

Have your say on June 30 at the Special Meeting



Proposed Constitutional Changes – transition to Trading Among Farmers

What are the Board's objectives as it looks at Trading Among Farmers?

- Allowing you to buy and sell shares with other Fonterra farmers – when it suits your cash flows.
- Flexibility when buying and selling your shares with 'three years in and out' rules.
- Stopping money washing in and out of the balance sheet. Permanent capital to put the Co-op in a position to deliver the highest sustainable returns over time.
- Choice to free up some of your share capital through using Fonterra Shareholders' Fund.

What's changed as a result of your feedback?

- Many of you wanted a limit on the number of shares that Registered Volume Providers could hold. These shares would be held in trust – not owned by the RVPs – and could not be more than 5% of total shares. In practice, shares held by RVPs are likely to be significantly less than this.
- Everyone understands we need RVPs for volume, but we need to know that they are tightly managed. We plan to disclose on Fencepost aspects of these arrangements, which are not commercially sensitive.
- But volume is the key. For Trading Among Farmers to work and meet the agreed objectives there would have to be enough volume of trading so that farmers can have confidence that they will be able to buy and sell shares when they wish to.
- No one wants the Shareholders' Fund to be able to influence the day-to-day activities of the Co-op or change the nature of Fonterra. Under the Constitution, no more than 25% of shares could be subject to contracts with the Fund (with a Board target of 20%). The Board would set individual cap on the number of individual's shares that could be subject to contracts with the Fund. Initial cap no more than 33% but likely to start off at less than this.

How do we keep Fonterra as a farmer-owned Co-operative?

- Votes remain based on milksolids backed by shares. As now, the majority of the Board and the Chairman must be farmers elected by you.
- The Milk Price Principles are in the Constitution, and so will be the requirement for the Milk Price to be calculated under the Milk Price Manual. A new Milk Price Panel has been added to the governance – with two independent Directors (one of these the Chair), a farmer Director and two Shareholder Council appointees.
- Voting stays with farmers.

Thresholds

- 25% threshold on total Dry Shares in Constitution (Board target of 20%).
- 200% threshold on individual shareholding.
- Individual's Dry Shares cannot exceed 5% of total wet and Dry Shares on issue.
- No more than 25% of shares could be subject to contracts with the Shareholders' Fund (Board target of 20%).

What will you be voting on at the Special Meeting on June 30?

- Changes to our Co-op's Constitution that would allow your Board to take steps to develop the detail required for Trading Among Farmers, including some pre-conditions that would need to be met before the Fonterra Shareholders' Market could be implemented.
- In addition to the normal 75% shareholder vote required for any constitutional change, the pre-conditions mean that you can be assured that your Board would not allow Trading Among Farmers to go ahead unless they consider that it would work for our farmers, and that this is supported by the Shareholders' Council.
- If the changes to the Constitution are approved by shareholders, over the next 15 months or so, the Board and Management would develop the detail of Trading Among Farmers through to implementation. Shareholders' Council would be closely involved.
- The detailed rules would be developed and some of the things we've already told you might need to change, but the framework and pre-conditions set up by the proposed changes to the Constitution couldn't change without a further 75% shareholder vote. You would be kept fully informed – transparency and no surprises.

This is a high-level summary of some of the key issues relating to the proposed constitutional changes. You should not rely on it to give you the information you need to consider how to vote. This information is contained in the 2010 Capital Structure Booklet and the Proposed Changes to the Constitution Booklet.