, you do not need to take any action.

FONTERRA CO-OPERATIVE GROUP LIMITED
PRIVATE BAG 92032
AUCKLAND 1142
PHONE 0800 86 87 233
FOR GLOBAL LOCATIONS VISIT WWW.FONTERRA.COM

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