Our Choice

A capital structure for a better future, together

An overview of our capital structure consultation

A strong farmer-owned Co-operative is good for farmers and good for New Zealand. Our milk price sets a benchmark here – so even those who don't supply the Co-op benefit from it – and because we're owned by Kiwi families, our profits stay in New Zealand. Our capital structure review is about protecting and building on what we've got, from this generation to the next.

Consultation with farmers about our options has been extensive. Thank you to everyone who has been involved so far.

This booklet outlines a revised proposal to improve our capital structure. It is a progression on the preferred option we presented in May 2021, but with key changes that reflect your feedback and additional expert advice. There will be a chance to discuss it further during the second phase of the consultation process. We look forward to continuing the conversations.

90

Director-led farmer meetings held across the country

7

farmer webinars with an average of around

200

attendees at each

100s

of written responses received from farmers

Over

5,000

farmers have directly engaged through feedback channels to date

Contents

This booklet is for consultation purposes only. You are not being asked to vote on any changes at this time, and you will receive all the documents needed to understand and assess any proposed changes before you are asked to vote on them.

Some of the information set out in this booklet relates to future matters, forward looking information, financial targets and projections (together "Forward Statements") that are subject to uncertainties, assumptions and risks. The inclusion of Forward Statements should not be regarded as a representation or warranty by Fonterra or any other person that those Forward Statements will be achieved or that the assumptions underlying any Forward Statements will in fact be correct. Actual outcomes may vary materially from those suggested or implied.

If you have any questions about the revised proposal or would like to clarify your understanding of anything in this booklet, see Section 6 for who you can contact. For any questions about your own financial circumstances or your holding of shares or units, please contact your accountant, lawyer, financial advisor or other rural professional.

This booklet is addressed to Fonterra's farmer owners, but the interests of other stakeholders (including the Custodian and the Manager of the Fonterra Shareholders' Fund) have been, and will continue to be, considered and taken into account in the development of the revised proposal. These parties will be consulted as appropriate.

1.

On behalf of the Board

"The Board is united in its view that what we are recommending is the right outcome for all of us."

PETER MCBRIDE – CHAIRMAN

Dear Farmer Shareholders,

Your Board is pleased to put forward this proposal to improve our capital structure, as we reposition our Co-op to take advantage of the future global dairy market. That future is bright, despite the challenges we all have in front of us right now. It's a future in which our Co-op can prosper and deliver for the New Zealand farming families who supply and own it.

The proposal outlined in this booklet has changed from what we put forward back in May, in response to farmer feedback and further expert advice.

Changing our Co-op's capital structure is a critical decision and not something the Board has taken lightly when preparing this proposal. Ultimately, it's farmers' decision to make.

The Board is united in its belief that change to capital structure is needed. Our context here in New Zealand is changing fundamentally, and we need a capital structure that maintains a strong Co-op through these changes.

Moving to a new capital structure now, while we are in a strong financial position and have all options available to us, is our best course of action. The solution we are now proposing puts us in the best position to achieve all three of the outcomes the review has focused on:

1. **Supporting a sustainable milk supply** by providing farmers with capital flexibility.
2. **Protecting farmer ownership and control** by capping the Fund.
3. **Maintaining financial sustainability** of our Co-op by supporting our strategy, and protecting against uncertain and recurring risks to our balance sheet.

Milk is the lifeblood of our Co-op. Our strategy is focused on New Zealand milk and our future success relies on our ability to maintain a sustainable milk supply in an increasingly competitive environment, and one that is rapidly changing due to factors such as environmental pressures, new regulations and alternative land uses.

To achieve that, Fonterra must be an attractive option to farmers who have a choice on where their milk goes. In a recent representative survey of our farmers, 30% said they had seriously considered leaving to join a competitor processor in the last two years or so.

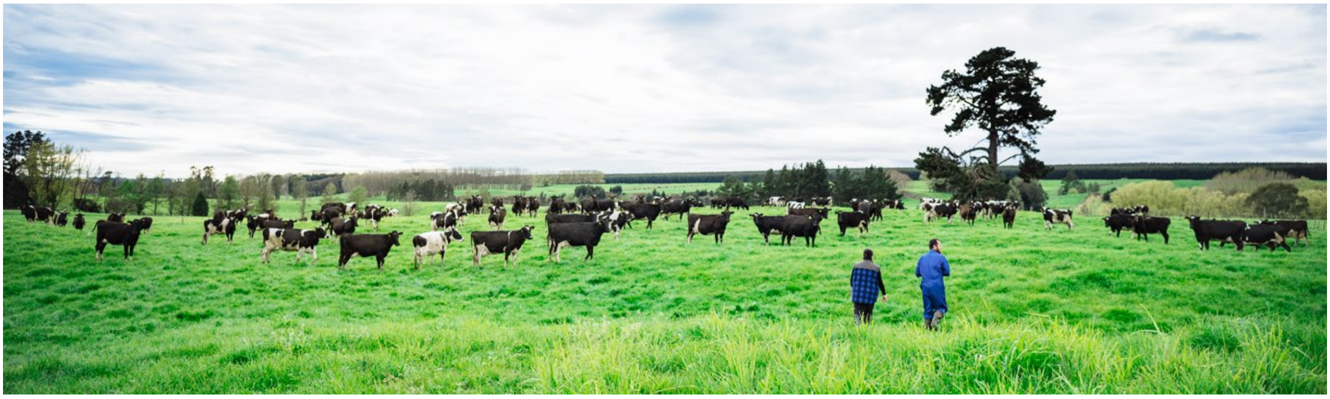
Farmers leave for different reasons, but one of the most influential ones is the high level of compulsory investment that's required to be part of our Co-op. A capital structure with flexible shareholding would help to level the playing field with competitors, many of whom are foreign-backed and don't require farmers to invest capital.

We see total New Zealand milk supply as likely to decline, and flat at best. Our share of that decline depends on the actions we take with our capital structure, performance, productivity and sustainability.

If we do nothing, we are likely to see around 12–20% decline by 2030 based on the scenarios we have modelled.

Staying stronger together is in all of our interests.

Our scale efficiencies lead to better utilised factories, lower processing costs, and our ability to pay the highest sustainable milk price. Analysis of potential milk supply scenarios we have developed shows that based on our current operations our Farmgate Milk Price could be 6-13 cents lower by 2030 if we make no changes to our capital structure and continue to lose market share at the rate we've seen over the past five seasons to May 2020.



WHAT WE ARE NOW PROPOSING: FLEXIBLE SHAREHOLDING

Our proposed structure gives all farmers a level of flexible shareholding, which is critical to supporting farmers to join or stay with our Co-op. It is a progression on the preferred option presented to you in May 2021, but with key changes based on farmer feedback:

- **33% share minimum** – you would only need to hold one share for every ~3 kgMS supplied.
- **4x share maximum** – you could hold up to four times your milk supply in shares.
- **Farmer-only market for shares**, with a capped Fund. Farmers would decide the prices at which they buy and sell shares, without the traded price being influenced by external investors.
- **6 seasons to share up** for new entrants.
- **Up to 15 seasons to share down** for existing shareholders after ceasing. Any new entrants post these changes would have five seasons to exit after ceasing.
- **A more inclusive pathway to becoming a Co-op member** as sharemilkers, contract milkers and farm lessors could buy and sell shares.
- **Voting** remains based on share-backed milk supply.
- Fonterra would allocate up to **$300 million to support liquidity** as our farmer owners transition.

The Board considers these changes to be our best course of action if we are to maintain farmer ownership and control of a financially sustainable Co-operative.

We are confident that this structure would support the sustainable supply of New Zealand milk that our long-term strategy relies on.

One enables the other, and together they give our Co-op the potential to deliver the competitive returns that will continue to support our families' livelihoods, from this generation to the next.

We strongly encourage you to read the accompanying strategy booklet, the financial targets we are aiming to achieve, and the key assumptions and risks included within it.

Top line, those targets out to 2030 include:

- An **average Farmgate Milk Price range** for the decade of $6.50-$7.50 per kgMS.
- **A 40-50% increase in operating profit** from FY21 and, with the reduced interest from having less debt, this should translate into an approximately 75% increase in earnings, giving us the ability to steadily increase dividends to around 40-45 cents per share by FY30.
- A **Group Return on Capital of 9-10%**, up from 6.6% in FY21.
- Through planned divestments and improved earnings, an intended return of about **$1 billion to shareholders by FY24**, and around **$2 billion of additional capital available** for a mix of investment in further growth and return to shareholders. This is in addition to the approximately $2 billion expected to be invested in sustainability and moving milk into higher value products.
- An increase in our current total annual R&D investment by over 50% to approximately $160 million per year in 2030, with about $60 million per annum specifically targeted at growth in Active Living.

These targets are subject to successfully completing a number of business initiatives, and various assumptions and risks, each of which could materially affect the actual outcomes.

Our future share price would be a reflection of our financial performance and the value farmers see in that.

As I said at the beginning, this is a critical decision, and farmers' to make. Over the coming weeks, we will ensure that you have the opportunity to speak with your Board and management. You will have access to as much information as possible to support an informed decision if we do proceed with a vote in December.

Deciding to stay with Trading Among Farmers is an option, but we risk becoming a smaller and less efficient Co-op. If that is our collective decision, we would need to re-look at how we implement the strategy based on even more conservative risk settings (such as debt targets and dividend policies). We are unlikely to be in a position to achieve the same level of returns in terms of capital and dividends as the targets we have published.

These are big decisions and we need to work together to get a quality outcome. For its part, the Board is united in its view that what we are recommending is the right outcome for all Fonterra farmers and for New Zealand.

A strong Co-op of scale is essential to maintaining the highest sustainable milk price. To support returns to New Zealand dairy farmers in the long term and control our own futures, it is important that we do all we can to maintain a strong Fonterra.

Peter

2. Why we need to change

Our strategy and plans

Our Co-operative's strategy is to enhance people's lives through convenience, health and wellbeing by unlocking the goodness of NZ milk.

WE NEED A SUSTAINABLE MILK SUPPLY TO SUPPORT OUR STRATEGY

We aim to sustainably grow earnings for shareholders through three key strategic choices:

1. **Continue to focus on New Zealand milk.**
2. **Be a leader in sustainability.**
3. **Be a leader in dairy innovation and science.**

These choices support the four key value targets we're aiming to achieve by 2030:

» **Average Farmgate Milk Price range for the decade of $6.50-$7.50 per kgMS.**

» **A 40-50% increase in operating profit** from FY21 and, with the reduced interest from having less debt, this should translate into a 75% increase in earnings, giving us the ability to steadily increase dividends to around 40-45 cents per share by FY30.

» **A Group Return on Capital of 9-10%**, up from 6.6% in FY21.

» Through planned divestments and improved earnings, an intended return of about **$1 billion to shareholders by FY24**, and **around $2 billion of additional capital available** for a mix of investment in further growth and return to shareholders. This is in addition to the approximately $2 billion expected to be invested in sustainability and moving milk into higher value products.

Our strategy and ability to achieve these targets is based on a sustainable supply of New Zealand milk and, in turn, a capital structure that enables this. This is why changes to our capital structure are so important.

These targets are also subject to successfully completing a number of business initiatives, and a number of assumptions and risks, each of which could materially affect the actual outcomes.

More detail on our ambitions to deliver further value, including key assumptions and risks, are set out in the strategy booklet titled Our Path to 2030, which has been provided to you together with this booklet.

WE AIM TO

Prioritise the Farmgate Milk Price

Grow Foodservice

Strengthen Consumer

Move towards higher value products in ingredients

THE VALUE WE'RE AIMING TO CREATE BY 2030

Average Farmgate Milk Price range for the decade
$6.50-$7.50
per kgMS

Operating Profit
40-50%
increase from FY21

Group ROC
~9-10%

~$1b
invested in sustainability

~$1b
invested in moving milk into higher value products

~$1b
intended to be distributed to shareholders after asset sale

~$2b
available for a mix of investment in further growth and return to shareholders

Make progress towards 2050 aspiration to be
Net Zero Carbon

~$160m
per annum invested in R&D, up ~50% from FY21

OUR PLANS

Focus on
NZ Milk

Sharpen portfolio
- Sell Chile business
- Explore ownership structure of Fonterra Australia, one option is an IPO

Continue our shift to higher value

Be a leader in
Sustainability

Make the most of our operational footprint and invest in sustainability

Support further on-farm change to stay in front of customer expectations

Bring our NZ dairy story to life

Be a leader in dairy
Innovation & Science

Prioritise innovation, IP, simplification and digitisation

Extend further into health and wellbeing

Embed culture to drive high performance

Develop our people capabilities for a changing and technological world

Create competitive advantage through nutrition solutions

Note: The figures in this section are targets that we are aiming to achieve only. They should not be taken as forecasts or as a guarantee of returns to shareholders. They are subject to successfully completing a number of business initiatives, and assumptions, each of which could materially affect the actual outcomes. The target years assume long-term average levels of price relativity and lag pricing impacts, and individual years are likely to vary from this assumption. The key assumptions and risks relating to these targets are set out in the Appendix to the booklet Our Path to 2030. Please also refer to the important cautions and disclaimer at the beginning of the booklet Our Path to 2030.

IF WE DON'T PROVIDE FLEXIBILITY FOR FARMER OWNERS, WE ARE LIKELY TO SEE OUR MILK SUPPLY DECLINE

The New Zealand milk supply environment is changing significantly due to factors such as environmental pressures, new regulations and alternative land uses.

On top of that, the rigidity of our current capital structure is tilting the playing field against us when compared to other processors – many of whom are foreign-backed and don't require farmers to invest capital.

» In a recent representative survey of our farmers, 30% said they had seriously thought about leaving to join a competitor in the last two years or so.

» Results from the last two years of exit interviews with farmers show that lack of capital flexibility was the number one reason to leave our Co-op.

We need to be prepared for declining milk and increased competition and understand what that might mean under our current capital structure.

We have modelled the impacts of potential declining milk scenarios on our business. The graph below illustrates the following:

» **Total New Zealand milk supply** declining by around 2.4% by FY30. This reflects the impact of new environmental regulations, land use change, offset by ongoing productivity gains.

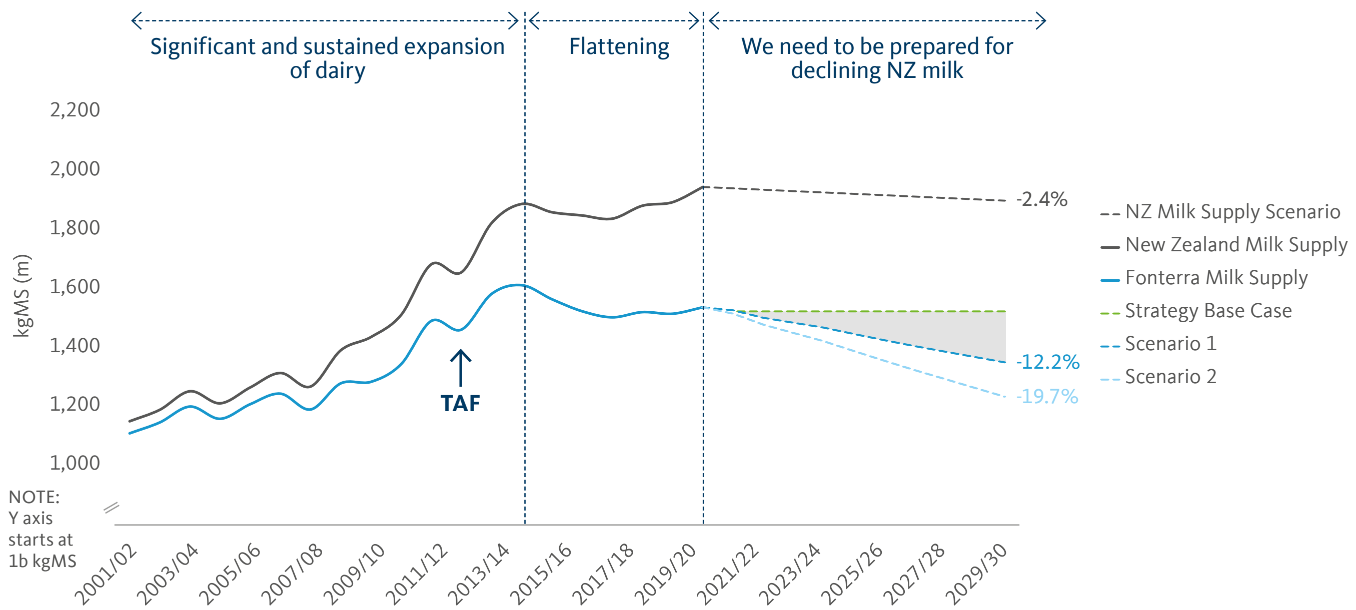
» Our **Strategy Base Case** of milk supply at 1,525 million kgMS. This reflects the actions we are taking to help offset milk decline pressures – such as supporting on-farm environmental and productivity gains, and the proposed capital structure changes set out in this booklet.

» **Scenario 1**, which represents a decrease in milk supply from environmental changes, land use changes, and changes in productivity, and also assumes that our market share losses continue at half the rate of the five seasons to 2019/20. This scenario results in a decline in milksolids collected to around 1,350 million kgMS or a ~12% decline in the relevant period.

» **Scenario 2**, which represents the same decrease in milk supply from environmental changes, land use changes, and changes in productivity, and assumes that our market share losses continue at the same rate we saw over the five seasons to 2019/20. This aligns with the average annual increase in processing capacity that we have seen from competitors over the past 15 seasons. This scenario results in a decline in milksolids collected to around 1,230 million kgMS in the relevant period, which is a ~20% decline in the relevant period.

» The scenarios start from the 2020/21 season's actual milk collections of 1,539 million kgMS.

MILK SUPPLY SCENARIOS (KGMS MILLIONS)



Source: NZ Milk Supply: Dairy NZ – New Zealand Dairy Statistics 2019-20, Summary of milk production statistics for the last 35 seasons. DCANZ NZ Collections. Fonterra internal modelling.

IF MILK SUPPLY DECLINES, OR IF WE PROVIDE MORE FLEXIBILITY UNDER OUR CURRENT STRUCTURE, WE COULD EXCEED CONSTITUTIONAL THRESHOLDS FOR FARMER OWNERSHIP AND CONTROL

Under our current structure, if milk supply declines or we provide more flexibility around the minimum shareholding, the number of wet shares on issue decreases and the number of dry shares increases by a corresponding amount. Those dry shares can then be exchanged into units at any time, increasing the size of the Fund.

If we make no changes to our capital structure and milk supply declines, we expect current thresholds related to the Fund size to be exceeded within a few seasons.

Our Co-op would need to take action to stay within these thresholds – such as buying back shares or units. This could require a capital allocation of up to $1.2 billion over the next ten seasons, which would be more reactive, and at uncertain times and prices.

Likewise, if we provide farmers more flexibility to help support a sustainable milk supply but make no other changes to our structure, we could also quickly see the thresholds related to Fund size exceeded, and again Fonterra having to buy back the shares or units.

So, providing more flexibility would need to be combined with making changes to the Fund in order to protect farmer ownership and control, and protect Fonterra from the redemption risk TAF was designed to remove.

A STRONG CO-OP OF SCALE PROTECTS VALUE FOR SHAREHOLDERS

If milk supply declines under the Scenarios above, we may see the following value impacts:

» We would still seek to implement our strategy, but we may need to apply even more conservative risk settings to our business (such as lower debt targets and dividend policies), as our balance sheet would need to accommodate the uncertain and recurring costs of share or unit buy-backs.

» Based on our current operations, milk price could decrease by around 6 cents per kgMS (Scenario 1) and 13 cents per kgMS (Scenario 2) as a result of lower efficiency in our plants[1].

» To respond, we may need to close 12-18 plants within our manufacturing sites, impacting local communities, and we would need to reduce annual operating costs by between $100 million (Scenario A) and $160 million (Scenario B) by FY30.

» We risk undermining our scale efficiencies such as our ability to support farmers with on-farm sustainability, our ability to invest in innovation and new product and market development, and our ability to advocate for farmers' best interests.

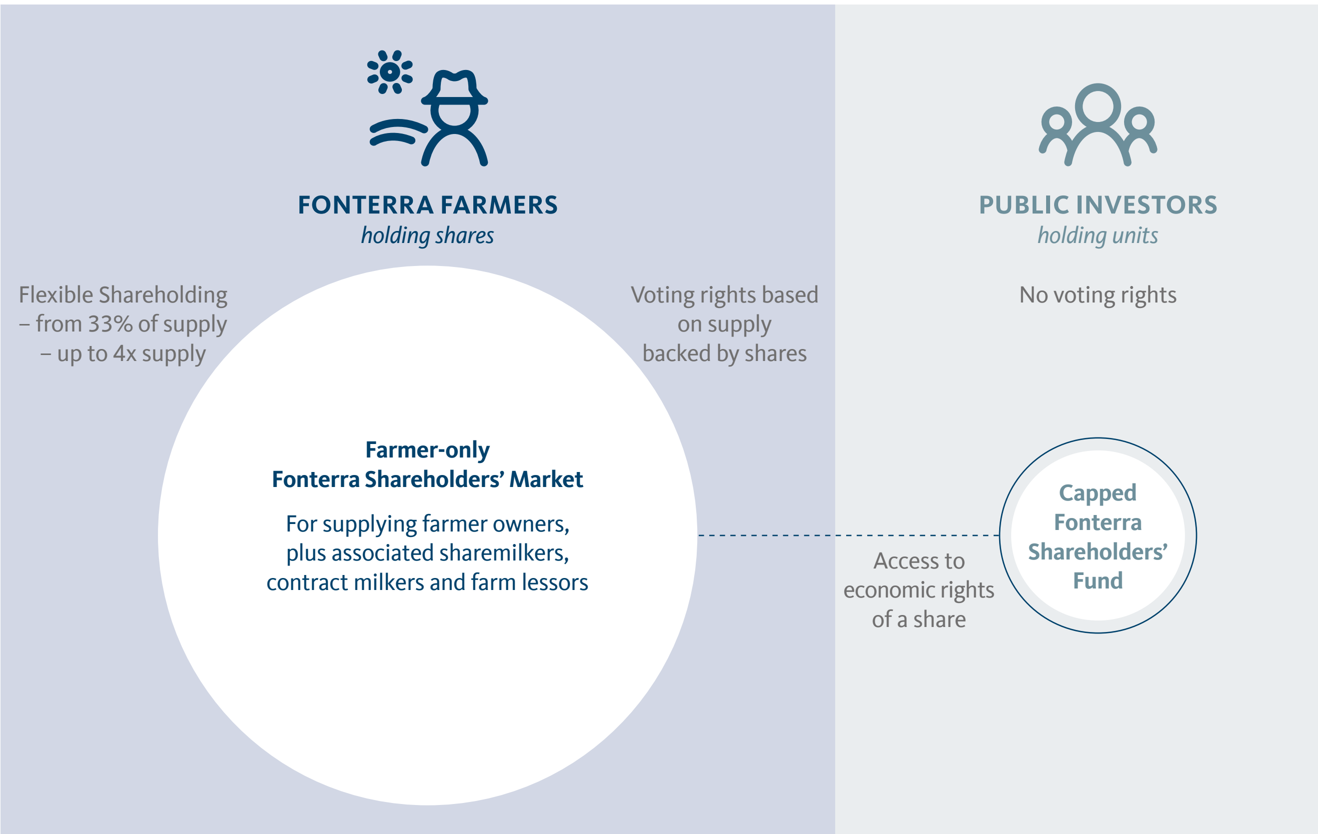
1. See Appendix 1 for more detail, including key assumptions.

3. What we're now proposing

We are now proposing that we move to a Flexible Shareholding structure. This means that instead of the compulsory 1 share per 1 kgMS we have currently, all farmer owners would have more flexibility around increasing and decreasing their shareholding during their farming career.

We are also proposing to cap the Fonterra Shareholders' Fund (the Fund) at its current size to protect farmer ownership and control of the Co-op. This means the Fonterra Shareholders' Market (FSM) would continue to operate as a farmer-only market, but shares would no longer be able to be exchanged into units. We would allocate up to $300 million to support liquidity in the FSM as farmer owners' transition to the new structure.

The adjacent table provides a high-level overview of the proposal in practical terms. A comparison is made with our Trading Among Farmers (TAF) structure before we put the temporary cap on the size of the Fund in May to enable consultation. More detail on how each of the elements of the new structure would work is set out in Section 4.



FROM*	TO	EXPECTED BENEFITS
Increased flexibility		
» Minimum shareholding requirement of 1 share for every 1 kgMS (or 100% of supply) » Maximum shareholding of 2x supply	» Minimum shareholding requirement of 1 share for every ~3 kgMS (or 33% of supply) » Maximum shareholding of 4x supply	» Gives you flexibility to free up capital at any point in your career by decreasing your shareholding » Enables you to increase your stake in the Co-op, while also supporting liquidity by providing more capacity for farmers to buy shares from those who want to sell
Move to a farmer-only market with the Fund capped		
» TAF – Farmer owners can trade shares in the FSM, and also exchange them into units in the Fund – Farmer owners can convert units into shares	» Farmer-only FSM and capped Fund – Farmer owners can trade shares in the FSM, but cannot exchange them into units in the Fund – No change	» Protects farmer ownership and control » Maintains stronger balance sheet than buying back the Fund, so our Co-op has more options to support liquidity
More types of farmers could hold shares		
» Supplying farmer owners » Sharemilkers, if shares are transferred to them by a supplying farmer owner in accordance with set rules	» Supplying farmer owners » Associated sharemilkers, contract milkers and farm lessors	» Recognises these farmers' connection to our Co-op » Provides a pathway for future supplying farmer owners » Increases the number of potential buyers and sellers in the FSM by around 4,000, which would be likely to support liquidity
Entry provisions eased		
» Up to 3 seasons » Share-Up Over Time contracts » MyMilk contracts	» Up to 6 seasons » Share-Up Over Time and MyMilk contracts no longer offered, but all existing contracts honoured	» Provides the same flexibility to all » Provides new suppliers with a lower capital obligation to join the Co-op over a similar timeframe to the current Share-Up Over Time contracts
Exit provisions after ceasing extended		
» Up to 3 seasons, with a requirement to sell at least a 3rd of the shares each season	» For current supplying farmer owners, up to 15 seasons initially, reducing down to 10 seasons » For new supplying farmer owners, up to 5 seasons » For sharemilkers, contract milkers and farm lessors up to 3 seasons	» Gives you greater choice about how long you retain an investment in the Co-op, which would also support liquidity
Voting rights remain the same		
» 1 vote per 1,000 kgMS supplied in the previous season to the extent supply is backed 1:1 by shares	» No change	» Voting rights still based on both milk supply and capital commitment to the Co-op

* This refers to our Trading Among Farmers (TAF) structure from before we implemented the temporary cap on the size of the Fund in May to enable consultation

4.

The new structure in more detail

This section sets out further details on the changes we're proposing under the Flexible Shareholding structure. This includes putting a spotlight on the measures we intend to take to support liquidity in the farmer-only Fonterra Shareholders' Market (FSM). We also provide hypothetical scenarios of how things would change for farmers at different points in their careers. This is intended to help you see what the new structure would mean for you compared to our current structure.

HOW DIFFERENT ELEMENTS OF THE STRUCTURE WOULD WORK

The Share Standard

We are proposing that we keep the 1:1 Share Standard as it is, while separately reducing the minimum shareholding requirement, which we refer to as the "Minimum Holding", to 33% of the Share Standard (currently it is 100% of the Share Standard).

The 1:1 Share Standard has been a feature of our Co-op for many years. We think it represents our Co-op principles and encourages alignment between farmer owners.

The 33% Minimum Holding would provide flexibility for those who may need it at particular points in their farming career, or who otherwise choose to hold less equity in our Co-op.

Minimum Holding, Maximum Holding and Individual Limit

The Minimum Holding would be 33% of the 1:1 Share Standard, which is around 1 share for every 3 kgMS. This strikes a balance between providing a meaningful level of flexibility for those who need it, which is critical to maintaining a sustainable milk supply, while ensuring all supplying farmer owners have some capital-backed supply.

The Maximum Holding would be 4x the 1:1 Share Standard (currently it is 2x). Lifting this cap on share ownership would help to ensure that there is more capacity for other farmers to buy shares from those who want to sell. The cap also needs to be set at a level that avoids significant concentration of ownership.

The Minimum Holding and Maximum Holding would continue to be determined based on a rolling three-season average (or relevant estimates where there is no average), as they are today.

Separate to the Maximum Holding, the overall limit on the number of shares any individual shareholder could hold on a "relevant interest" basis, would be tightened. This is referred to as the Individual Limit in our Constitution.

SHARES	SUPPLYING FARMER OWNER	ASSOCIATED FARMER OWNER (SHAREMILKER, CONTRACT MILKER OR FARM LESSOR)
Wet shares equal to the Minimum Holding	Yes – responsible for holding these	No – not responsible for holding these, or eligible unless approved by the Co-op
Wet shares above Minimum Holding and up to the Share Standard	Yes – can hold these if they choose	No – not eligible to hold these
Dry shares (above Share Standard and up to Maximum Holding)	Yes – can hold these or can allocate either a percentage or a fixed number of dry shares to an associated farmer owner	Yes – can hold these if allocated a percentage or fixed number by their supplying farmer owner

Currently this Individual Limit only applies to dry shares, and is set at 5% of the total shares in the Co-op (around 81 million shares). This would be tightened so that it applies to all shares held (i.e. both wet and dry shares).

Who could hold shares?

Currently, shares can be held by those who supply milk to our Co-op and meet our Terms of Supply. We refer to this group as "supplying farmer owners" in this booklet.

Some sharemilkers can also hold shares under our current structure, but a supplying farmer owner has to transfer the shares to them based on set rules, and very few have taken up this option.

To recognise their connection to our Co-op, provide a pathway for our future farmer owners and support a successful farmer-only market, we are now proposing that the following additional types of farmers would also be able to own shares under the Flexible Shareholding structure:

» Sharemilkers under a sharemilking arrangement with a supplying farmer owner;

» Contract milkers under a contract milking arrangement with a supplying farmer owner; and

» Farm lessors – that is dairy farmland owners who have leased their land to a supplying farmer owner.

Since all of these farmers would need to be associated with a supplying farmer owner to be eligible to hold shares in our Co-op, we refer to this group as "associated farmer owners" throughout this booklet.

We would look to introduce additional eligibility guidelines to set out criteria such as who would qualify as an associated farmer owner.

Enabling associated farmer owners to hold shares in our Co-op should help support buy-side demand and liquidity in the farmer-only market. It also makes sense, and is more inclusive, to provide an opportunity for potential future supplying farmer owners of our Co-op to purchase shares.

The table above summarises who would be responsible for the Minimum Holding, who would be eligible to vote on supply-backed shares, and how the Maximum Holding for a farm would be allocated. The guiding principle would be that, because associated farmer owners are not the supplier of milk to our Co-op under our Terms of Supply, they would only be eligible to own dry shares allocated to them by their supplying farmer owner. These shares would not carry any votes given they would not be backed by milk supply.

This means the supplying farmer owner would be responsible for the Minimum Holding and can also hold wet shares, which are shares up to the 1:1 Share Standard that are backed by milk supply and therefore carry a right to vote. The supplying farmer owner would also have the right to hold the dry shares up to the Maximum Holding, or to allocate some, or all, of those dry shares to any associated sharemilker, contract milker or farm lessor.

For any supplying farmer owner who owns more than one farm, we would continue to treat the supply of milk from each of those farms separately for milk quality and supply purposes, but for shareholding purposes we would remove that requirement to hold shares against specific farms. This change would mean that, instead of having a separate Common Shareholder Number (CSN) to register the Minimum Holding and Share Standard for each farm, you could have a single CSN going forward. However, where any dry shares are allocated to associated farmer owners, that allocation of shares would need to be recorded against the relevant farm so that we could maintain clear records.

Entry timeframes, Share-Up Over Time and MyMilk Contracts and the Contract Fee for Units Trust

New supplying farmer owners, or existing supplying farmer owners who have a material increase in milk supply, would be able to purchase shares, or increase their shareholding, to achieve their 33% Minimum Holding over six seasons. In the first season, they would only be required to hold 1,000 shares, and the remainder would be split evenly over the following five seasons. We think this strikes a balance between flexibility and retaining a minimum requirement for supplying farmer owners to share up. At approximately 6.6% of supply over those five seasons, the compulsory investment to supply the Co-op would be significantly reduced compared to the current requirements.

The existing Share-Up Over Time and MyMilk contract options would no longer be offered, although the Co-op would honour all existing contractual commitments. Also, the share-up obligations under those existing Share-Up Over Time contracts would be reduced to reflect the 33% Minimum Holding, and the contract fee under all existing contracts would be set to zero for their remaining terms. This would make these contracts more consistent with the capital structure changes, which do not have a fee or different payment for milk that is not share-backed.

We are aware that the obligation to purchase shares under Share-Up Over Time contracts can be treated as a contingent liability by farmer owners' banks. Under the proposed changes, any contingent liability – whether under an existing contract or for new suppliers joining the Co-op – would reduce to 33% of what it would otherwise be based on the introduction of the new Minimum Holding. The proposed changes do not include any unshared supply options such as MyMilk. This is because MyMilk has specific eligibility criteria, whereas the flexibility under the new structure would be an option for all supplying farmer owners.

Since the 2018/19 season, the contract fee under Share-Up Over Time and MyMilk contracts has been transferred to the "Contract Fee for Units Trust", which uses those fees to purchase units that are held on trust for, and distributed to, the relevant supplying farmer owner or MyMilk supplier when they need to share up. As part of the proposed changes, all units (and any cash) held on trust for supplying farmer owners under a Share-Up Over Time contract would be distributed to them. Units held on trust for MyMilk suppliers would be distributed to them when they become a supplying farmer owner, which they could do at any time. If MyMilk suppliers choose not to transition to become a supplying farmer owner at the end of their contract term, the units (and any cash) held on trust will be forfeited to the Co-op. Once all units have been distributed or forfeited, the Contract Fee for Units Trust would also be wound up.

New supplying farmer owners who purchase their Minimum Holding over six seasons would be committed to supply the Co-op for that period, although this would be subject to any DIRA and other legal requirements.

Exit timeframes

Under the proposed changes, supplying farmer owners would have a longer timeframe to hold onto or sell their shares once they have left the Co-op. The specific timeframe would depend on what type of farmer owner they were and when they joined the Co-op.

Everyone who is a farmer owner on the vote date, including any farmers who have already ceased supplying but haven't yet sold their shares under the current three-season requirements, would have up to 15 seasons to sell their shares. This would reduce to 10 seasons as described below. It means all existing farmer owners could hold all of their shares until the Compliance Date in the season ending 31 May 2037. This reflects your feedback that existing farmer owners should be given a longer timeframe to sell, recognising they would be impacted by the move to a restricted market. It would give all existing farmer owners greater choice about how long they retain an investment in our Co-op after they cease and should also help reduce any shorter-term sell-side pressure that may arise from the changes.

The 15 seasons would reduce by one year over each of the following five seasons to 10 seasons. This is partly to protect the Co-op from being owned by a larger proportion of ceased farmer owners over time. By way of example:

» Any current farmer owner who has already ceased or who ceases with effect from 1 June 2022 would have 15 seasons to sell their shares;

- Any current farmer owner who ceases with effect from 1 June 2023 would have 14 seasons to sell their shares etc.;
- Any current farmer owner who ceases with effect from 1 June 2027 or after would have 10 seasons to sell their shares.

All new supplying farmer owners who join after the vote date would have up to five seasons to sell their shares should they cease to supply the Co-op. This is intended to reflect the benefit that new supplying farmer owners would have compared to existing farmer owners by joining our Co-op under the new capital structure.

All associated farmer owners would have up to three seasons to sell shares, once they cease to be associated with a supplying farmer owner. This shorter timeframe is intended to reflect that they are not the supplier of milk to the Co-op, while providing some flexibility to allow for adjustments when they switch to a different supplying farmer owner.

Under our Constitution, the Board currently has the discretion to set a shorter or longer timeframe to exit the Co-op for any number of farmer owners when they cease in the future. This discretion would be extended so that a new timeframe could also be set for any farmer owners who had already ceased, to enable the Board to respond to different circumstances as fairly as possible. For example, in the unlikely event that the proportion of shares held by ceased shareholders became significant, the Board would be able to reduce the timeframes in a way that applied fairly to farmer owners who had already ceased and those who ceased going forward.

Permitted transfers when leaving our Co-op

As supplying farmer owners would have longer time frames to sell their shares, and we know that ownership arrangements are often restructured or changed on retirement, we would enable these farmers to transfer their shares to a person(s) approved by the Co-op who is related to or associated with them. This could happen:

- Within the first season after the supplying farmer owner has ceased supply to the Co-op – this would be limited to one season to protect against multiple and ongoing changes; or
- At any time in the event of the death of the supplying farmer owner, or a member of a partnership, trustee or shareholder of that farmer.

We would look to introduce additional guidelines to set out criteria as to who supplying farmer owners would be permitted to transfer their shares to under these provisions and what kind of supporting documentation would be required.

These “permitted transfer” provisions would not apply to associated farmer owners because they are not the supplying farmer owner and they have shorter exit timeframes. However, the existing provisions for shares to pass with the estate of a deceased shareholder would still apply to associated farmer owners.

Voting rights

To date, voting rights have been based on both milk supply and equity in our Co-op, at a ratio of 1 vote per 1,000 kgMS of share-backed supply in the previous season.

With the introduction of a new Minimum Holding, we need to decide how voting rights would apply for farmers who may choose to reduce their level of investment in our Co-op below their milk supply.

We think the fairest option is for voting rights to stay the same as they are. This means they would reduce to the extent a supplying farmer owner chooses to reduce their shareholding below the 1:1 Share Standard. So, if you are currently fully shared up and were to reduce to the Minimum Holding of 33%, then you would have 33% of the votes you have today. If you were to reduce to 57% of the Share Standard, you would have 57% of the votes you have today, and so on. If you were to keep your current shareholding, you would keep 100% of the votes you have today. And finally, if you were to hold shares anywhere from the 1:1 Share Standard up to 4x supply, you would only hold 1 vote for every 1,000 kgMS of share-backed supply, as is the case currently.

We asked corporate advisors Cameron Partners to analyse what this might mean in terms of ownership and voting concentration in our Co-op. Currently, the largest 30% of farmer owners hold around 62% of total shares and total votes. Under the proposed changes, we expect ownership concentration to increase over time, potentially to where the largest 30% of farmers hold around 75% of total shares. However, we expect potential voting concentration to increase by a lesser amount to around 70%. This is due to the fact that, as some supplying farmer owners choose to reduce their equity below the Share Standard, the shares that are currently backed by supply would become dry shares, and therefore not carry a voting right.

Vouchers

A voucher is a certificate that was provided to farmer owners who sold economic rights of up to 25% of their wet shares to the Fund under the 2012 and 2013 supply offers. Farmer owners have been able to use these vouchers to count towards their share compliance and votes, but vouchers are not tradable and do not receive a dividend.

Vouchers would be cancelled as part of the proposed changes. Supplying farmer owners who currently hold vouchers would not be required to purchase more shares, because vouchers have only been able to count towards a maximum of 25% of the Share Standard. With a reduction in the Minimum Holding to 33% of the Share Standard, those supplying farmer owners would still hold shares well in excess of the new minimum requirement. They would lose the voting rights that their vouchers currently count towards, which is consistent with the position on voting outlined above. They would need to invest the equity in the Co-op in the same way that other farmer owners have to obtain full voting rights on their share-backed supply. For voucher holders who already also hold additional dry shares, these would automatically start being counted as wet shares up to the 1:1 Share Standard.

Tax impacts

Currently, any dividends or other distributions paid on wet shares held by a farmer owner are tax-deductible for the Co-op.

The proposed capital structure changes are not expected to change this, but there would be a potential impact on the Co-op's tax profile in the future, because the aggregate number of wet shares held by farmer owners could reduce as a result of the 33% Minimum Holding.

Farmer shareholders would continue to be required to pay tax on these dividends or distributions.

THE FUTURE OF THE FARMER-ONLY FONTERRA SHAREHOLDERS' MARKET

The Board believes that moving to a farmer-only market is necessary to provide the additional flexibility required to support a sustainable milk supply while protecting farmer ownership and control. By farmer-only market we mean the FSM with no ability to exchange shares into units in the Fund (as it is currently operating under the temporary cap).

This is because our thresholds relating to the Fund size could be exceeded relatively quickly if we provide farmers the flexibility to reduce their level of capital investment in our Co-op but make no other changes to our current capital structure.

Having the FSM operate as a farmer-only market in this way means that our farmer owners would set the prices at which they buy and sell shares. The share price would no longer be influenced by external investors in the same way as it was prior to the temporary cap. In many cases those external investors have a lower required rate of return than a dairy farmer, because they have a more diversified investment portfolio and less of their wealth concentrated in one sector. Therefore, they may be prepared to pay more for a share than a dairy farmer would.

However, as we outlined in May, having the FSM operate as a farmer-only market does mean the share price is likely to trade at a discount to the unit price. This is referred to as a "restricted market discount".

We have had some visibility of this discount because we have been trading in a farmer-only market since the temporary cap was placed on the Fund in May. However, the share price since then is likely to also be reflecting the uncertainty caused by this capital structure review and share compliance obligations being on hold.

Aside from this initial adjustment, a farmer-only market should result in our share price being a better reflection of the higher costs of capital many of our farmers have compared to external investors.

As we said in May, there may be lower levels of liquidity in a farmer-only FSM, so the share price could move more on small volumes. We have heard your concerns about this in your feedback. There are three main situations to consider:

- » Day-to-day liquidity – this would be supported through:
  - – the expected trading levels between farmer owners buying and selling, based on our understanding of the levels of trading before the temporary cap.
  - – features of the structure such as the Minimum and Maximum Holdings, the entry and exit timeframes and enabling associated farmer owners to participate in the market.
  - – a registered volume provider or market maker to support the existence of buy and sell orders in the market (similar to the registered volume provider that has been operating under TAF).
- » Liquidity during transition – as detailed further below, up to $300m would be available to support liquidity in the FSM in certain circumstances as farmer owners' transition to the new structure.
- » Liquidity during one-off macro events – in a farmer-only market, one-off events such as a widespread drought or low milk price can impact liquidity if many farmers wish to sell shares at the same time. Many farmers have reduced their level of debt following several seasons of a strong milk price, putting them in a better position to manage through these types of macro events, and as set out in the booklet titled Our Path to 2030, we are planning to continue to provide strong returns to our farmers.

WE BELIEVE A FARMER-ONLY FSM SHOULD FUNCTION WELL

We believe this farmer-only FSM should function well over the long term and serve in the best interests of our farmer owners while supporting the financial sustainability of our Co-op. The reasons for this include:

- » A 4x cap provides headroom for those wanting to sell.
- » A market maker would provide buy and sell quotes for shares in the FSM within certain limits and timeframes so that there is a price available for shares to be traded.
- » We would allocate up to $300 million to support liquidity if needed, as farmer owners transition to the new structure.
- » The FSM would continue to be a regulated market operated by the NZX, so the Co-op would continue to be required to comply with continuous disclosure requirements and reporting and have robust governance systems in place, including independent directors.
- » Independent market research and broker coverage would be expected to continue to provide ongoing analysis and insight on Fonterra's performance for farmers and unit holders.
- » The Fund would provide a reference point for how external investors value the economic rights in a Co-operative share.

HOW WE WOULD TRANSITION

We propose moving to the Flexible Shareholding structure all at once. This means that the new Minimum Holding and Maximum Holding would apply immediately from the time the changes were effective, rather than being phased in over several seasons.

This would provide immediate and meaningful flexibility for farmer owners as well as more certainty in the medium term. If we instead transitioned to the new Minimum Holding over several seasons (e.g., 66% to start with and then 33%), trading in the farmer-only market could be impacted by speculation around potential additional share sales coming onto the market in the next season.

However, given some aspects of our current TAF structure for shares are reflected in DIRA, we would not be able to move to the new structure without necessary changes to legislation being passed.

DIRA does not prevent us from providing flexible shareholding, but we would need the Government's support to move to a farmer-only market.

We are continuing to work with the Government on the DIRA changes that would be needed to enable this and would hope that, following a successful vote, those changes could be agreed and passed by Parliament in time to transition next season. However, this would depend on Government and Parliamentary willingness to make changes and timeframes.

HOW WE WOULD SUPPORT LIQUIDITY THROUGH THE TRANSITION

When the Minimum Holding is reduced there may be a small subset of farmers that come under pressure to sell shares. Depending on the number of shares, selling by those farmers could result in downward pressure on the share price in the months after moving to the new capital structure.

Recognising this potential impact on trading, we would allocate up to $300 million to support liquidity in the market as farmer owners' transition to the new structure, starting when the changes become effective.

This would be through an on-market share buy-back programme, which would reduce the total number of shares on issue, and potentially other tools such as the market maker arrangements.

However, we would only exercise these options in order to support liquidity where there is an imbalance between the number of shares that farmer owners want to sell and buy, and where we think the price represents value to the Co-op and is in the best interests of all shareholders.

You would know when we have bought back shares on the market, because we would be required to disclose details such as the number of shares we have bought and the average price.

WHAT IS AN ON-MARKET SHARE BUY-BACK?

An on-market share buy-back is when a company with shares traded on a licensed market (such as any company on the NZX, or in our case, the Fonterra Shareholders' Market) buys its own shares in the market during the usual course of trading. This is different to an off-market buy-back, which is when a company makes an offer directly to shareholders (or in our case it could also be made to unit holders in the Fund), rather than buying back through the market. Both have the effect of reducing the total shares on issue.

HOW IS THE PROPOSED $300M LIQUIDITY SUPPORT DIFFERENT TO THE POTENTIAL $500M TO $1.2B OF SHARE OR UNIT BUY-BACKS OVER THE NEXT 10 YEARS UNDER TAF IF MILK SUPPLY DECLINES?

» The $300m is a proactive and transitional step only as part of moving to the proposed Flexible Shareholding structure. It is to support liquidity in the FSM and may be through an on-market share buy-back or through other tools such as a market maker arrangement. It would be at prices that we think represent value to the Co-op and are in the best interests of all shareholders.

» In contrast, our current capital structure does not provide the kind of capital flexibility required to support a sustainable milk supply. In a declining milk supply scenario (see Section 2), we could need to buy shares or units to stay within our current constitutional thresholds, creating an uncertain and potentially recurring draw on our capital of $500m to $1.2b. While we don't expect this to be unaffordable, we may have less choice about when and how we effect share or unit buy-backs and we may therefore be exposed to future and unknown market prices for shares and units. To be prepared for this we would likely need to maintain a more conservative balance sheet, restricting our ability to put capital to its best use at the time.

THE FUTURE OF THE FONTERRA SHAREHOLDERS' FUND

During the first phase of consultation, there was no clear preference for the future of the Fund that came through in your feedback.

We have considered this feedback and done further analysis and are now proposing that the Fund remains as part of our capital structure, but capped.

At around 6.7% of total shares on issue, the economic interest of unit holders in the Fund comprises a meaningful component of our Co-op. As the Fund is listed on the NZX and ASX, it also provides a mechanism for non-dairy farmers to invest in the future of our Co-op by purchasing units in the Fund. This enables those in our wider New Zealand community to share in the Co-op's future, supporting alignment.

Furthermore, while farmer owners will determine the prices at which they buy and sell shares, the Fund would serve as a reference for how outside investors value the shares. Maintaining the position of the Fund within the NZX also supports research coverage of the Fund and Fonterra's performance.

We think it would be better to use our capital to support liquidity in the FSM as farmer owners' transition to the new structure, as set out in the section above, rather than using it to buy back the Fund.

With a capped Fund, no further shares would be able to be exchanged into units in the Fund. The Fund size would remain at around 6.7% of total shares on issue, although the actual percentage could fluctuate from time-to-time if the total shares on issue change, for example, through the on-market share buy-back programme or a dividend reinvestment plan.

The Board could still choose to buy back the Fund in the future, and capping the Fund preserves that option.

Unit holders are an important part of our Co-op and we will continue to consult with the Manager of the Fund and consider unit holders' interests throughout this process. We are making a conscious decision to retain some non-farmer capital through the Capped Fund.

As outlined earlier, we would need Government support to move to a farmer-only market by capping the Fund. We are continuing to work with Government on the changes to DIRA that would be needed to effect this and would not be able to change our capital structure until any necessary changes to DIRA had been made.

FARMER SCENARIOS – COMPARING THE PROPOSAL TO OUR CURRENT STRUCTURE

Every farmer's situation is unique. But the hypothetical scenarios below are designed to give you a high-level indication of how things could change at different stages of your business life cycle. Note that these are on the basis that any transition to the new structure has been completed. For the comparison, we have used the structure we had before the May announcement, which is when we put a temporary cap on the size of the Fund to enable consultation.

SCENARIO	CURRENT STRUCTURE (BEFORE MAY ANNOUNCEMENT)	REVISED PROPOSAL
Retiring farmer owner looking to release capital » **Average production is 120,000 kgMS** » **Holding 150,000 shares**	» Minimum Holding: 120,000 shares » Maximum Holding: 240,000 shares » Flexibility: – Sell up to 30,000 shares to free up capital » Votes: – Supplying farmer owner would have 120 votes even though 150,000 shares held	» Minimum Holding: 39,600 shares » Maximum Holding: 480,000 shares » Flexibility: – Sell up to 110,400 shares to free up capital » Votes: – Supplying farmer owner would have 120 votes if 120,000 or more shares held
Established farmer owner looking to invest capital » **Average supply is 200,000 kgMS** » **Holds 200,000 shares** » **Sharemilker on farm**	» Minimum Holding: 200,000 shares » Maximum Holding: 400,000 shares » Flexibility: – Invest further in the Co-op and hold up to 400,000 shares » Votes: – Supplying farmer owner would have 200 votes based on 200,000 shares held – Sharemilker has no votes	» Minimum Holding: 66,000 shares » Maximum Holding: 800,000 shares » Flexibility: – Invest further in the Co-op and hold up to 800,000 shares, and/or allocate up to 600,000 dry shares to the sharemilker » Votes: – Supplying farmer owner would have: • 66 votes if 66,000 shares held • 200 votes if 200,000 or more shares held – Sharemilker would have no votes
Growing farmer owner » **Average supply from first farm is 80,000 kgMS** » **Second farm expected to supply 80,000 kgMS** » **Holds 100,000 shares**	» Minimum Holding: 160,000 shares » Maximum Holding: 320,000 shares » Flexibility: – Purchase remaining 60,000 shares for second farm over three seasons during the share-up period – Apply for a Share-Up Over Time contract for 60,000 kgMS – Supply MyMilk from second farm under contract with no shareholding requirement and potentially sell 20,000 shares to free up capital for on farm investment – Invest further in the Co-op and hold up to 320,000 shares » Votes: – Supplying farmer owner would have: • 100 votes based on 100,000 shares held • 160 votes if 160,000 or more shares held	» Minimum Holding: 52,800 shares » Maximum Holding: 640,000 shares » Flexibility: – Sell up to 47,200 shares – Invest further in the Co-op and hold up to 640,000 shares » Votes: – Supplying farmer owner would have: • 100 votes based on 100,000 shares held • 160 votes if 160,000 or more shares held

SCENARIO	CURRENT STRUCTURE (BEFORE MAY ANNOUNCEMENT)	REVISED PROPOSAL
First-time farmer owner » **Leases dairy farm-land** » **Planning to supply 80,000 kgMS** » **Holds no shares or units**	» Minimum Holding: 80,000 shares » Maximum Holding: 160,000 shares » Flexibility: – Purchase 80,000 shares over three seasons during the share-up period – Apply for a Share-Up Over Time contract and commit to supply the Co-op for the term (e.g. 6 years), and pay a contract fee (currently 5c/kgMS) for non share-backed supply – Supply MyMilk under contract with no shareholding requirement, and pay contract fee on all supply (currently 5c/kgMS) for up to five seasons – Invest further in the Co-op and hold up to 160,000 shares » Votes: – Supplying farmer owner would have 80 votes if 80,000 or more shares held – Farm lessor has no votes	» Minimum Holding: 26,400 shares » Maximum Holding: 320,000 shares » Flexibility: – Purchase 26,400 shares over six seasons: • 1,000 shares in the first season • 5,080 per season for each of the following five seasons – Invest further in the Co-op and hold up to 320,000 shares and/or allocate up to 240,000 dry shares to the farm lessor to invest in the Co-op » Votes: – Supplying farmer owner would have: • 26 votes if 26,400 shares held • 40 votes if 40,000 shares held etc. • 80 votes if 80,000 or more shares held – Farm lessor would have no votes

5.

The big issues you've raised

Through the first round of consultation, we received the most amount of feedback and questions in three main areas.

The first relates to **why we need to change**, or whether we need to change at all. We heard questions like:

» Is milk supply really going to decline? And if so, why should we be concerned about this?

» Wouldn't consistent good performance be enough to attract and maintain a sustainable milk supply?

The second area was around **how a farmer-only market would work**, especially given we're proposing more flexible shareholding options. Some of your questions included:

» Won't there be too many farmers trying to sell their shares? Who is going to buy them?

» What will my shares be worth in a farmer-only market with more flexibility?

The third was around whether there are **other alternatives** that could also support a financially sustainable Co-operative, for example:

» Could we list part of the business to raise capital for growth?

» Should we move back to a nominal share structure?

» What would happen if we stayed with TAF?

Appendices 1 – 3 provide an overview of how we're thinking about each of these areas.

6. Where to from here

It's important we all understand what's being proposed – through reading the consultation materials like this booklet and/or taking part in the farmer meetings in September and October. You can find dates, times and locations for these meetings via www.nzfarmsource.co.nz/meetings.

We'll also host regular farmer webinars during this time as well as providing updates through our usual channels such as the Farm Source website, My Co-op app, email and social media.

At this stage, we are aiming for a farmer shareholder vote at our Annual Meeting in December.

You can provide feedback on this proposal in the way that's most convenient for you – whether it be during a farmer meeting or webinar, directly to one of our Directors, via your Area Manager or Fonterra Co-op Councillor, or by emailing CSfeedback@fonterra.com.

If we do decide to proceed to a farmer vote, and the timeframe is our Annual Meeting, we will distribute the information you need about the final proposal and how to vote along with the Notice of Meeting.

Ongoing engagement with other stakeholders is a key focus for us over the coming weeks. This includes those who would be involved in enabling any change.

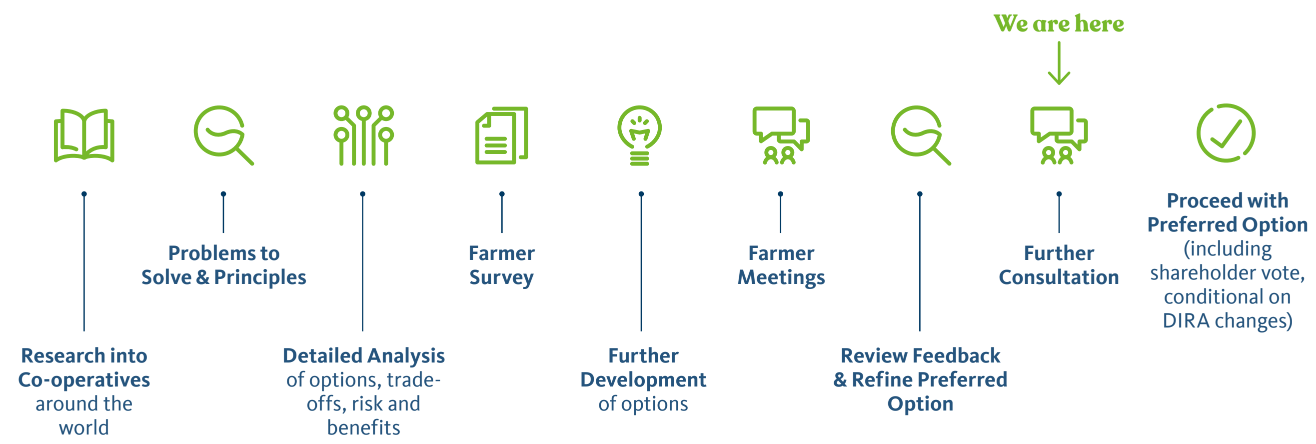
The Fonterra Co-operative Council (formerly the Shareholders' Council) has been a valuable sounding board during this consultation process and we continue to work closely with its members. The support of at least 50% of Council members is required to make the capital structure changes to the Co-op's Constitution, that would also require a 75% shareholder vote.

As outlined earlier, some aspects of our current capital structure are reflected in DIRA, so a successful farmer vote would be conditional on any necessary changes to legislation being passed. We are continuing to consult with Government on this.

We have also been engaging with the Manager of the Fund, which has been communicating with unit holders directly.

Finally, we are in regular contact with rural professionals, banks and research analysts, because we know how interested they are in understanding what any changes may mean for their clients.

We will keep you updated with how these conversations are going.



HOW TO CONTACT US

- Feel free to contact your Area Manager if you'd like to find out more, particularly around what the new structure would mean for you.
- Alternatively, you can ask technical questions or provide feedback by emailing CSfeedback@fonterra.com
- Directors and Fonterra Co-operative Councillors are also available to talk through the proposed changes. Contact details can be found in the back of any Farm Source Magazine.

Stay up to date with all the latest developments by visiting www.fonterra.com/capitalstructure

Appendix 1.
Why we need to change

IS FONTERRA'S MILK SUPPLY LIKELY TO DECLINE IF WE DON'T CHANGE OUR CAPITAL STRUCTURE? IF SO, WHAT WOULD HAPPEN?

The following diagram summarises the problem and potential value impacts we face. Each part is explained in further detail in the following sections.

Problem

Total NZ milk likely to decline

Fonterra's share of NZ milk

→ Potential for declining Fonterra milk supply → Smaller and less efficient Co-op →

Potential value impacts

- Fund size thresholds could be exceeded, and/or capital required for share or unit buy-backs $500m to $1.2b by FY30
- More conservative risk settings, such as lower debt targets and dividend policies
- Milk Price could reduce by 6 to 13 cents / kgMS by FY30
- May need to close between 12 and 18 plants within our manufacturing sites, on top of operating costs which would need to reduce by $100m to $160m by FY30
- Harder to attract and retain milk supply and staff; more difficult to provide scale benefits to farmers

Why we think our milk supply may decline if we make no changes

There are two parts to this equation:

1. New Zealand total milk supply outlook
2. Our Co-op's milk supply outlook

NEW ZEALAND'S TOTAL MILK SUPPLY IS LIKELY TO DECLINE

Our operating context is changing. Water quality and climate change regulations are becoming a part of life. We are now seeing more land going out of dairy than coming into dairy.

At the same time, we are also seeing incremental productivity gains year-on-year through management efficiency and genetic gains, and there look to be some great new technologies on the horizon. New innovations do have the potential to support farm productivity in the future through things like more targeted nutrient application, better pasture utilisation, precision animal management and potentially breakthrough technologies that reduce methane emissions. There is no question that New Zealand farmers are great innovators when faced with a challenge.

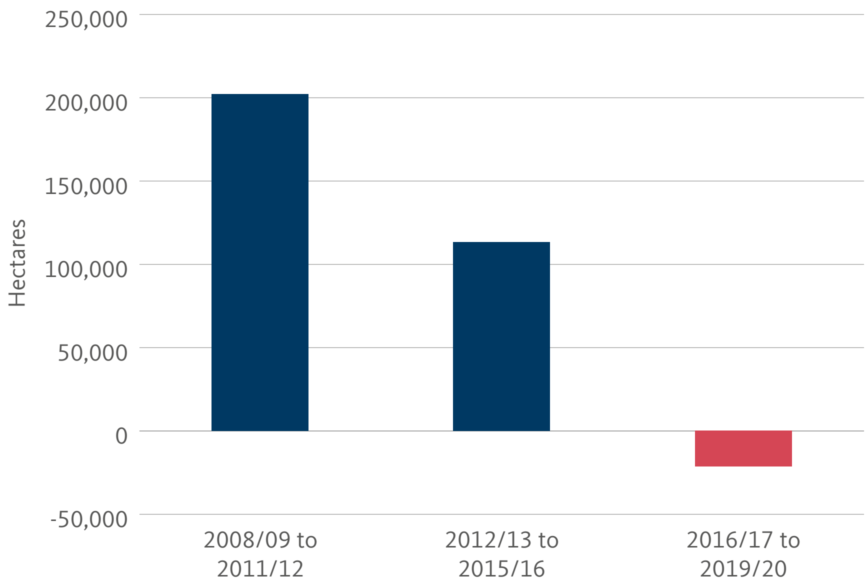
However, when we balance these factors overall, we are expecting total New Zealand milk supply to decline over the coming decade, and be flat at best. This is because:

» **There is likely to be less land in dairy.** We have gone from significant growth in dairy land to now seeing this as declining slowly due to other land uses, as well as the Government restrictions on conversions to dairy.

» **There may be deintensification in some farm systems** as a result of changes that farmers need to make to meet environmental requirements. For example, reducing fertiliser applications and reducing supplementary feed usage.

» While these changes may improve farm profit in a lot of instances, they may also reduce the milk produced and supplied to our Co-op.

CHANGE IN TOTAL NZ DAIRY HECTARES



Source: DairyNZ – New Zealand Dairy Statistics 2019-20

These losses will be partly offset by productivity gains. We expect around 0.7% productivity gain each year going forward through things like improved genetics and farm management efficiencies. This is lower than the long-run average. To arrive at this number, we have disaggregated productivity gains into those that were directly from animal and pasture improvement, and those from fertiliser and supplementary feed additions to the farm system. We're clear that there may be some upside to this productivity gain as farmers will innovate and adopt new technologies in response to changes, but we're not sure that it will increase milk production overall – as environmental policies aim to lower absolute water and climate impacts, so productivity increases may just get the same output from fewer inputs.

When we put that together with the impact of land-use change, we see a total impact on New Zealand milk of around a 2.4% decrease by 2030.

IF WE DON'T ADDRESS THE HIGH LEVEL OF COMPULSORY INVESTMENT TO BE PART OF OUR CO-OP, FONTERRA'S SHARE OF NEW ZEALAND MILK IS LIKELY TO CONTINUE TO DECLINE

On top of changes behind the farm gate, we're also expecting to see other milk processors continuing to set up new businesses or grow their existing businesses in New Zealand. Global markets want what New Zealand has, and with continuing strong demand, we expect to see an increase in competition for milk here at home.

This is supported by the consistent expansion we have seen over the past 15 seasons, and the fact that this has not slowed despite total New Zealand milk supply flattening over the past 5-6 seasons.

Right now, it is an uneven playing field with corporate processors coming into the industry. The level of compulsory investment required to join and stay with the Co-op is high.

This has resulted in farmers leaving the Co-op in order to free up capital.

» Results from the last two years of exit interviews with farmers show that lack of capital flexibility was the number one reason to leave our Co-op.

» In a recent representative survey of our farmers, 30% said they had seriously thought about leaving to join a competitor in the last two years or so.

» Once we lose a farm, it takes a long time to win that farm back (if at all).

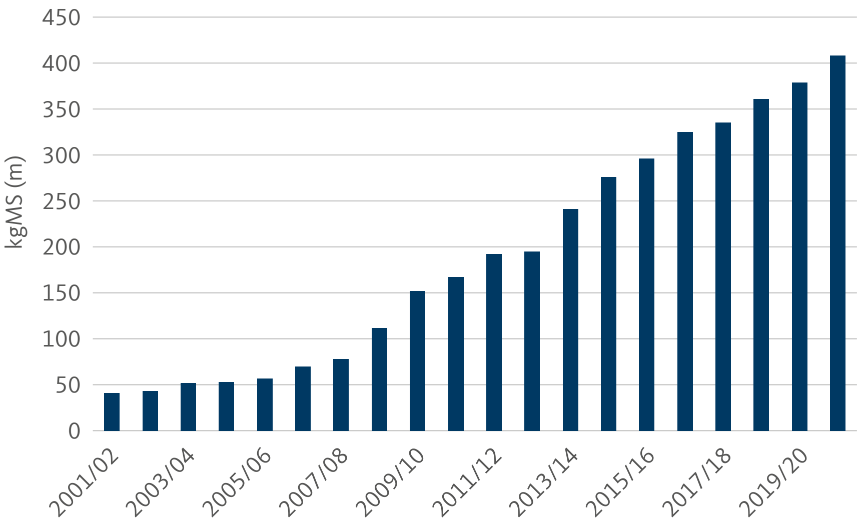
» We have been told by some farmers who have left that they are accepting lower prices for their milk because they want to access capital tied up in shares.

What about performance? Won't this solve this problem?

While improved performance increases willingness to invest capital, it does not stop suppliers leaving our Co-op. This is mainly because:

1. As our earnings increase, so too should the share price, which increases the capital investment to join, and the capital for those who leave.
2. The share price is partly set by reference to the value of units traded in a public market. Investors in public markets may value shares differently than farmers. On the whole, farmers are less diversified and have competing priorities for their capital – their investments are more focused (i.e., in farming operations) and therefore it's not possible to 'diversify away the risk' like an investor. Therefore, it is likely that some farmers require a greater return from a share to make holding the share worthwhile. This means investors in the Fund may be more willing to pay a higher price for a unit than farmers would otherwise be willing to pay for a share.
3. Some farmers just want or need access to capital, and shares may be considered discretionary in comparison to other farming assets like land and livestock (regardless of what return they provide). The return on that capital may be secondary to the want or need for that capital. There is a wide variety of reasons farmers want or need to free up capital.

NON-FONTERRA MILK COLLECTIONS (KGMS M)



(Source: DairyNZ, DCANZ & Fonterra Milk Collections)

For example:

- To invest in their farming business, including:
  - Investing in new assets for growth.
  - Meeting new environmental regulations, such as upgrading an effluent system.
  - Paying down debt.
  - Working through succession.
- To invest in other areas, for example, diversifying their business.
- For recreation or quality of life – many farmers have worked hard for a long time and want to be able to enjoy their wealth.

Not offering flexible shareholding options means that these farmers have little choice but to leave the Co-op to access this capital.

Unless farmers have a greater degree of flexibility on the level of investment to supply the Co-op that can be taken up at any point in their career, we think we will continue to lose milk to corporate processors.

In summary:

» We are likely to continue to see increased competition for milk in New Zealand as a result of strong global demand.

» Farmers may want or need to free up capital for a variety of reasons.

» At present, farmers have no choice but to leave our Co-op altogether in order to free up capital, taking their milk away from the Co-op.

» Strong performance only increases the investment requirement. As our earnings increase, so too should the share price, which increases the capital investment to join, and the capital for those who leave.

» Unless we provide capital flexibility for all farmers, this cycle is likely to continue.

» Meaning that, all else being equal, we need to be prepared for the Co-op's milk supply to decline.

WE NEED TO BE PREPARED FOR OUR MILK SUPPLY TO DECLINE

Combining the changing New Zealand milk supply outlook with our declining share of New Zealand milk means that, unless we provide capital flexibility for farmers, we believe that our milk supply is likely to decline into the future. We outlined these potential scenarios in Section 2 of this booklet.

So, what happens if our milk supply declines? What does it mean for capital, payout and our Farmgate Milk Price?

If we don't change our structure and milk supply declines, under our current TAF structure we would need to buy back shares or units to remain within our constitutional thresholds designed to balance the interests of farmer owners and the interests of external investors in the Fund. Exceeding those thresholds could put farmer ownership and control at risk. We estimate the cost of these buybacks to be between $500m and $1.2b by FY30.

This is an uncertain and recurring draw on our capital, and does not address the underlying issue of milk leaving the Co-op.

It would also impact capital management and decision making. We would need to consider questions like:

- Does our balance sheet need to be more conservative to ensure that we have capital available to buy back shares in the future in order to stay within our constitutional thresholds?
- Would we need to reconsider capital returns to strengthen this position?
- Is a more conservative strategic investment programme appropriate?

If our Co-op's milk supply declines, we would need to make significant changes to the way we operate to try and maintain total available for payout

If milk supply declines, we would have less milk to process through the same amount of stainless steel. Our overheads wouldn't necessarily change, but the amount of income we generate would need to increase to offset higher average costs per kgMS.

Our manufacturing footprint has been established over many decades, but a significant amount of this was built to handle the expansion of milk supply in the South and central North Islands during the period from 2005 to 2015. Our factories are built to handle your peak milk, which means we carry excess capacity on the shoulders of the peak. This is at the core of our Co-op – we share in the fixed costs of our peak processing assets so that we can maintain low-cost pasture-based systems behind the farm gate.

Our analysis shows the total available for payout could potentially be maintained close to or in line with the alternative under declining milk scenarios over the 10-year horizon. However, this would rely on several factors, including:

- Demand growth for higher value products and our Co-op optimising to this higher value demand.
- A sustained reduction in operating and overhead costs on an ongoing basis to reduce the impact of fixed costs being spread over fewer milksolids.
- Undertaking a rationalisation programme of plants of varying sizes and types over 10 years to reduce operating costs.
  - There would be a non-cash impact of plant write-downs in this case that we would expect to get bigger towards the end of the 10-year horizon due to the majority of plants initially identified for closure being fully depreciated.
- Our ability to recognise and successfully execute this cost reduction and rationalisation programme on a timely basis – noting the difficulty in this given seasonal fluctuations in milk supply and their potential to mask underlying structural changes.

IF OUR CO-OP'S MILK SUPPLY DECLINES, WE ARE LIKELY TO SEE FIXED COSTS BEING SPREAD OVER FEWER MILKSOLIDS, WHICH WOULD REDUCE THE MILK PRICE

If milk supply declines:

- Fixed costs and overheads would be spread over fewer milk solids, which would increase costs per kgMS in the Milk Price Model and flow through to a lower milk price.
- There would be no ability to increase the revenue line in the milk price to offset higher costs per kgMS as the nominal processor in the milk price has no product mix flexibility beyond powder stream products.

This would flow through to a structurally lower milk price over time relative to maintaining milk supply.

- The modelled impact of declining milk is 6 to 13 cents per kgMS in 2030 (in milk supply scenarios 1 and 2).

The magnitude of the impact reduces when a potential response is factored in with overhead costs reduced in the milk price cost reset years of 2024 and 2028. This would have to be worked through and justified. The modelled impact of declining milk with a cost reset response, but without other changes to the milk price methodology, is 4 to 8 cents per kgMS in 2030 (in scenarios 1 and 2).

Our milk price sets the benchmark in New Zealand. A less efficient Co-operative would mean a lower milk price for all dairy farmers here.

Co-operatives often suffer from a "free rider" problem, and our Co-op is no different.

Our milk price sets a benchmark in New Zealand, so even those who don't supply the Co-op benefit from it.

We believe that farmers are worse off in countries where there is no strong co-op. Corporate processors look at milk as an input cost, and over the long run they are incentivised to reduce the price they pay for milk to maximise corporate profits.

Appendix 2. How a farmer-only market would work

Through consultation we heard many questions on how a farmer-only market might work.

To understand this, we have asked Cameron Partners, a leading corporate advisor, to consider how well the farmer-only market is likely to function. To do this, they have looked at the following questions and their responses are set out below:

1. Will prices in the market generally reflect farmer views on fair value?
2. Will there be sufficient trading to allow farmers to trade at fair value?
3. Will there be sufficient buyers for those who have to sell shares?
4. Will buyers be able to buy enough shares given proposed ownership caps?

1. Will prices in the market generally reflect farmer views on fair value?

Under a structure in which only farmers can trade shares and those shares can no longer be exchanged into units in the Fund, a restricted market will be created. In a restricted market, discounts are observed to the pricing that would be observed in an open and public market. This is referred to as the restricted market discount (RMD).

In the case of Fonterra, if only farmers can trade shares, the main causes of a RMD are:

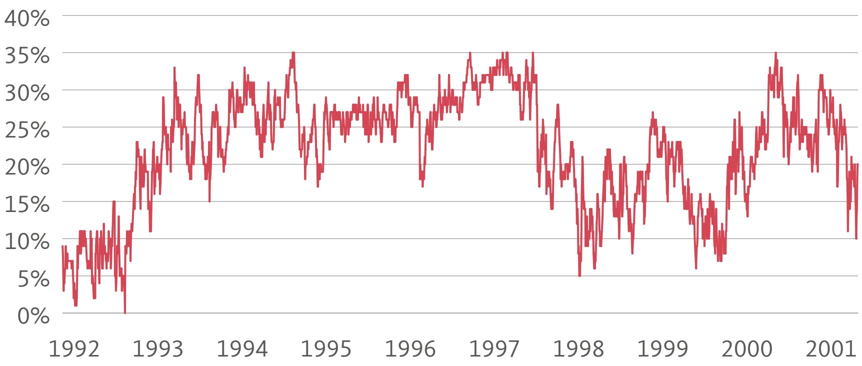
- The exclusion of potential price-setting investors from trading – often institutions with a global mandate and portfolio.
- Farmers having asset portfolios comprising mostly farmland and other farming related assets which are non-diversified and therefore imply a higher cost of capital.
- Farmers having limited capital with competing demands for that capital. This means that shares require a greater return (i.e., lower share prices) to be attractive compared to other investment options.

An example of a RMD was Air New Zealand during the 1990s. During that period, Air New Zealand had A and B shares with A shares restricted to NZ-domiciled investors and B shares able to be held by any investor. As the graph below shows, there was a persistent discount between the A and B shares of 30% in the first half of the decade, reducing to 15 – 25% in the second half.

Cameron Partners has estimated that the RMD (compared to the prices that might be expected if the TAF structure was maintained) is likely to be in the order of 20% to 25%. This pricing outcome will represent the consensus view of how farmers value the Co-op and can be regarded as a fair value, subject to the following:

- There being the level of liquidity expected (see question 2 below).
- The price being set by "voluntary" trading (i.e., a decision to buy or sell based on an individual's view on value) and trading not being overwhelmed by those who have to sell shares (see question 3 below).

DISCOUNT BETWEEN AIR NZ A SHARES AND B SHARES



2. Will there be sufficient trading to allow farmers to sell shares at fair value?

The key issue in assessing how well the farmer-only market will work is the level of aggregate buy-side interest there will be in Fonterra shares when farmer-only trading commences. Cameron Partners estimated future aggregate buyside demand by examining the trading patterns in the FSM and FSF prior to the temporary cap on the FSF.

Two separate databases were compared:

» The first being daily movement in supplier share compliance; and

» The second being daily share trading by suppliers.

While the databases did not match conclusively, this comparison suggested that somewhere between 50% and 70% of farmer trading could be explained by movements in share compliance. Therefore, it was expected that somewhere between 30% and 50% of trading volumes observed prior to the temporary cap on the FSF were unrelated to share compliance and may be a level of trading that might be expected to continue with a reduced minimum holding.

In the year prior to the temporary cap, the average trading volume in the FSM had been ~210,000 shares per trading day. 30% to 50% of this figure is 63,000 to 105,000 shares per trading day.

As at 31 August, the average trading volume since the temporary cap had been around 80,000 shares.

The chart below ranks selected NZX companies by daily trading volumes and shows where the FSM would sit at 90,000 shares traded per day.

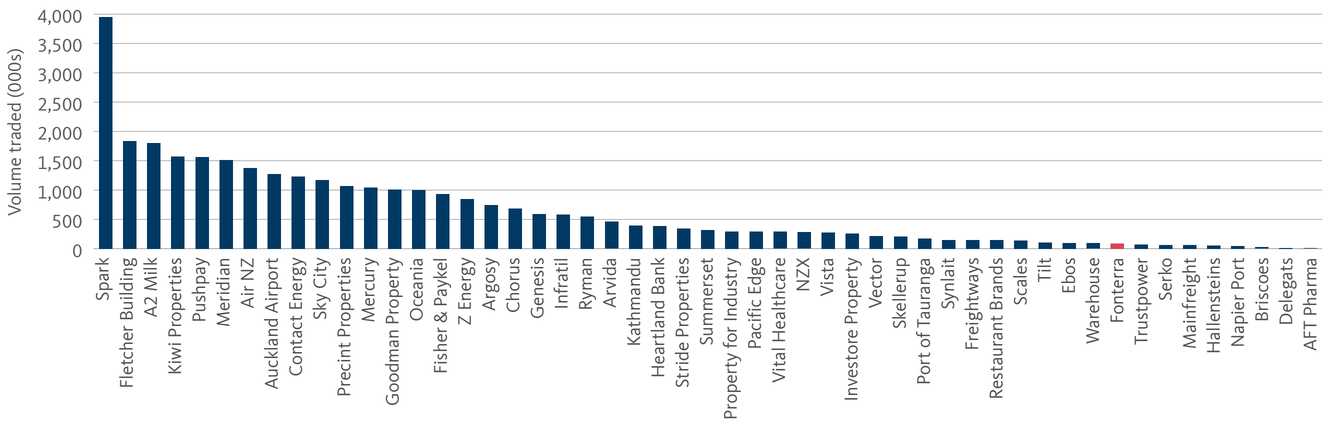
Cameron Partners' view is that the NZX-listed companies with similar trading volumes as expected for the FSM (with a reduced minimum holding) do not appear to suffer from concerns about liquidity.

However, there are some risks to ongoing satisfactory pricing outcomes:

» The analysis assumes aggregate milk supply stays at least at or around current levels. If there is increased sell-side pressure from further meaningful milk supply loss (and consequent ceasing), then prices may fall to accommodate these sales.

» There may be times in the future when all farmers have a similar exposure to a financial threat – for example, low milk prices or widespread drought. Such macro events may create an increased level of sales and the price may fall to accommodate these sales.

AVERAGE DAILY VOLUME



Cameron Partners also acknowledge that it is likely there will be on-going instances during trading of intra-day or intra-week timing differences between when buyers and sellers are active and believe that reliable liquidity through a trading period will require Fonterra contracting with a market maker (or makers) to:

» Provide minimum buy and sell order quantities within regulated bid-ask spreads that must be refreshed on a part-minute basis.

» Accumulate positions if necessary on one side of the book or the other if a short-term absence of one trading side exists over a defined period and to a capped level of financial risk.

Subject to the expected level of underlying trading emerging (and the risks identified above not emerging) and appropriate market maker arrangements, Cameron Partners' view is that the FSM could be expected to have pricing that would be adequately efficient – i.e. price sensitive information would be incorporated into the trading price quickly, prices would generally reflect consensus farmer views on value (incorporating an RMD) and there should be a level of liquidity that would allow trades in line with the average order sizes observed before the temporary cap to be bought and sold at the observed market price.

3. Will there be sufficient demand for shares if people have to sell?

Cameron Partners conducted analyses to test whether the expected level of buy-side activity would be sufficient to meet at least the sale of shares by those who have to sell their shares. Two groups of farmers were identified as those who may have to sell shares:

» Financially pressured farmers – analysis suggests there may be a meaningful number of farmers who, when the minimum holding requirement is reduced, will be under a level of financial pressure that requires them to sell shares above the minimum level. There is a risk of a large number of shares coming onto the market in the early stages of trading where these sellers will accept prices below the longer term "voluntary" equilibrium.

» Ceased farmers – who have an obligation to sell their shares within a certain timeframe. The proposals now include extending the timeframe for sales by ceased farmers. In the short term, selling pressure from this group is likely to be alleviated (other than to the extent these farmers are in the "financially stressed" group referred to above) but, in the long run (i.e., in 10-15 years) there will be an ongoing level of constitutionally required share sales per annum which the market needs to absorb.

The potential extent of the two groups is discussed below:

Financially pressured farmers

Reserve Bank data on dairy industry lending (May 2021) shows that ~7% of loans to dairy farmers were regarded as "stressed" and a further 2-3% were regarded as non-performing. With a Minimum Holding of 33%, around one billion dry shares will be created. 5-10% of this figure is 50m to 100m shares. There are also approximately 75m[1] shares held by farmers who have already ceased. While the time allowed for these farmers to exit is being increased to 15 years, there are likely to be farmers in this group who are also financially pressured. Cameron Partners believes this indicates an estimate in the upper end of the range (i.e. 75-100m shares) is a more likely sizing of potential level of financially pressured sales.

Cameron Partners advised that it was unlikely the FSM could absorb this level of sell-side pressure early in trading without a material reduction in price below the longer term expected levels. Consequently, Fonterra is intending to allocate capital to support liquidity in early trading, through an on-market share buyback and other tools (see section 4 "How we would support liquidity during transition").

Ceasing farmers

As long as total milk supply remains at or around current levels, the sell-side pressure from ceased farmers is estimated as follows:

» Every year 1/30th of the Fonterra supplier base is assumed to exit. So over 10 years, 1/3 of the supplier base has rotated out and been replaced by new suppliers. These ceased farmers are assumed to sell down over the time they have available.

» The incoming suppliers who replace these ceased farmers only acquire the minimum shareholding (33%). So, the residual needs to be absorbed by the buy-side demand described above.

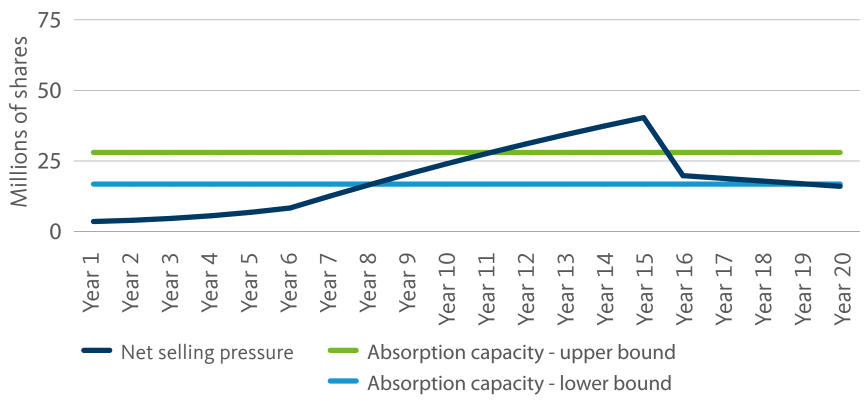
» In addition, it is assumed that of the 75m[2] shares (from those who have already lodged cease notices), 25m are absorbed by the proposed liquidity support (i.e. they overlap with the financially pressured suppliers) and the remaining 50m shares are sold down over the time they have available.

The dark blue line in the chart overleaf shows the net selling pressure that arises from these assumptions. The light blue and green horizontal lines in the chart show the buy-side volume if natural trading volumes are between 30% and 50% of volumes observed prior to the temporary cap.

The net selling pressure peaks in year 15 due to the ceased farmers at the record date having 15 years to sell, then this steadily reducing to 10 years over the next 5 years – making year 15 a more pronounced peak.

However, the chart assumes that all ceased farmers sell their shares evenly over the allowed time. In reality, shares will be sold irregularly by ceased farmers as conditions vary, so it may be more appropriate to use the average picture over the 15 years.

1. As at June 2021.
2. As at June 2021.



If the assumptions of supply and buy-side and sell-side activity used in this analysis hold, then longer term buy-side activity should have the ability to absorb the level of constitutionally required sell-side activity. The chart does not include the impact from two factors that should boost buy-side activity:

» The reduction in trading price due to the restricted market discount encouraging more buy-side activity

» The proposal to allow sharemilkers, contract milkers and farm lessors (up to a further ~4,000 potential buyers) to participate in the market.

4. Will buyers be able to buy enough shares?

Cameron Partners was asked to consider whether a 4x cap would provide sufficient long-term headroom to allow the buy-side to acquire the shares necessary to meet longer term sell-side expectations and to test the reasonableness of expectations for the number of shares that active buyers will need to acquire.

The level of headroom required depends on two key factors that increasingly limit the number of buyers and requires more headroom per active buyer (and more shares acquired per active buyer) to accommodate selling pressure. The two factors are:

» The proportion of the shareholder base who have preferences to sell shares and are therefore unlikely to be potential buyers. The more sellers there are, the fewer potential buyers there are and the greater the headroom required across them.

» Of the non-sellers, the extent to which only a subgroup truly comprise the potential buyer set. The more the potential buy-side set is restricted to a subset of non-selling shareholders, the greater the headroom required across them.

Cameron Partners created several scenarios to test different settings across these variables (assuming in all cases a long-term level of total trading consistent with the concentration analysis). Their view is that, as long as buying behaviour is relatively widespread across non-sellers, a 4x headroom appears unlikely to be a limiting factor on the ability of the shareholder base to absorb shares. However, notwithstanding ownership caps, the market will be more successful if the more selling is not widespread and the more buying is widespread, so that the buying activity required per buyer is more moderate.

To manage a risk that the actual buyer set is highly concentrated, Cameron Partners expressed a preference for the cap to be the higher of 4x supply or 0.25% of total shares on issue to provide more headroom. However, the Board is of the view that such a cap would allow ownership and supply to become too separated on an individual basis. The Board noted for example that under a 4x cap, a farmer supplying 75,000 kgMS could own up to 300,000 shares under the proposed 4x cap, and up to four million shares under a 0.25% cap. Subsequently, the proposal has been changed to allow sharemilkers, contract milkers and farm lessors (up to a further ~4,000 potential buyers) to participate in the market.

Important Notice

Cameron Partners Limited (Cameron Partners) has been engaged by Fonterra Co-operative Group Limited (Fonterra) under a specific engagement letter to provide Fonterra with advice on certain elements of Fonterra's capital structure proposals (the Proposals). Fonterra has chosen to include some aspects of Cameron Partners' advice in this Appendix 2. Recipients of this Appendix 2 must note the following:

» **Cameron Partners' advice is only for the benefit of Fonterra. Notwithstanding the inclusion of parts of Cameron Partners' material in this Appendix 2, no other party (including any shareholder) may rely on it in any circumstances.**

» **Nothing in this Appendix 2 constitutes, nor is to be construed as, Cameron Partners' advice. For clarity, Cameron Partners is not making, is not purporting to make, and must not be interpreted as making any assessment of the merits of the proposed capital structure changes or making any recommendation to any shareholder in regard to those proposed changes.**

» **Cameron Partners' liability is at all times strictly limited to Fonterra under the terms of the engagement letter it has with Fonterra in regard to the Proposals. Cameron Partners will not be liable to anyone else for any reason (including negligence) in respect of the material contained in this Appendix 2.**

Appendix 3. Comparing other alternatives

Throughout the consultation, some of you have raised questions about whether alternative structures could better address the challenges we face. The most common alternatives have been:

» Listing part of the Co-op.

» Returning to a nominal share.

» Increasing the extent to which unshared supply could be used.

We have considered all of these suggestions in detail, both before we put forward the preferred option in May, and since. We are not recommending that we proceed with these options and we discuss why in this section.

1. Listing part of the Co-op

» Early on in the review we considered a structure we called "Split Co-op".

» This involved splitting Fonterra's assets into two companies, which could be characterised as "core" and "value-add" businesses. These businesses could operate independently from one another, they could have separate governance and management, and Fonterra could keep ownership of the core, but list all or part of the value-added assets.

» The rationale for this type of structure is two-fold – that a Co-op may struggle to invest the level of capital to accelerate growth of a value-added business; and that there are different skills and capabilities required for these businesses to reach their potential.

» There are merits to this type of structure, and there are some examples around the world where listing parts of co-ops has created significant value for shareholders. It is not without challenge, however, and there are risks to navigate in ensuring that farmers' interests are protected over the long term. There are several examples of co-ops that have gone down this path and found themselves either unable to access capital to grow value behind the farm gate (because investment in new business opportunities has been prioritised over investment in new processing capacity) or where they have gradually eroded their share of the assets over time and ultimately lost the ownership and control that protects farmers' fair share of value.

» Our view is that the risks in these structures can be significant, and that there are other ways to realise the benefits of external investment such as partnerships, joint ventures, and evolving our portfolio through the divestment of Soprole. We are also considering the most appropriate ownership structure options for Fonterra Australia, one of which is an Initial Public Offering (IPO), with the intention that we retain a significant stake, as referred to in the booklet titled Our Path to 2030.

» New Zealand milk is our biggest strength, and we are continuing to make decisions that align our capital and our people to this core. Our portfolio will always continue to evolve, and we are open to external capital where it makes sense, but not at the expense of farmer ownership and control of the core of our Co-op.

2. Returning to a fixed-value or nominal share

- We've heard suggestions that moving to a fixed or nominal value share that is issued and redeemed by the Co-op would be simpler and give farmers more certainty.
- A range of possible values have been put forward, from a low-value $1 share to a higher-value $3.50 share.
- This structure is like a traditional co-op, and many of you will recall this type of structure from our history.
- There are several challenges with this type of structure.
  - **Transition**: To transition to a low-value nominal share would require a significant capital return, which we could not afford all at once. For example, if we were to move to a $1 nominal share, this would require a capital return in the order of $4-6 billion, which could compromise the financial sustainability of the Co-op.
  - **Redemption risk**: This would also re-introduce redemption risk to the Co-op's balance sheet, which means that as farmers leave or decrease milk supply, the Co-op would need to return capital to them. At a low-value share this might be manageable (although, if a significant capital return were required, this may not be the case), but a higher nominal share would place pressure on the Co-op's balance sheet from year to year and limit our ability to grow value over time.
  - **Regulatory constraints**: A further constraint with a nominal share is that our current regulatory framework is not based on a nominal value share. Therefore, moving to a nominal value share could result in other regulatory changes.
  - **Unbundling of supply and investment**: Lastly, moving to a nominal share would mean that we move away from a traded investment share that should appreciate with the value of the Co-op, to a supply share, that represents a right to supply but not to the underlying assets of the business. While this would provide more certainty for farmers around the price at which they enter and exit, a nominal share wouldn't reflect the changes in asset values over time.

3. Allowing more contract supply

- We have had discussions around whether more contract supply could mitigate a declining milk supply.
- We agree that this would be a good option if our only objective was to maintain a sustainable milk supply. However, within our current structure, when we allow a greater degree of unshared supply, this would create more dry shares (as farmers sell shares to move to contract supply) that could move into the Fund. Allowing more unshared supply would only take us so far before we needed to begin buying back shares in order to stay within constitutional thresholds relating to the Fund size.

Glossary

Associated farmer owner	means a sharemilker, contract milker or farm lessor who may become a shareholder in the Co-op
Board	means the board of directors of Fonterra
Constitution	means Fonterra's constitution, as amended from time to time
Contract milker	means a person that is contract milking for a supplying farmer owner under a bona fide arrangement
Co-op, Co-operative or Fonterra	means Fonterra Co-operative Group Limited
CSN	means "common shareholder number" which is the number you are provided with in relation to your shareholding in the Co-op
Custodian	means Fonterra Farmer Custodian Limited
DIRA	means the Dairy Industry Restructuring Act 2001
Dry share	means a share that is not backed by milk supply
Economic rights	means the rights to receive dividends and other economic benefits derived from a share held by the Custodian for the benefit of the trustee of the Fund
Farm lessor	means a land owner that has leased dairy farm-land to a supplying farmer owner under a bona fide arrangement
Farmer-only market or farmer-only FSM	means the Fonterra Shareholders' Market where shares are no longer able to be exchanged into units in the Fund
Farmer owner	means a shareholder in the Co-op
FSF or Fund	means the Fonterra Shareholders' Fund
FSM	means the Fonterra Shareholders' Market
kgMS	means kilogram of milksolids
Manager	means the manager of the Fund, being FSF Management Company Limited

Market maker	means a third party appointed by the Co-op who is active in making bids and offers on a minimum number of shares in the FSM
MyMilk contract	means the current contract supply option without any requirement to purchase shares, available to farmers who meet the relevant criteria
Relevant Interest	is a term that is broadly defined in the Financial Markets Conduct Act 2013, but can be thought of as a proxy for "influence" in respect of shares - it includes: » legal or beneficial ownership of shares » the power to control votes on, or a decision to buy or sell, shares (this includes having a 20% or more ownership or voting interest in other entities that hold shares) » holdings of shares through different but related companies » agreements to act together in respect of shares
Share	means a co-operative share in Fonterra
Sharemilker	means a person that is sharemilking for a supplying farmer owner under a bona fide arrangement
Share standard	means 1 share per 1 kgMS supplied, being the number of shares a farmer owner is currently required to hold in accordance with clause 3.4 of the Constitution
Share-Up Over Time contract	means the contract options to supply Fonterra on the basis that shares are purchased over time, including strike price contract options
Supplying farmer owner	means a farmer responsible for supplying milk to the Co-op under our Terms of Supply who is a shareholder in the Co-op
TAF	means Trading Among Farmers
Temporary cap	means the temporary cap on the size of the Fund that was put in place in May to enable consultation
Wet share	means a share held by a supplying farmer owner that is backed by milk supply
Unit	means a unit issued by the Fund
Voucher	means a certificate referred to in clause 3.4 of the Constitution that was provided to a farmer owner on the transfer of the economic rights of a wet share to the Fund under the 2012 and 2013 supply offers to farmer owners, and that can be used by the farmer owner, together with shares, to meet the Share Standard

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