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Date

24 October 2001

Parties

FONTERRA CO-OPERATIVE GROUP LIMITED
(the "Company")

THE NEW ZEALAND GUARDIAN TRUST COMPANY LIMITED
(the "Trustee")

INITIAL SUPPLEMENTAL DEED
TO CAPITAL NOTES TRUST DEED

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INITIAL SUPPLEMENTAL DEED TO CAPITAL NOTES TRUST DEED

THIS INITIAL SUPPLEMENTAL DEED is made on 24 October 2001

PARTIES

- (1) FONTERRA CO-OPERATIVE GROUP LIMITED a duly incorporated company having its registered office at Auckland (the "*Company*")
- (2) THE NEW ZEALAND GUARDIAN TRUST COMPANY LIMITED a company incorporated in New Zealand and having its registered office at Auckland (the "*Trustee*")

BACKGROUND

- A Global Dairy Company Limited, subsequently renamed Fonterra Co-operative Group Limited (the "*Original Company*") and the Trustee entered into the Trust Deed, under which the Company is authorised to issue Capital Notes to be constituted and issued as provided in the Trust Deed, and the Trustee is appointed to act as Trustee on behalf of the Holders in accordance with the terms of the Trust Deed
- B Pursuant to Clause 2.3 of the Trust Deed, the Original Company and the Trustee acknowledged that if the Proposed Amalgamation (as defined in the Trust Deed), once effected, results in an entity other than the Original Company being the amalgamated company, the provisions of section 225 of the Companies Act 1993 apply and all references in the Trust Deed to "the Company" or "Global Dairy" shall be read and construed as if they are references to the amalgamated company by whatever name called
- C The Proposed Amalgamation was effected on 16 October 2001, and the Company became the amalgamated company. The Company is accordingly the entity authorised to issue Capital Notes to be constituted and issued under the Trust Deed and to enter into this Initial Supplemental Deed
- D The Company and the Trustee have agreed to enter into and execute this Initial Supplemental Deed to record the Conditions of the Capital Notes and the form of Certificate for Capital Notes

NOW THIS DEED WITNESSES AND IT IS HEREBY AGREED AND DECLARED as follows

1 CONSTRUCTION AND DEFINITIONS

1.1 Construction

- (a) In this Deed, references to the Conditions means this Deed, and reference to a specific numbered Condition or specific numbered Conditions means the corresponding numbered Clause or Clauses in this Deed
- (b) Clause 1 5 of the Trust Deed shall apply in the construction of these Conditions

1.2 Defined Terms

In these Conditions unless the context otherwise requires terms defined in the Trust Deed shall have the same meanings where used in these Conditions, and in addition

Accrued Interest means interest on the Principal Amount of a Capital Note which has accrued but has not been paid, and in lieu of which no Capital Notes have been issued in accordance with Condition 4 6 of these Conditions,

Base Rate means the rate determined by the Calculation Agent to be the One Year Government Stock Rate in accordance with the Agency Agreement,

Board means, at any time, the board of directors of the Company at that time,

Certificate means a certificate or other document (if any) issued by the Company, recording that a Holder is entered in the Register as a Holder, generally in the form set out in Schedule 1 of these Conditions or such other form approved by the Trustee, and any Certificate issued in replacement thereof or substitution therefor, in each case subject to the Conditions from time to time applicable to, and evidencing the entitlement of the Holder of, the Capital Notes specified therein,

Credit Rating means the credit rating assigned to the Capital Notes by the Rating Agency from time to time,

Credit Rating Event means either

- (a) a change in the Credit Rating, or
- (b) the Capital Notes ceasing to have a Credit Rating,

Election Date means 10 July in each year commencing on 10 July 2002,

Initial Rate Setting Date has the meaning given in the first Prospectus for the Capital Notes,

Interest Payment Date means 10 January, 10 April, 10 July and 10 October in each year commencing on 10 January 2002,

Interest Period of a Capital Note means the period from, and including, one Interest Payment Date (or, in the case of the first Interest Period, the Issue Date of the Capital Note) to, but excluding, the next (or, in the case of the first Interest Period, the first) Interest Payment Date or the Redemption Date,

Interest Rate means, on any date, the interest rate applicable to the Capital Notes on that date in accordance with Condition 4.2

Interest Rate Reset Date means 10 July in each year commencing on 10 July 2002,

Issue Date of a Capital Note means the date of the allotment of the Capital Note by the Company, or such other date agreed by the Company and the original allottee for the purposes of interest calculation, as set out in the Register,

Margin means the rate determined in accordance with Conditions 4.2(c), (d) and (e),

Minimum Holding means Capital Notes having an aggregate Principal Amount of \$1,000 or such other amount that the Exchange determines is a Minimum Holding,

One Year Government Stock Rate means the interpolated one year government stock rate as determined by the Calculation Agent using the rates specified on Reuters page NZspread[*mid*], or its successor page at 10.45 am on the Initial Rate Setting Date and on each Interest Rate Reset Date, on a straight line/linear calculation basis provided that

- (a) if Reuters page NZspread[*mid*] or its successor page is not available then the Calculation Agent shall obtain a quote from any three registered banks (selected by the Calculation Agent and approved by the Trustee) for the yield at which each bank would bid on that date for the purchase of New Zealand Government Stock of each of the following
 - (i) a term which is the nearest equivalent to, but greater than, a one year term,
 - (ii) a term which is the nearest equivalent to, but less than, a one year term,

and the Calculation Agent shall calculate the average (to two decimal places) of the quoted yield rates for the New Zealand Government Stock relevant to (i) and (ii) above, as the case may be (each an "average yield amount") and the Calculation Agent shall, after having calculated the average yield amounts and by a process of linear interpolation, determine the appropriate yield to be applicable for the purposes of the Base Rate, and

- (b) if, in the opinion of the Company, the interpolated one year government stock rate using Reuters page NZspread[mid] or its successor page or the average of the relevant bid rates used for the purposes of the calculations referred to in paragraph (a) above does not accurately reflect the then current market yield to maturity (expressed as a percentage rate per annum) obtainable on such New Zealand Government Stock or on other then available New Zealand Government debt securities or if, at or about that time, for any reason, fewer than three registered banks are quoting such bid rates or, in the opinion of the Company, such New Zealand Government Stock or other then available New Zealand Government debt securities is not a suitable benchmark for the calculation of the market yield to maturity for a one year term, the One Year Government Stock Rate shall be the rate determined by an independent financial expert to be selected by the Trustee after consultation with the Company as being equal to the then current yield to maturity (expressed as a percentage rate per annum) obtainable on New Zealand Government Stock (or if there is none or New Zealand Government Stock is not a suitable benchmark (as provided for above), other fixed interest securities or other securities considered by such expert to be substantially the equivalent of New Zealand Government Stock) having a term which is the nearest equivalent to one year,

Principal Amount of a Capital Note means one dollar (\$1 00),

Rating Agency means Standard & Poor's Australia Pty Limited or any other rating agency selected by the Company and approved by the Trustee,

Record Date has the meaning given in Condition 5 1(a),

Redemption Amount of a Capital Note means the aggregate of the Principal Amount of that Capital Note and the Accrued Interest on that Capital Note as at the Redemption Date but, where the Company elects to redeem Capital Notes on an Election Date, Redemption Amount means the amount determined in accordance with Condition 6 1,

Redemption Date has the meaning given in Condition 4 3(b),

Solvent means that the Company is able to pay its debts from its own moneys as those debts fall due in the normal course of its business,

Specified Rate means 7 0 percent per annum,

the Initial Supplemental Deed and *this Deed* means this Initial Supplemental Deed (including the Schedules hereto) as originally executed and as it may from time to time be supplemented, modified or novated in accordance with the provisions of Clause 13 of the Trust Deed, and when the context so admits

includes any Deed which is or is expressed to be supplemental to or collateral with these Conditions,

the Trust Deed means the Capital Note Trust Deed (including the Schedules thereto) dated 22 March 2001 between the Original Company and the Trustee, as modified by a Deed of Modification entered into between the Original Company and the Trustee dated 19 April 2001 and a Deed of Modification entered into between the Company and the Trustee dated on or about the date of this Deed and as the Trust Deed may from time to time be further supplemented, modified or novated in accordance with the provisions in that behalf therein contained, and when the context so admits, includes any deed which is or is expressed to be supplemental, or collateral with the Trust Deed

1.3 Location and Governing Law

These Conditions shall be governed by and construed in accordance with the law of New Zealand

1.4 Currency and Currency Conversion

The provisions of Clause 1 2 and 1 3 of the Trust Deed apply to these Conditions to the same extent as if set out in full herein

1.5 Effective Date

Notwithstanding the date on which this Deed is executed by the Company and the Trustee, these Conditions shall take effect on the Effective Date

2 TRUST DEED

2.1 Capital Notes

The Capital Notes to which these Conditions relate (including Capital Notes issued pursuant to Condition 4 6) are constituted pursuant to, and are "Capital Notes" for the purposes of, the Trust Deed

2.2 Trust Deed and Conditions Binding

Each Holder is entitled to the benefit of, is bound by, and is deemed to have notice of, the provisions of the Trust Deed, and these Conditions

2.3 Conditions to Prevail

If there is a discrepancy between the provisions of the Trust Deed and the provisions of these Conditions, the provisions of these Conditions prevail

3 STATUS AND SUBORDINATION OF THE CAPITAL NOTES

3.1 Status

The Capital Notes constitute direct, unsecured, subordinated obligations of the Company and rank *pari passu* and without priority or preference among themselves

3.2 Subordination

In any distribution of assets by the Company in the Liquidation or (to the fullest extent permissible) statutory management of the Company, the rights of the Trustee on behalf of the Holders (and the rights of each Holder) in respect of the Capital Note Obligations (but no other amounts owing pursuant to the Trust Deed) shall

- (a) in point of priority and right of payment rank behind and be subordinated to all Senior Debt so that in any such distribution no payment shall be made on account of the Capital Note Obligations until the Senior Debt has been paid in full and, for the avoidance of doubt, Holders, by acquiring Capital Notes, shall be deemed to have agreed to accept a lower priority in respect of the Capital Note Obligations than that which they would otherwise have under section 313 of the Companies Act 1993 or at law, and
- (b) be unsecured and limited to the Liquidation Amount in respect of the relevant Capital Notes

3.3 Redemption on Liquidation

Notwithstanding any other condition or any provision of the Trust Deed, on Commencement of Liquidation, each Capital Note will be due to be redeemed for an amount equal to the Liquidation Amount of the Capital Note which will only be payable in accordance with and subject to Clause 5 of the Trust Deed

3.4 Section 5 of the Trust Deed

The rights of the Trustee and Holders are to be limited and governed in accordance with the detailed provisions of Clause 5 of the Trust Deed relating to the subordination of the rights of the Holders and the Trustee on behalf of the Holders in respect of the Capital Note Obligations. The provisions contained in Section 5 of the Trust Deed and in this Condition 3 of these Conditions shall apply notwithstanding anything to the contrary contained or implied in the Trust Deed or these Conditions

4 INTEREST

4.1 Conditions Apply to All Notes

Conditions 4.2, 4.3 and 4.4 shall apply to the calculation and payment of interest on all Capital Notes

4.2 Interest Rate

All Capital Notes shall bear interest at the same rate of interest. The Interest Rate applicable to the Capital Notes at any time will be determined as follows

- (a) subject to Condition 4.2(f), the Interest Rate on any date will be the aggregate of the applicable Margin and the applicable Base Rate as at that date,

- (b) the initial Base Rate will be determined on the Initial Rate Setting Date and thereafter the Base Rate will be redetermined on each Interest Rate Reset Date. The Base Rate determined on any date will apply from (and including) that date to (but excluding) the date on which it is redetermined,
- (c) the Margin applicable for determination of the Interest Rate will depend upon the Credit Rating of the Capital Notes and will be determined in accordance with the following table

| <i>Credit Rating</i> | <i>Margin</i> |
|----------------------|---------------|
| AA | 1.50% |
| AA- | 1.60% |
| A+ | 1.70% |
| A | 1.80% |
| A- | 1.95% |
| BBB+ | 2.20% |
| BBB | 2.60% |
| BBB- | 3.00% |
| No Credit Rating | 3.00% |

If there is a change in the Rating Agency the ratings identified in the above table will be deemed to be the equivalent ratings of the new Rating Agency

- (d) the initial Margin will be determined on the Initial Rate Setting Date on the basis of the Credit Rating of the Capital Notes on that date and thereafter the applicable Margin will be determined on each Interest Payment Date on the basis of the Credit Rating of the Capital Notes on such date. The Margin determined on any date will apply from (and including) that date to (but excluding) the date on which it is redetermined,
- (e) if a Credit Rating Event occurs during an Interest Period the Margin will be redetermined on (and with effect from) the Interest Payment Date at the end of that Interest Period in accordance with Condition 4.2(d),
- (f) notwithstanding Condition 4.2(a) above, on any date during the period from (and including) the date on which the first Capital Notes are issued to (but excluding) the first Interest Rate Reset Date, the Interest Rate shall be the greater of the Specified Rate and the aggregate of the Base Rate on the Initial Rate Setting Date and the applicable Margin

4.3 Interest

- (a) Each Capital Note shall bear interest on its Principal Amount at the Interest Rate applicable from time to time. Interest on the Principal Amount of each Capital

Note shall accrue daily from (and including) the Issue Date of the Capital Note for the period through to (but excluding) the date on which interest ceases to accrue on that Capital Note in accordance with Condition 4 3(b), on the basis of a 365 day year, but subject to Condition 4 6

- (b) Interest shall cease to accrue on each Capital Note on the first to occur of
- (i) the date (the "Redemption Date") on which the Capital Note is redeemed by satisfaction of the relevant Redemption Amount or purchased by the Company, and
 - (ii) the Commencement of Liquidation
- (c) Interest at the Interest Rate on the amount determined in accordance with paragraph (a) of the definition of "Liquidation Amount" (as if the full amount determined in accordance with paragraph (a) were included in the Principal Amount) shall accrue from the date of the Commencement of Liquidation until the Capital Note is redeemed by the payment of the amount determined in accordance with paragraph (a) of the definition of Liquidation Amount and this Condition 4 3(c)

4.4 Interest Payment

Subject to Condition 4 6, on each Interest Payment Date the Issuer will pay the interest accrued on the Principal Amount of each Capital Note during the Interest Period ending on that date

4.5 First Interest Payment

Unless otherwise agreed by the Company and the original Holder of the Capital Note (including in any investment statement, prospectus or other offer document in relation to the Capital Notes), any interest paid on the first Interest Payment Date occurring after the Issue Date shall be paid to the original allottee of the Capital Note, whether or not on that date the Holder of the Capital Note is some other Person. All other interest shall be paid to the Holder recorded in the Register on the relevant Record Date in accordance with these Conditions

4.6 Issue of Notes in Lieu of Interest

The Company will pay interest when due in accordance with Condition 4 4 (less any withholdings or deductions required by law) unless, prior to any Interest Payment Date, the Board resolves that, due to the financial condition of the Company and/or any other considerations relevant to the Company's solvency, the payment of all or part of the interest due to be paid on that Interest Payment Date would have, or be likely to have, a materially adverse effect on the Company. In this event, the Company is entitled to withhold payment of such amount of interest as is determined by the Board to be the amount that, if paid, would have, or be likely to have, a materially adverse effect on the Company and to the extent that all or part of the interest due on the relevant Interest Payment Date is not paid, the

Company shall, on that relevant Interest Payment Date (or at such later date as is agreed between the Company and the Trustee as being the earliest date such Capital Notes can be issued in compliance with the Securities Act 1978), issue further Capital Notes to Holders recorded in the Register on the relevant Record Date, in lieu of the payment of all, or that part, of the interest due but unpaid to each such Holder on that Interest Payment Date, in each case, rounded up to the nearest dollar. Capital Notes issued to Holders in lieu of the interest due on an Interest Payment Date shall

- (a) for the purpose of the calculation of interest thereon, be deemed to have been issued on the relevant Interest Payment Date,
- (b) have an aggregate Principal Amount equal to the aggregate amount of interest unpaid on their respective Capital Notes (rounded up to the nearest dollar) and such interest shall be deemed to have been paid or satisfied pro tanto by the issue of such Capital Notes and
- (c) be issued on the terms set out in these Conditions and shall otherwise be issued in compliance with the Securities Act 1978

4.7 No Distributions

The Company will not

- (a) during the Interest Period immediately following an Interest Payment Date on which it has elected to issue Capital Notes in lieu of interest, in accordance with Condition 4.6, or
- (b) at any time during which interest remains unpaid under Condition 4.4 in circumstances where the Company has not issued Capital Notes in lieu thereof in accordance with Condition 4.6,

make any Distribution (including the purchase or provision of financial assistance in respect of the purchase or subscription of any shares in the Company) or make any payments for the supply of Milk in excess of Permitted Supplier Payments, or make any payment in respect of indebtedness of the Company ranking pari passu with, or subsequent in priority to, Capital Notes

4.8 Currency Conversion

For the purpose of Condition 4.7, before any amount is paid to a Shareholder for the supply of milk in a foreign currency in any period during which Condition 4.7 applies, for the purpose of determining whether such amount is a Permitted Supplier Payment, the amount shall be notionally converted into New Zealand dollars using the rate of exchange determined by the Company required to meet the actual cost to the Company in New Zealand dollars of that foreign currency equivalent, or if that rate cannot be determined, then the New Zealand currency equivalent shall be determined at the rate equal to the spot exchange rate of

Westpac Banking Corporation for the purchase of that foreign currency with New Zealand dollars at or about 11 00 a m on the date such Permitted Supplier Payments are made

4.9 Payment on Demand

- (a) Notwithstanding Clause 5 11 of the Trust Deed, the Trustee may not make demand under Clause 5 11(e)(i), (ii) or (iii) for payment of the Capital Note Obligations unless
- (i) in the case of Clause 5 11(e)(i) of the Trust Deed, any interest due but not paid on an Interest Payment Date remains unpaid for 10 Business Days after the relevant Interest Payment Date or such longer period as may be agreed between the Company and the Trustee if the Company advises the Trustee it intends to issue Capital Notes in lieu of interest in accordance with Condition 4 6,
 - (ii) in the case of Clause 5 11(e)(ii) of the Trust Deed, any Capital Notes the Company has elected to redeem on an Election Date remain unredeemed for 5 Business Days after that Election Date or any Capital Notes remain unredeemed for 5 Business Days after the relevant date on which those Capital Notes should have been redeemed pursuant to Condition 6 7,
 - (iii) in the case of Clause 5 11(e)(iii) of the Trust Deed, a breach of the covenant in Conditions 4 7 or 6 9 of these Conditions not to make certain Distributions or make any payment of certain indebtedness remains unremedied for 20 Business Days after the date of that breach

The Company will, if demand is made by the Trustee in accordance with Clause 5 11 of the Trust Deed and this Condition 4 9, make immediate payment to the Trustee of the Capital Note Obligations referred to in such demand

5 PAYMENTS

5.1 Payment to Holder

Subject to the provisions of this Condition 5 1, and in accordance with Condition 5 4

- (a) all payments in respect of a Capital Note will be paid to the Holder entered in the Register as the Holder of that Capital Note as at the close of business on the Friday more than 3 but no more than 10 days prior to the relevant payment date (or if that Friday is not a day on which the New Zealand Stock Exchange is open for trading, the previous day on which the New Zealand Stock Exchange is open for trading (the "Record Date")), notwithstanding any notice the Company or the Registrar may have of any subsequent transfer,

- (b) payment is to be made by cheque or direct bank credit in accordance with Clause 5 4,
- (c) the Trustee, in its sole discretion, may at any time direct the Company to pay to the Trustee any amount payable by the Company under Condition 5 1(a), and
- (d) if several persons are entered in the Register as joint Holders of any Capital Notes then, without prejudice to Conditions 5 1(a) or 5 4, the payment to any one of such persons of amounts payable in respect of such Capital Notes shall be as effective a discharge of the Company's obligations (to the extent of such payment) as if the payee was the sole Holder of such Capital Notes

5.2 Deductions or Withholdings

Subject to any other terms and conditions which may be set out or referred to in any Prospectus or Investment Statement

- (a) all sums payable by the Company in respect of a Capital Note shall (except to the extent required by law) be paid
 - (i) free of any restriction or condition,
 - (ii) except as provided in this Condition 5 2, free and clear of and without any deduction or withholding on account of any tax, and
 - (iii) without deduction or withholding on account of any other amount whether by way of set-off or otherwise,
- (b) New Zealand resident withholding tax will be deducted from payments of interest to resident Holders unless the Company is satisfied by the Holder, at least 10 business days prior to the relevant Interest Payment Date, that such deductions are not required by law,
- (c) New Zealand non-resident withholding tax will be deducted from payments of interest to non-resident Holders unless the Company is satisfied by the Holder that such deductions are not required by law or the provisions of Condition 5 2(d) apply,
- (d) the Company intends to obtain and use its best endeavours to maintain approved issuer status and will register and use its best endeavours to maintain registration of the Capital Notes as registered securities for the purposes of the approved issuer levy regime in Part VIB of the Stamp and Cheque Duties Act 1971 For so long as the Capital Notes are registered securities for this purpose, the Company will, upon request from and (unless determined otherwise by the Company) at the expense of a non-resident Holder, make payments to that Holder without deduction of New Zealand non-resident withholding tax, but instead will deduct from payments of

interest to that Holder and pay the approved issuer levy which is applicable to such interest payment,

- (e) deductions of non-resident or resident withholding tax will be made at the maximum rates from time to time applicable unless a Holder provides evidence satisfactory to the Company or the Registrar that a lesser rate is applicable. The Company and the Registrar will be entitled to rely upon information given by a Holder as to that Holder's tax residency when making any deductions of resident or non-resident withholding tax

5.3 Payments Avoided by Law

If any payment made to a Holder by, or on behalf of, the Company is avoided by law then, except to the extent that the Holder obtains and retains the benefit of such payment, it shall be deemed not to have discharged or affected the liability of the Company in respect of which that payment was made. In such an event the Holder and the Company shall be restored to the position in which each would have been, and be entitled to exercise all the rights which each would have had, if such payment had not been made (to the extent that payment is so avoided)

5.4 Method of Payment

All sums payable by the Company in respect of Capital Notes may be paid

- (a) by cheque crossed "account payee only", sent through the post to the registered address of the Holder, or
- (b) by direct bank credit to such bank account in New Zealand as the Holder or joint Holders may in writing direct

Every such cheque shall be made payable to the order of the person to whom it is sent or to such other person as the Holder or joint Holders may in writing direct and payment of such cheque to the Holder, or to such other person as the Holder or joint Holders may so direct, shall be a satisfaction of the sum in respect of which it was drawn

5.5 Taxation Indemnity by Holder

If any liability is imposed by law on the Trustee or the Company to make any payment of or on account of tax payable by the Holder, the Trustee and the Company shall each be indemnified by such Holder and the personal representatives of such Holder and, in the case of the Trustee, alternatively by the Company (in respect of which the Company shall in turn be indemnified as aforesaid) and any moneys paid by the Trustee or the Company in respect of any such liability may be recovered by action from such Holder and the personal representatives of such Holder as a debt due to the Trustee or the Company. Nothing in this Condition 5.5 shall limit any other right or remedy of the Trustee or the Company

6 THE COMPANY'S OPTION TO REDEEM

6.1 The Company's election to redeem

Notwithstanding any other Condition, the Company shall have the option (at its discretion) to redeem for cash on any Election Date all or some of the Capital Notes and such option shall prevail over any right of a Holder in respect of any Capital Note. The redemption price of each Capital Note to be redeemed shall be the amount specified by the Company in the Election Notice given pursuant to Condition 6.2, which amount shall be the greater of

- (a) the Principal Amount of the Capital Note, and
- (b) the amount determined by the Company as representing
 - (i) the volume weighted average sale price at which Capital Notes have been traded on the Stock Exchange during the 10 Business Days preceding (but not including) the date on which the Company issues an Election Notice pursuant to Condition 6.2, discounted if necessary to reflect the interest that has accrued on a Capital Note during the period from (and including) the last Interest Payment Date to (but excluding) the date on which the Company issues the Election Notice, or
 - (ii) where Capital Notes have not traded on the Stock Exchange on more than 5 of those 10 Business Days or where the Capital Notes have ceased to be quoted on the Stock Exchange, the amount determined by an independent, reputable financial institution selected by the Company, in consultation with the Trustee to be a fair market price for such Capital Notes

6.2 Election Notice

If and to the extent that the Company elects to exercise such option it shall give notice (the "Election Notice") of such exercise to the relevant Holders not later than 30 days prior to the Election Date, in such manner as the Company determines to be the most practicable in all the circumstances, but the non-receipt of such notice by any Holder shall not invalidate or otherwise affect the rights and obligations of the Company to redeem Capital Notes on the Election Date

6.3 Right to redeem on non pro rata basis

The Company's option under this Condition 6 may be exercised in respect of some or all of the Capital Notes held by some or all of the Holders, on a non pro rata basis

6.4 Content of Election Notice

The Election Notice referred to in Condition 6.2 shall in respect of the Holder's Capital Notes contain or refer to (without limitation) the following matters

- (a) the Company's right in accordance with Condition 6.1 to redeem all or some of the Capital Notes on the Election Date,
- (b) the Redemption Amount (determined in accordance with Condition 6.1) of the Capital Note or Capital Notes the Company has elected to redeem as at the Election Date,
- (c) the process for redemption and payment by the Company of the relevant Redemption Amount

6.5 Payment of Redemption Amount

- (a) In respect of any Capital Notes that the Company elects to redeem on an Election Date in accordance with Condition 6.1 to 6.4 above, or where redemption is pursuant to Condition 6.8 below, the Company shall, subject to Condition 6.7, redeem the Capital Notes to be redeemed on that Election Date or Redemption Date (as the case may be) by payment of the relevant Redemption Amount of the Capital Notes to be redeemed to the Holder(s) in cash on the Election Date or Redemption Date (as the case may be) in accordance with Condition 5
- (b) Each such payment shall operate as a transfer of the Capital Note to the Company (or its nominee) (and the Registrar shall amend, or be deemed to have amended, the Register accordingly) and shall be a complete satisfaction and discharge of any obligation of the Company to the relevant Holder in relation to the relevant part of the Capital Note Obligations, and the Company shall have no further obligations or liabilities to the relevant Holder in respect of such Capital Note or part thereof

6.6 Solvency

- (a) Notwithstanding anything contained in Conditions 6.1 to 6.5 above, the Company shall only give an Election Notice in accordance with Condition 6.2 if, in the reasonable opinion of the Board, the Company will be Solvent immediately following redemption of the Capital Notes to be redeemed on the Election Date
- (b) If the Company has given an Election Notice, or if required to redeem pursuant to Condition 6.8 the Board shall no later than three business days prior to the relevant Election Date or Redemption Date (as the case may be) determine (which determination shall be based on reasonable grounds) whether or not the Company will be Solvent immediately following payment of the aggregate of the relevant Redemption Amount of the Capital Notes to be redeemed on that Election Date or Redemption Date (as the case may be)
- (c) If, in the reasonable opinion of the Board, the Company will not be Solvent immediately following payment of the aggregate of the relevant Redemption Amount of the Capital Notes to be redeemed then
 - (i) the Company shall immediately notify the Trustee and the Holders of the Capital Notes to be redeemed thereof,

- (ii) the Company shall not redeem the Capital Notes to be redeemed on the Election Date or Redemption Date (as the case may be), and
- (iii) subject to Condition 6 7, the Capital Notes to be redeemed will be unaffected and continue in full force and effect on their then terms and conditions (including as to Interest Rate)

6.7 Rights of Trustee

If

- (a) the Company is Solvent, but fails within 5 Business Days of the relevant Election Date to redeem the Capital Notes in respect of which the Company has given an Election Notice pursuant to Condition 6 2, or
- (b) the Company does not redeem Capital Notes pursuant to Condition 6 6 and if after a period of six months from the relevant Election Date, the Board continues to be of the opinion that the Company is not to be Solvent for the purposes of, and is unable to redeem the Capital Notes to be redeemed in accordance with, Conditions 6 5 and 6 6,

then, notwithstanding any other provision of these Conditions or of the Trust Deed, the Company shall be deemed to be in breach of its covenant in Condition 6 5 and the Trustee shall be entitled to immediately exercise its rights in accordance with Clause 5 11(e)(ii) of the Trust Deed

6.8 Continued Insolvency of the Company

- (a) If, at any time during the period of six months after an Election Date the Board determines that the Company's financial position is such that the Company would be Solvent immediately following the redemption of all the Capital Notes to be redeemed in accordance with Conditions 6 5 and 6 6, then (but subject always to Condition 6 6) the Company shall be entitled to redeem all the Capital Notes to be redeemed in accordance with Condition 6 6, at any time prior to the expiration of that six month period
- (b) If the Company elects to redeem the Capital Notes to be redeemed as provided for in Condition 6 8(a), then the Company shall give written notice of such fact to the Holders of the Capital Notes to be redeemed, which notice shall specify a date (being the Redemption Date for the Capital Notes to be redeemed) which must be a business day not later than ten days after such notice is given. The notice referred to above shall be given to the Holders of the Capital Notes to be redeemed whose names are entered in the Register on the date which is three business days prior to the date such notice is given. All the other relevant Conditions shall apply to, and be read subject to all modifications necessary to accommodate, redemption pursuant to this Condition 6 8

6.9 No default

The Company will not at any time while it has failed to redeem any Capital Notes to be redeemed in accordance with this Condition 6 make any Distribution (including the purchase or provision of financial assistance in respect of the purchase or subscription of any shares in the Company) or make any payment in respect of indebtedness of the Company ranking *pari passu* with, or subsequent in priority to Capital Note Obligations. However, any failure to redeem Capital Notes to be redeemed as a result of compliance by the Company with the provisions of Condition 6 shall not, except as expressly provided for in these Conditions, constitute a default by the Company for any purpose nor a breach of the Trust Deed nor a breach of these Conditions by the Company, nor entitle the Trustee, or, in the circumstances permitted by the Trust Deed, the Holder, to have any recourse to the Company.

7 TRANSFERS AND REPLACEMENTS OF CAPITAL NOTES

7.1 Transfers

The Capital Notes may be transferred in Principal Amount multiples of \$1,000 (or such other amount as may be set out in any offer document in relation to the Capital Notes for the purposes of this Condition 7.1) by an instrument in writing properly executed to the satisfaction of the transferor and transferee in the usual or common form for the time being or by any other means permitted by the New Zealand Stock Exchange, subject to the following provisions:

- (a) every instrument of transfer must be signed by the transferor, and the transferor shall be deemed to remain the owner of each Capital Note concerned until the name of the transferee is entered in the Register,
- (b) every instrument of transfer must be left duly stamped with all (if any) duty payable on it at the office of the Registrar or at such other place as the Company may direct for registration accompanied by the Certificate (if any) in respect of the Capital Notes to be transferred and such other evidence as the Directors of the Company may require to prove the title of the transferor or its right to transfer each such Capital Note. Upon being satisfied as to the due execution of the transfer and the due payment of any applicable stamp duty the Registrar will, subject to these Conditions, register the transfer and will recognise the transferee named therein as the Holder of each Capital Note comprised in the transfer,
- (c) all instruments of transfer which are registered will be retained by the Company but any instrument of transfer which the Directors decline to register shall be returned to the Person submitting it,
- (d) no fee shall be charged for the registration of a transfer which complies with this Condition 9.1, and

- (e) except as approved by the Company (at its absolute discretion), no transfer shall be permissible or be accepted for registration where any proposed transfer would result in the transferee holding Capital Notes having an aggregate Principal Amount of less than the Minimum Holding

7.2 Sale of Less than Minimum Holding

The Company may at any time give notice to any Holder holding Capital Notes of an aggregate Principal Amount of less than the Minimum Holding that if at the expiration of three months after the date the notice is given the Holder still holds Capital Notes of an aggregate Principal Amount of less than the Minimum Holding the Company may exercise the power of sale of those Capital Notes set out in this Condition 7.2. If that power of sale becomes exercisable

- (a) the Company may arrange for the sale of those Capital Notes through the New Zealand Stock Exchange or in some other manner approved by the New Zealand Stock Exchange,
- (b) the Holder shall be deemed to have authorised the Company to act on the Holder's behalf and to execute all necessary documents for the purposes of that sale,
- (c) the Company shall account to the Holder for the net proceeds of sale of the Capital Notes (after deduction of reasonable sale expenses), which shall be held on trust for the Holder by the Company and paid to the Holder on surrender of any certificates for the Capital Notes sold, and
- (d) the title of a purchaser of any Capital Notes sold pursuant to this Condition 7.2 shall not be affected by any irregularity or invalidity in the exercise of the power of sale or the sale itself

7.3 Transmission by Operation of Law

Any person becoming entitled to a Capital Note by operation of law (including upon the death or bankruptcy of a Holder) may, upon producing such evidence of entitlement as shall be acceptable to the Company, obtain registration as the Holder of the Capital Note or execute a transfer of the Capital Note. This provision includes any case where a person becomes entitled as a survivor or a person registered as joint Holder.

7.4 Replacement of Certificates

Should any Certificate be lost, stolen, mutilated, defaced or destroyed, it may be replaced by the Registrar upon payment by the claimant of the fees and expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Company and the Registrar may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued. The Registrar may decline to register any transfer unless the relevant Certificate (if any) is produced, but may in its discretion dispense with production of the

Certificate subject to production instead of such indemnity or declaration of loss as it may require

7.5 FASTER Participation

At any time when the Capital Notes are listed on the New Zealand Stock Exchange the Company shall ensure the inclusion of Capital Notes in the FASTER trading settlement and transfer system operated by the New Zealand Stock Exchange, and while the Capital Notes are so included, the Company shall not be required to issue Certificates in accordance with Clause 4.7 of the Trust Deed. The Registrar and the Company shall be entitled to access and rely on the integrity of and transfers effected through the FASTER trading settlement system, and shall not incur any liability for registering any such transfer which is subsequently discovered to be a forgery or defective.

7.6 Address and Account Details and Tax Residency of Holder

Every Holder shall designate to the Registrar an address, and may, at the Holder's election, designate a bank account to which payments under or in respect of the Capital Notes are to be made, in each case within New Zealand, and the address and account (if any) so designated shall be the address and account of such Holder for all purposes of these Conditions and the Trust Deed. Any change of name or address, or account to which payments are to be made of a Holder shall forthwith be notified in writing to the Registrar, accompanied by such evidence of such change as the Registrar may reasonably require, and the Register shall be amended accordingly. Every Holder shall give written notice to the Registrar of that Holder's residency for taxation purposes (if different from the address provided pursuant to this Condition).

7.7 Reliance on Documents

The Registrar and the Company shall be entitled to accept and assume the authenticity and genuineness of any transfer form or other document (including, without limitation, in respect of any person's authority to complete a transfer for or on behalf of a transferor), and shall not incur any liability for registering any transfer form which is subsequently discovered to be a forgery or otherwise defective, unless the Registrar and the Company had actual notice of such forgery or defect at the time of registration of such memorandum of transfer.

8 NOTICES

8.1 Notices

All notices given by Holders pursuant to these Conditions will be irrevocable.

8.2 Notices

Any notice, demand, consent or request under these Conditions shall be in writing and may be signed or given by or on behalf of the Company, the Trustee, or any Holder (whichever party is the giver thereof) by such Person or by an officer, employee, agent, attorney or solicitor thereof and may be given.

- (a) to Holders of Capital Notes by prepaid letter addressed to their relative addresses last recorded in the Register, or in the case of a notice to a corporation at its registered office or principal place of business, or
- (b) by any Holder or by any party to these Conditions to any other party (unless that other party has by 15 days written notice specified another address) by making or delivering it to that other party at the address shown below

if to the Company to

Building 103
Leonard Issit Drive
Auckland Airport
Auckland
NEW ZEALAND

Facsimile No (09) 256 5419
Attention Investor Relations Manager

if to the Trustee to

Level 7
Royal & SunAlliance Centre
48 Shortland Street
Auckland
NEW ZEALAND

Facsimile No (09) 377 7477
Attention Chief Manager, Corporate Trusts

8.3 Effectiveness

Notices given pursuant to these Conditions shall be deemed to have been made or given

- (a) in the case of delivery, when received,
- (b) in the case of facsimile and other telephone or mechanical transmission, when despatched (and, in the case of notice by facsimile, confirmation of transmission received), and
- (c) in the case of posting, on the second day following the date of posting,

provided that (except in the case of notices to or by the Holders of Capital Notes) if any notice would be deemed made or given after 4 00 p m on any business day in the locality of the recipient (“local business day”) or on any day that is not a local business day such notice shall be deemed made or given at 9 00 a m on the next succeeding local business day

8.4 Proof of Notice

In proving the making or giving of any notice

- (a) it shall not be necessary to prove that any facsimile or telephonically or mechanically transmitted notice was manually or originally executed by the Person making or giving it,
- (b) it shall be sufficient to prove that the notice was delivered or sent properly addressed encoded numbered and stamped or (as the case shall require) in the customary manner of the method of notification adopted,
- (c) a notice to joint Holders shall be deemed to have been properly made or served on each Holder if made or given in accordance with these Conditions to the Holder whose name stands first in the Register

9 CONVENING OF MEETINGS

Notwithstanding Condition 18 1 of the Trust Deed, if the Capital Notes to which these Conditions apply are determined by the Trustee to be a separate Class of Capital Notes, the Company shall summon a meeting of the Holders of such Class at the request in writing of Holders holding at least 10 per centum in Principal Amount of the Capital Notes of that Class for the time being outstanding

10 INVALIDITY

If any provision of these Conditions or the Capital Notes shall be invalid, void, illegal or unenforceable, the validity, existence, legality and enforceability of the remaining provisions shall not be affected, prejudiced or impaired

11 GOVERNING LAW

These Conditions will be governed by and construed in accordance with the laws of New Zealand and the Company irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of New Zealand

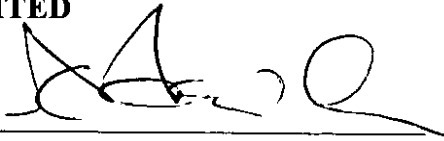
12 COUNTERPARTS

This Deed may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument Any party may enter into this Deed by executing any such counterpart

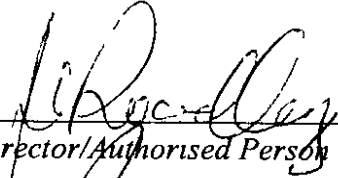
IN WITNESS WHEREOF this Deed is executed by the parties on the date first written above

**EXECUTED by FONTERRA
CO-OPERATIVE GROUP
LIMITED**

by

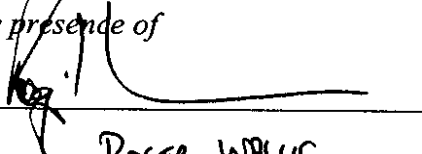


Director/Authorised Person



Director/Authorised Person

in the presence of



Name

ROGER WALKER

Occupation

SOLICITOR

Address

AUCKLAND

**EXECUTED under the name and seal
of THE NEW ZEALAND
GUARDIAN TRUST COMPANY
LIMITED by**

Authorised Signatory

Authorised Signatory

Print Name

Print Name

Witness to both signatures

Name

Occupation

Address

**EXECUTED by FONTERRA
CO-OPERATIVE GROUP
LIMITED**

by

Director/Authorised Person

Director/Authorised Person

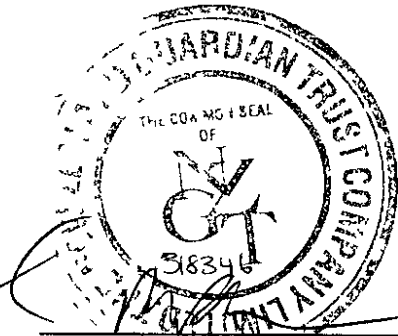
in the presence of

Name

Occupation

Address

EXECUTED under the name and seal
of **THE NEW ZEALAND
GUARDIAN TRUST COMPANY
LIMITED** by



Authorised Signatory

Authorised Signatory

DENNIS RAYMOND CHURCH

Print Name

MICHAEL REX KNOWLES

Print Name

Witness to both signatures

Alisa Jane Caldwell

Name

Occupation

Alisa Jane Caldwell
11A Mulroy Place
Howick

Address

Administrator Secretariat

SCHEDULE 1**Form of Certificate for Capital Notes
(excluding Conditions)**

Date of Trust Deed: 22 March 2001

Certificate No.:

Security Code:

Holder No.:

Principal Amount: \$

Interest Payment Dates: 10 January, 10 April, 10 July and 10 October
each year

Payee of first interest payment:

Election Dates: 10 July each year

Conditions: As contained in the Initial Supplemental Deed
referred to below

**FONTERRA CO-OPERATIVE GROUP LIMITED CAPITAL NOTE
CERTIFICATE**

Certificate for variable rate unsecured subordinated Capital Notes which continue in existence until redeemed in accordance with the Conditions or applied (by Shareholders) to the subscription price for Co-operative Shares pursuant to the Constitution

FONTERRA CO-OPERATIVE GROUP LIMITED ("the Company") certifies that

Name and address of Holder

(the "Holder") is registered as the holder of the Capital Notes specified above and the Company undertakes as follows (but subject in all circumstances to the Conditions)

- (a) to pay interest on the Capital Notes comprised in this Certificate (the "Capital Notes") in accordance with the Conditions,
- (b) in the event of the Liquidation of the Company, to redeem the Capital Notes by payment of the Liquidation Amount in accordance with the Conditions,

- (c) if the Company elects to do so, to redeem all or any relevant part of the Capital Notes (including on a non pro rata basis) in accordance with the Conditions, but subject to the limitations contained in the Conditions

Subject to the Conditions, no transfer of all or any of the Capital Notes or any part of a Capital Note can be registered without production of this Certificate

This Certificate may become

- (a) void upon the application of the Capital Notes to the subscription price of Co-operative Shares issued to Holders who are Shareholders, pursuant to the provisions of the Company's Constitution, or
- (b) void upon the purchase or redemption of the Capital Notes in accordance with the Conditions, or
- (c) void upon the issue of a substitute Certificate

The Company is obliged to send to the Holder certain notices at the Holder's address recorded in the Register of Capital Notes. These notices are important and Holders are advised to notify the Registrar promptly of any change of address

The Capital Notes are constituted by a Deed dated as of 22 March 2001 made between the Company and The New Zealand Guardian Trust Company Limited (the "Trustee") as Trustee for the Holders, as amended by a Deed of Modification dated 19 April 2001 and a Deed of Modification dated on or about 24 October 2001 (such Deed (as amended) being herein called the "Trust Deed") and are issued with the benefit of, and subject to the terms and conditions of, the Trust Deed and the Conditions contained in an Initial Supplemental Deed dated 24 October 2001 between the Company and the Trustee (which, if required by law, shall be endorsed on the reverse of this Certificate)

The Trust Deed and the Conditions contain provisions which defer in priority payments on the Capital Notes and otherwise limit the rights of the Holders and the Trustee on their behalf in respect of the Capital Notes consistent with the subordinated nature of the indebtedness under the Capital Notes, and which define and limit the duties and liabilities of the Trustee accordingly. The Holder shall be deemed to be aware of and to have accepted and agreed to be bound by such provisions and all other terms and conditions of the Trust Deed and the Conditions

Words and expressions defined in the Trust Deed and not otherwise defined in the Conditions have the same meanings where used in this Certificate and in the Conditions

Copies of the Trust Deed and the Initial Supplemental Deed specifying the Conditions may be inspected at the registered office of the Company and at the office of the Registrar

Registrar's Office

Executed on behalf of the Company on the day of 20

Signed [on behalf of]
Fonterra Co-operative Group Limited
by



COMPANIES
NEW ZEALAND
OFFICE

CERTIFICATE OF REGISTRATION OF SUPPLEMENTAL TRUST DEED

(Under Section 46(3) of the Securities Act 1978)

FONTERRA CO-OPERATIVE GROUP LIMITED

AK. 1166320

This is to certify that a copy of a Initial Supplemental Deed to Capital Notes Trust Deed dated the 24th day of October 2001 made between FONTERRA CO-OPERATIVE GROUP LIMITED and THE NEW ZEALAND GUARDIAN TRUST COMPANY LIMITED as Trustee, was registered on the 25th day of October 2001

Christine Docherty
Assistant Registrar of Companies

Dated this 25th day of October 2001

