



MARKET ANNOUNCEMENT

1 DECEMBER 2014

INTRODUCTION OF DISTRIBUTION REINVESTMENT PLAN

FSF Management Company Limited, as the manager of the Fonterra Shareholders' Fund, is pleased to introduce a Distribution Reinvestment Plan (*DRP*) through which holders of units in the Fund can choose to reinvest all or part of their cash distributions to acquire additional units. Details of the *DRP*, including a summary of its key features, are set out in the Distribution Reinvestment Plan booklet, which is available with this announcement.

The *DRP* provides a convenient way to invest distributions in additional units, without incurring brokerage charges or commission.

The *DRP* is optional and is open to all unit holders who have a registered address in New Zealand or Australia.

If unit holders do not wish to participate in the *DRP*, they are not required to do anything and they will continue to receive distributions paid in cash as normal.

If unit holders wish to participate in the *DRP*, they can complete and return the Participation Form included at the back of the *DRP* booklet.

Because of the unique relationship between the Fund and Fonterra Co-operative Group Limited (*Fonterra*) the *DRP* will only apply to a distribution by the Fund where the Fonterra Board determines that Fonterra's Dividend Reinvestment Plan will apply to the corresponding dividend payable on Fonterra's co-operative shares.

-ENDS-

Mike Cronin

Company Secretary - Fonterra Shareholders' Fund

taf@fonterra.com

Phone +64 9 374 9000

Private Bag 92032, Auckland, 1142 New Zealand

www.fonterra.com

DISTRIBUTION REINVESTMENT PLAN

RECEIVE UNITS IN LIEU
OF A CASH DISTRIBUTION



FONTERRA
SHAREHOLDERS'
FUND.



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IMPORTANT INFORMATION

**Offer Document dated
December 2014**

This is an important document. You should read this document before making any decisions. If you have any questions in relation to anything contained in this Offer Document, you should contact your broker, financial, investment or other professional advisor.

OVERVIEW



THE FONTERRA SHAREHOLDERS' FUND (THE FUND) DISTRIBUTION REINVESTMENT PLAN (DRP) ALLOWS YOU TO RECEIVE UNITS IN LIEU OF ALL OR PART OF YOUR CASH DISTRIBUTION.

The DRP provides a straightforward, hands-off approach to increasing your unit holding over time, free from brokerage charges.

If you decide to participate in the DRP now, then you will receive units instead of all or part of the future cash distributions you would otherwise receive for as long as you choose. If you do not want to participate right now – you do not need to take any action – you can choose to participate at a later stage when it suits.

YOUR OPTIONS

YOUR OPTIONS TO PARTICIPATE

If you wish to participate in the DRP, the following options are available to you:

Full Participation – All of your units (and therefore all the distributions payable on your units) will be included in the DRP – including any future units purchased by you or issued to you; or

Partial Participation – Only the number of units chosen by you (and therefore the distributions paid on those units) will be included in the DRP.

HOW TO JOIN, CHANGE YOUR PARTICIPATION LEVEL OR WITHDRAW

If you would like to join, change your participation level or withdraw from the DRP you can complete an application by:

- Filling in the application form with this booklet and returning it to the Share Registrar, Computershare Investor Services Limited in New Zealand or Computershare Investor Services Pty Limited in Australia; or
- Electing the DRP online by visiting Computershare's website at www.investorcentre.com/nz.

Once you've signed up, you automatically participate at the selected level for each distribution payment until you choose to stop or amend your participation. If you apply to join, change your participation level or withdraw from the DRP, that application will take effect immediately. However, if your application is received after 5.00pm on the business day after a Record Date, it will be effective for the following Record Date.

PRICE YOU WILL PAY FOR UNITS

As a result of the relationship between the Fund and Fonterra, the price paid for units you receive under the DRP (referred to in this Offer Document as the “Strike Price”) will be the price payable by Fonterra shareholders to acquire additional Fonterra shares under Fonterra’s dividend reinvestment plan (“Fonterra DRP”).

The Strike Price may include a discount, if determined by the Fonterra Board in relation to the Fonterra DRP for the corresponding Fonterra dividend.

The rules that apply to the Fonterra DRP provide that the Strike Price will ordinarily be calculated based on the prices at which units in the Fund are traded on the NZX Main Board, on the first five business days commencing on, and including the relevant ex-distribution date. The ex-distribution date is generally the second business day before the Record Date.

For more details on how the Strike Price is calculated or other factors that may influence the price, refer to section 6 of the enclosed Terms and Conditions.

ADDITIONAL INFORMATION

ELIGIBILITY

All unit holders who have an address in New Zealand or Australia are eligible to participate in the DRP. You may need to keep in mind whether participating in the DRP could result in you holding more units than the 15% maximum permitted unit holding under the Fonterra Shareholders' Fund Unit Trust Deed.

STATEMENTS WILL BE SENT TO YOU

If you elect to participate in the DRP, details of your entitlement and the number of units issued to you under the DRP will be sent to you by Computershare. This will be done after each distribution payment either by mail, or electronically if you have provided your email address.

UNITS RANK EQUALLY

Units issued under the DRP will rank equally with all existing units and may be sold at any time.

TAX

For New Zealand tax purposes, you should be treated in the same way as if you had not participated. This means that you will derive a distribution of the same amount that you would have derived if you had not participated (i.e. you will be treated as receiving a distribution from the Fund which is then applied to purchase or subscribe for additional units).

The cash amount applied to the DRP will be the net amount of your distribution on participating units after an amount to satisfy any portfolio investment entity (or withholding) tax liability in relation to you has been deducted (where applicable).

This is a general tax summary.
It does not take into account the
circumstances of individual unit
holders and the specific tax details of
participation or non-participation in
the DRP, which may vary considerably.

You should not rely on this general
summary and should seek your own
tax advice.

If you have any specific tax related
questions in relation to the DRP, please
contact your financial advisor.

DIVIDEND POLICY

Information about Fonterra's current
dividend policy can be found in the
Dividend tab of the Financial section
of its website at [www.fonterra.com/nz/
en/Financial/Dividends](http://www.fonterra.com/nz/en/Financial/Dividends)

TERMS AND CONDITIONS

1. INTRODUCTION

The Manager has approved the adoption of a Distribution Reinvestment Plan (DRP). By applying to participate you acknowledge that you have read and agreed to these Terms and Conditions.

In the event of any inconsistency between these Terms and Conditions and anything else contained in this Offer Document, the Terms and Conditions will prevail.

2. THE OFFER

- a) The Manager offers you the opportunity to participate in the DRP, subject to paragraph 2(c).
- b) You may elect to participate by exercising one of the following options:
 - i. **Full participation:** If you elect full participation, participation in the DRP will apply to all Units registered in your name.
 - ii. **Partial participation:** If you elect partial participation, only the number of Units nominated by you will be eligible for participation in the DRP. If you hold less than the nominated number of Units, then the DRP will apply to that lesser number of Units.

If you do not wish to participate and you wish to receive all of your distributions in cash you do not need to do anything.

- c) The Manager may, at its discretion, elect not to offer participation in the DRP to Unit holders whose address is outside New Zealand or Australia, if the Manager considers that to do so would risk breaching the laws of any other jurisdiction. As at the date of this Offer Document, the DRP is only available to Unit holders who have an address in New Zealand and Australia. However, the board of the Manager may amend this at any time, in its sole discretion.

If you do not reside in New Zealand or Australia and you participate in the DRP through a nominee resident in New Zealand or Australia you will be deemed to represent and warrant to the Manager that you can lawfully participate under laws applicable outside of New Zealand and Australia.

- d) You must ensure that when participating you comply with all laws and with the Unit Trust Deed. You are responsible for ensuring, for example, that your participation will not result in you exceeding the Unit holding limitation.

3. METHOD OF PARTICIPATION

You can submit a notice of participation (“**Notice**”) by:

- a) completing the enclosed application form and returning it to Computershare using a reply paid envelope or the contact information set out on the form; or
- b) completing the application online on Computershare’s website at www.investorcentre.com/nz.

In addition:

- a) Participation will be effective immediately upon receipt of your Notice, however if your Notice is received after 5.00pm on the Business Day immediately after a Record Date it will be effective for the following Record Date.
- b) If your Notice does not indicate the desired degree of participation, it will be deemed to be an application for full participation.

4. SOURCE OF UNITS

Units to be acquired under the DRP will be New Units issued by the Manager.

5. OPERATION OF THE DRP

- a) Each Participant in the DRP is deemed to have directed the Manager to apply the net proceeds of every cash distribution, if any, that is available for payment on your Participating Units at the relevant Record Date, as payment for the Units to be issued under the DRP. The number of Units to be received by Participants will be determined in accordance with section 6 of these Terms and Conditions.
- b) The Manager will issue new Units to the Participant on the day that a Participant would have been paid a cash distribution on its Participating Units, .
- c) Units acquired by Participants rank equally in all respects with all other fully paid Units.
- d) Units acquired by a Participant will be registered in the name of the Participant on the Unit register.

6. UNIT ENTITLEMENT

- a) The number of Units to be received by a Participant under the DRP will be calculated using the following formula:

$$AU = \frac{U \times D}{C}$$

Where:

AU: is the number of additional Units to be received.

U: is the number of Participating Units at the relevant Record Date.

D: is the net payment, including any tax refunds and after deduction of any amount to satisfy any portfolio investment entity (or withholding) tax liability in relation to the Participant, expressed in cents per Unit, which would have been payable if the Participant had not participated in the DRP.

C: is, in respect of a distribution for which this DRP operates, the price at which Fonterra Shares are to be acquired under the Fonterra DRP operating in relation to Fonterra Shares in relation to the corresponding dividend payable on those Shares, as determined in accordance with the terms and conditions applicable to the Fonterra DRP ("Strike Price").

The price at which Fonterra Shares are to be acquired under the dividend reinvestment plan operating in relation to Fonterra Shares is the average of the individual daily volume weighted average sale prices expressed in cents, for Units in the Fonterra Shareholders' Fund. It is calculated on all price-setting trades of Units which take place through the NZX Main Board on each of the first five Business Days, or any other period as may be determined by

the Board and announced on the Fonterra Shareholders' Market on the date a dividend is declared, commencing on (and including) the ex-dividend date (less a discount (if any) at the discretion of the Board). The price so determined being the Strike Price. The Strike Price may be varied at the discretion of the Board as set out below.

- b) If no sales of Units on the NZX Main Board occur during the period specified above, then the Strike Price will be deemed to be the sale price for a Unit on the first sale on the NZX Main Board which took place after this period.
- c) Any Strike Price determined under paragraphs 6(a) or 6(b) may be reasonably adjusted by the Board to allow for any bonus issue or dividend expectation. In addition, if, in the opinion of the Board, any exceptional or unusual circumstances have artificially affected the Strike Price so determined or if having regard to comparable individual daily volume weighted average sale prices of Units on the ASX would result in a materially different determination of that Strike Price, the Board may make such adjustment to that Strike Price as it considers reasonable. The Strike Price may also be reduced by any discount determined by the Board, as contemplated in paragraph 11(a)(iii) of the offer document prepared in connection with the Fonterra DRP.
- d) The Board may at its discretion determine that Shares issued under the Fonterra dividend reinvestment plan, and therefore the Units issued under this DRP, may be issued at a discount to the Strike Price.

Any discount will be announced by the Manager via the NZX Main Board and the ASX no later than 10 Business Days prior to the relevant record date (being 5.00pm on the date fixed by the Board for determining entitlements to a dividend).

- e) Where the number of Units calculated in accordance with the preceding formula is not a whole number the number of Units to be acquired by the Participant will be the nearest whole number. If that number is 0.5, then the number of Units will be rounded up to the next whole number. Where the number of Units to be received is rounded down, the Participant will not receive any cash amount as a result of such rounding and no cash amount will be retained on behalf of the Participant to be applied to the next distribution reinvestment.
- f) At the time the price for the Units is set under this paragraph 6, the Manager will ensure that it has no information that is not publicly available and that would, or would be likely to, have a material adverse effect on the realisable price of Units if the information were publicly available.

7. STATEMENTS TO PARTICIPANTS

Computershare will provide a statement to each Participant following each distribution payment date, detailing each Participant's:

- a) Number of Participating Units at the relevant Record Date;
- b) Amount of cash distribution reinvested and the amount of the cash distribution paid on non-Participating Units, if applicable;
- c) The amount of any taxation deductions;
- d) The number of additional Units received under the DRP;
- e) Advice as to the amount of any taxation credits; and
- f) Other matters as are required by law with respect to distributions and/or their reinvestment.

8. VARIATION OR TERMINATION OF PARTICIPATION

A Participant may, at any time, give notice to Computershare to increase, decrease or terminate their participation in the DRP. Any alteration or termination will take effect immediately upon receipt of the notice by Computershare, provided that any notice received after 5.00pm on the Business Day immediately after a Record Date will only be effective for the following Record Date.

9. REDUCTION OR TERMINATION OF PARTICIPATION WHERE NO NOTICE IS GIVEN

Where a Participant with partial participation disposes of part of their Unit holding then, unless they advise the Manager otherwise in writing:

- a) The Units disposed of will be deemed to be the Participant's non-Participating Units.
- b) If the number of Units disposed of is more than the number of the Participant's non-Participating Units, the balance will be attributed to Participating Units.

10. TERMINATION, SUSPENSION AND MODIFICATION OF THE DRP

- a) The Manager may at its discretion:
 - i. Terminate or modify the DRP. If the DRP is modified, then participation under the DRP will continue until it is changed or withdrawn.
 - ii. Suspend the operation of the DRP so that it will not apply to the whole or part of any distributions and that the distribution or the balance of the distribution will be paid in cash.
 - iii. Reject an application or determine that an application will cease to be of any effect.
- b) Where any termination, suspension or modification is made to the DRP pursuant to this paragraph 10, notice of such suspension, modification or termination will be given to all Participants by way of announcements on the NZX Main Board and ASX.
- c) Where notice of any modification or termination is given, it will not be made during the period commencing on a date 21 days before a Record Date for the purposes of determining entitlements to a distribution, and ending on the date of payment of that distribution.
- d) Notwithstanding paragraphs 10(b) and 10(c), the Manager may at any time, without the need for any notice:
 - i. Modify or terminate the DRP to comply with any applicable law, the NZSX Listing Rules, the ASX Rules, any provision of the Unit Trust Deed, to facilitate compliance with the Fonterra DRP, or as required to ensure that Fonterra, in providing a corresponding dividend reinvestment plan to holders of Fonterra Shares, complies with the obligations imposed on it by law, the FSM Rules or Fonterra's Constitution; and
 - ii. Make minor amendments to the DRP where such amendments are of an administrative, procedural or clarifying nature.

11. QUOTATION

The Fund will apply for quotation of the additional Units which may be issued under the DRP on the NZX Main Board and the official list of the ASX. It is expected that such additional Units will be quoted on the NZX Main Board and ASX on the completion of allotment procedures. However, neither NZX Main Board nor ASX accept responsibility for any statement in this Offer Document.

12. INFORMATION FOR AUSTRALIAN UNIT HOLDERS

The offer of Units under the DRP does not need disclosure for the purposes of Part 7.9 of the Corporations Act 2001 (Cth). Accordingly, this Offer Document does not constitute a product disclosure statement for the purposes of the Corporations Act and will not be lodged with the Australian Securities and Investments Commission ("ASIC").

Australian resident Unit holders should note that the Manager is not licensed to provide financial product advice in relation to the Units offered under the DRP. There is no cooling-off regime that applies in respect of the acquisition of Units offered under the DRP. This Offer Document does not take into account Unit holders' personal objectives, financial situations or needs. Unit holders should consider obtaining their own financial product advice in relation to the offer from an independent person who is licensed by ASIC to give such advice.

13. GOVERNING LAW

This Offer Document and the DRP, and its operation, will be governed by the laws of New Zealand.

14. INTERPRETATION

In this Offer Document, unless the context otherwise requires, or specifically stated otherwise:

- a) Headings are to be ignored in construing this Offer Document;
- b) The singular includes the plural and vice versa;
- c) One gender includes the other genders;
- d) References to times of day or dates are to New Zealand times and dates; and
- e) References to money are to New Zealand dollars.

15. AVAILABLE INFORMATION

The Fund's most recent annual report and financial statements (and the auditor's report on those financial statements) are available online at www.fonterra.com. Printed copies are also available to every Unit holder free of charge from the Manager on request by contacting the Registrar at the following addresses:

New Zealand

Computershare Investor Services Limited
Private Bag 92 119
Auckland 1142, New Zealand
Level 2, 159 Hurstmere Road
Takapuna, Auckland 0622, NZ
Tel: +64 9 488 8777
Fax: +64 9 488 8787
Email: enquiry@computershare.co.nz

Australia

Computershare Investor Services Pty Limited
GPO Box 3329, Melbourne
VIC 8060, Australia
Tel: 1 800 501 366 (within Australia)
Tel: +61 3 9415 4083 (outside Australia)
Fax +61 3 9473 2009

DEFINITIONS

The following words have these meanings in this Offer Document:

ASX: ASX Limited or the financial market operated by ASX Limited.

ASX Rules: The listing rules that apply to the ASX.

Board: Fonterra's board of directors.

Business Day: A day on which the Fonterra Shareholders' Market is open for trading.

Constitution: The constitution of Fonterra.

DRP: The distribution reinvestment plan established in relation to Units, as described in this Offer Document.

Fonterra DRP: Fonterra's dividend reinvestment plan established in relation to Shares.

Fonterra or Co-operative: Fonterra Co-operative Group Limited.

Fonterra Shareholders' Fund or Fund: The Fonterra Shareholders' Fund, established under the Unit Trust Deed.

Fonterra Shareholders' Market: The securities market operated by NZX and known as the Fonterra Shareholders' Market.

FSM Rules: The listing rules of the Fonterra Shareholders' Market.

Manager: FSF Management Company Limited, as manager of the Fund.

NZSX Listing Rules: The listing rules that apply to the NZX Main Board.

NZX: NZX Limited.

NZX Main Board: The main board equity securities market operated by NZX.

Offer Document: This offer document, prepared in connection with the DRP.

Participant: A Unit holder who has validly elected to participate in the DRP.

Participating Units: The Units held by a Participant on a Record Date of which that Participant has elected to participate in the DRP.

Record Date: 5.00pm on the date fixed by the Manager for determining entitlements to a distribution.

Registrar: The Unit registrar, being, as at the date of this Offer Document, Computershare Investor Services Limited in New Zealand or Computershare Investor Services Pty Limited in Australia.

Share: A co-operative share in Fonterra.

Strike Price: Has the meaning given to that term in section 6 of these Terms and Conditions.

Terms and Conditions: The terms and conditions that apply to this DRP, as set out in this Offer Document.

Unit: A unit in the Fonterra Shareholders' Fund.

Unit Trust Deed: The trust deed dated 23 October 2012 constituting the Fonterra Shareholders' Fund.

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Distribution Reinvestment Plan Application Form - Fonterra Shareholders' Fund

DO NOT COMPLETE THIS FORM IF YOU WISH TO CONTINUE TO RECEIVE IN CASH ALL DISTRIBUTIONS DECLARED

Name and Address

CSN

Number of Units:

Registered Holders:

A Distribution Reinvestment Plan (DRP) has been introduced in relation to your Fonterra Shareholders' Fund units. Full details of the DRP are set out in the booklet accompanying this application form. A separate form is required for each CSN for which you wish to participate.

If you wish to participate or change your participation, you can either complete an application form online by visiting Computershare's website at www.investorcentre.com/nz (under the 'My Profile' section), or complete and return this form in the enclosed reply paid envelope.

Your options are (choose only one):

Tick one box below

I/We request Full Participation for all units registered in my/our name(s)

☐

I/We request Partial Participation for the following number of units

☐

(please tick the box and insert the number of units)

I/We request to withdraw my/our participation

☐

If you elect Partial Participation you must also state the number of units in respect of which you wish to participate. If you do not indicate the desired degree of participation, it will be deemed to be an application for full participation.

Joint holders must each sign this application form. If a company, it must be signed on behalf of the company by a person duly authorised for that purpose. If signed under a power of attorney a certificate of non-revocation of power of attorney in the usual form must also be submitted with this application form.

I/We acknowledge receipt of a copy of the Offer Document. I/We agree to the Terms and Conditions of the DRP.

Signature of unit holder(s): _____

Date: _____ Email: _____

This application form may be returned at any time to Computershare at either of the addresses below:

New Zealand

Computershare Investor Services Limited
Private Bag 92 119
Auckland 1142, New Zealand
Tel: +64 9 488 8777
Fax: +64 9 488 8787

Australia

Computershare Investor Services Pty Limited
GPO Box 3329, Melbourne
VIC 8060, Australia
Tel: 1 800 501 366 (within Australia)
Tel: +61 3 9415 4083 (outside Australia)
Fax +61 3 9473 2009

Email: enquiry@computershare.co.nz