

FONTERRA ANNUAL MEETING 2018

Notice of Annual Meeting of Shareholders and Explanatory Notes

10.30AM ON THURSDAY, 8 NOVEMBER 2018
FONTERRA LICHFIELD SITE
CORNER SH1 AND WILTSDOWN ROAD
LICHFIELD



Dairy for life

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FONTERRA CO-OPERATIVE GROUP LIMITED ANNUAL MEETING FOR 2018

Fonterra's Annual Meeting will be held at the Fonterra Lichfield Site, Corner of State Highway 1 and Wiltsdown Road, Lichfield at **10.30am on Thursday, 8 November 2018**.

Please use the main entrance and follow the signs to vehicle parking. It is a safety requirement of the site that all attendees wear flat, closed-in footwear.

Annual Meeting Documents

Each Shareholder has been sent:

- This Notice of Meeting booklet, which includes:
 - Letter from the Chairman
 - Notice of Meeting (including the text of the matters to be voted on by Shareholders) (Part One)
 - Explanatory Notes regarding each of the matters to be voted on by Shareholders (Part Two).
- A Fonterra Board of Directors Election Voting Paper
- A Shareholders' Council Voting Paper (for Shareholders in Wards 7 and 19 only)
- A combined Annual Meeting Voting Paper/Proxy Form. Use this Voting Paper:
 - If you are attending the Annual Meeting to vote in person.
 - If you are unable to attend the Annual Meeting, and you do not wish to vote by internet or post, you can appoint a proxy to attend and vote on your behalf by completing the Proxy Form and returning it to the address specified on the freepost envelope included in the Voting Pack or otherwise set out on the form, so that the Returning Officer receives it no later than **10.30am on Tuesday, 6 November 2018**.
 - If you are a company or other body corporate, you can appoint a representative to attend and vote on your behalf by completing the Proxy Form

Further instructions are on the back of the Proxy form.

You can vote on the matters to be considered at the Annual Meeting by **internet** or **post**. The instructions on how to vote in this manner can be found on the Voting Papers.

electionz.com Limited has been authorised by the Board to receive, at the address specified on the freepost envelope included in the Voting Pack or otherwise set out on the Voting Paper, and count, all **internet** and **postal** votes.

For the Annual Meeting you can also vote by proxy, or by attending the meeting in person.

All internet, postal and proxy votes must be received by the Returning Officer by **10.30am on Tuesday, 6 November 2018**.

A Shareholder's voting entitlement is based on their milksolids production, with one vote for every 1,000kg of milksolids supplied during the season ended **31 May 2018**.

If a Shareholder did not supply last season but now owns an existing farm that supplied last season, the voting entitlement will be based on that farm's supply last season or on the Board's estimate of milksolids production for this season. In the case of a dry farm conversion and farm amalgamations/divisions, voting entitlement is based on the Board's estimate of milksolids production for this season. Milk supplied on Contract Supply and milk which is not backed by shares or counting vouchers is excluded from milksolids production when calculating voting entitlements.

In accordance with the Companies Act, the Board has fixed **5.00pm on 10 October 2018** as the date for determining voting entitlements of Shareholders for this meeting.

Accordingly, those persons who are, at **5.00pm on 10 October 2018**, registered as Shareholders will be entitled to vote at the Annual Meeting in respect of the shares registered in their name on that date backed by production.

A Shareholder's voting entitlement for a farm is shown on the Voting Paper enclosed for that farm with this pack. If a Shareholder appoints a proxy, the proxy will exercise that Shareholder's voting entitlement as described above.

Votes Required and Quorum

The ordinary resolutions will be passed if they are approved by a simple majority of the votes of those Shareholders entitled to vote and voting on the resolutions.

The quorum for the meeting is present if not fewer than 50 Shareholders have cast postal votes (including by electronic means) or are present in person or by a representative, who between them hold or represent the holder or holders of not less than two per cent of the voting rights entitled to be exercised on the resolutions to be considered at the meeting.

Results of Voting

The results of voting at the Annual Meeting will be posted on Farm Source at www.nzfarmsource.co.nz and our My Co-op app as soon as vote counting is complete and the Chairman has declared the results.

Meeting Attendees

The Annual Meeting is held for the benefit of Shareholders and their authorised proxies and representatives. Fonterra management will also be in attendance, as well as invited members of the media.

2018 Fonterra Elections and Annual Meeting

Dear farmers,

Our 2018 Annual Meeting will be held at our Lichfield site in the Waikato on Thursday 8 November.

Lichfield is the largest cheese plant site in New Zealand and processes up to approximately 8 million litres of milk per day into cheese and whey products.

The two cheese plants at Lichfield produce Edam, Gouda, Cheddar, Parmesan, Swiss, Egmont and low and unsalted cheeses destined for more than 25 export markets, including Japan, USA, South Korea, Mexico and Russia.

At this year's meeting Miles and I will review the Co-operative's performance against our strategy and update you on the progress with our portfolio review. We will also recognise long-standing Directors John Wilson and Nicola Shadbolt who retire from the Board at the conclusion of the meeting.

Shareholders are being asked to vote on five ordinary business resolutions to approve the remuneration of Directors, Councillors and the Directors' Remuneration Committee Members, approve the appointment of the Auditor and to approve the Shareholders' Council programme and budget.

This year there will also be a resolution to ratify the appointment of Independent Director, Clinton Dines. Each of these ordinary resolutions require at least 50 per cent support from voting farmers to be passed.

There is also a proposal for consideration by Shareholders. Further detail on the proposal and the resolutions are included within this booklet.

If you can't attend the meeting in person, you can cast your vote by internet, post, or by way of proxy. Further instructions on how to vote by all of these methods can be found on the voting papers in your voting pack.

A video of key items from the meeting will be available on Farm Source at www.nzfarmsource.co.nz from Friday 9 November.

I look forward to seeing as many of you as possible at Lichfield.



John Monaghan

Chairman

FONTERRA CO-OPERATIVE GROUP LIMITED

ANNUAL MEETING AGENDA

Below is the proposed programme for the Annual Meeting. Shareholders should note that the order may change at the discretion of the Chairman. Shareholders should allow sufficient time to register their attendance upon arrival prior to the start of the meeting.

10.00am - Registration / Morning Tea
10.30am - Welcome Welcome / Introduction – John Monaghan, Chairman of the Board
10.45am – Annual Meeting Proceedings Chairman's Review Chief Executive Officer's Presentation
Approval of Remuneration of Directors, Shareholders' Councillors and Directors' Remuneration Committee Members Directors' Remuneration Committee Review – David Gasquoine, Chairman Resolution 1: Approval of remuneration of Directors Resolution 2: Approval of remuneration of Shareholders' Councillors Resolution 3: Approval of remuneration of Members of Directors' Remuneration Committee
Appointment of Auditor Resolution 4: Appointment of PricewaterhouseCoopers as auditor and authorisation of the Directors to fix the auditor's remuneration
Ratification of Appointment of Director Resolution 5: Ratification of appointment of Mr Clinton Dines
Shareholders' Council Report Chairman's Review – Duncan Coull Approval of Shareholders' Council Programme and Budget Resolution 6: Approval of the Shareholders' Council programme and budget
Shareholder Proposal Resolution 7: Mr Beach's Proposal
Voting Paper Collection
Announcement of Resolution Results
General Business
1.00 / 1.30pm - Closing / Lunch (approximately)

PART ONE

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS OF FONTERRA CO-OPERATIVE GROUP LIMITED

Notice is given that the Annual Meeting of the Shareholders of Fonterra Co-operative Group Limited ("Company") will be held on **Thursday, 8 November at 10.30am at the Fonterra Lichfield Site, Corner of State Highway 1 and Wiltsdown Road, Lichfield.**

John Monaghan
Chairman, on behalf of the Board
Notice of Meeting dated 15 October 2018

Business

Welcome/Introduction

Annual Meeting Proceedings

Chairman's Review

Chief Executive Officer's Presentation

Approval of Remuneration of Directors, Shareholders' Councillors and Directors' Remuneration Committee Members

Directors' Remuneration Committee Review

Resolution 1: Approval of remuneration of Directors

To consider the remuneration of Directors recommended by the Directors' Remuneration Committee and, if thought fit, to resolve:

"To approve the remuneration of Directors, as recommended by the Directors' Remuneration Committee."

Resolution 2: Approval of remuneration of Shareholders' Councillors

To consider the remuneration of Shareholders' Councillors recommended by the Directors' Remuneration Committee and, if thought fit, to resolve:

"To approve the remuneration of Shareholders' Councillors, as recommended by the Directors' Remuneration Committee."

Resolution 3: Approval of remuneration of Members of the Directors' Remuneration Committee

To consider the remuneration of Members of the Directors' Remuneration Committee recommended by the Board and, if thought fit, to resolve:

"To approve the remuneration of Members of the Directors' Remuneration Committee, as recommended by the Board."

Appointment of Auditor

Resolution 4: Appointment of PricewaterhouseCoopers as auditor and authorisation of the Directors to fix the auditor's remuneration

To consider the appointment of PricewaterhouseCoopers as

auditor of the Company and authorisation of the Directors to fix the auditor's remuneration and, if thought fit, to resolve:

"To appoint PricewaterhouseCoopers as auditor of the Company until the conclusion of the Company's next Annual Meeting and authorise the Directors to fix the auditor's remuneration."

Ratification of Appointment of Director

Resolution 5: Ratification of appointment of Mr Clinton Dines

To consider and, if thought fit, to resolve:

"To ratify the appointment by the Board of Mr Clinton Dines as a Director of the Company, under clause 12.4 of the Constitution."

Shareholders' Council Report

Chairman's Review

Approval of Shareholders' Council Programme and Budget

Resolution 6: Approval of Shareholders' Council programme and budget

To receive and discuss the Shareholders' Council report (including the Milk Commissioner's report) for the 2017/18 season (contained in the Shareholders' Council's 2018 Annual Report to Shareholders) and the Shareholders' Council's programme and budget for the current season and, if thought fit, to resolve:

"To approve the Shareholders' Council's programme and budget for the current season."

Shareholder Proposal

Resolution 7: Mr Beach's Proposal

To consider and, if thought fit, to resolve:

"To direct the Board to initiate within three months a formal Co-operative-wide discussion (to be completed by 1 May 2019) regarding whether the existing share system should be replaced with the New Share Proposal so that all suppliers are equal."

Voting Paper Collection

Announcement of Resolution Results

General Business

EXPLANATORY NOTES TO NOTICE OF ANNUAL MEETING

Welcome

The Chairman will welcome Shareholders.

Annual Meeting Proceedings

Approval of Remuneration of Directors, Shareholders' Councillors and Directors' Remuneration Committee Members

Resolution 1: Approval of remuneration of Directors

In accordance with clause 34.1 of the Company's Constitution, the Directors' Remuneration Committee ("Committee") met in July 2018 to consider, and recommend to Shareholders, the form and amount of the Directors' remuneration. The Committee comprises six Shareholders and is chaired by Mr David Gasquoine.

Between 2014 and 2016 the Committee recommended that Directors' remuneration remain unchanged, which was appropriate given the very challenging economic conditions experienced by Shareholders.

In 2017 the Committee noted that market data showed that remuneration levels for Directors had increased significantly since the Fonterra Directors' remuneration was last increased in 2013. The Committee recommended increases to the remuneration level for Directors, in line with recent market movements. The Committee made this recommendation in 2017 to ensure that Fonterra continued to attract and retain the very best director candidates, one of the key objectives of the Governance and Representation Review recommendations.

The Committee also recommended that a discretionary pool of fees be available for remunerating Directors for additional workload or additional Committee or working group duties.

It was recommended that this discretionary pool of \$75,000 per annum would be allocated at the discretion of the People, Culture and Safety Committee of the Board and the Chairman of the Board.

The Committee believes it is important to set realistic fee levels, having particular regard to the broader market and the workload requirements, to ensure highly skilled directors are attracted and retained on the Board.

In 2018 the Committee engaged EY to provide a report on director remuneration practices in Australia and New Zealand. The Committee reviewed the EY report and assessed workload expectations and market trends including the remuneration structure and levels of other comparable companies. The Committee discussed relativities between different roles, the nature of the Company and the division of workload between the Board Committees. The Committee noted that the \$75,000 discretionary pool of fees put in place in November 2017 had not been used to date.

In considering its recommendation the Committee noted that Fonterra Directors' base remuneration was at market but when combined with no additional fees for Board Committee memberships, Fonterra Directors' remuneration was below market. The Committee also noted that the 2018 general market trend was for a small increase in directors' remuneration.

The Committee determined that with the discretionary pool that was put in place in 2017, the Board has the tools to adequately remunerate Directors for additional workloads including multiple Committee memberships.

As such the Committee determined to recommend no change to Director remuneration in 2018.

The Committee's recommendation to Shareholders in relation to the remuneration of Directors is:

That the remuneration for the Directors be approved at the following amounts from the date of this Annual Meeting:

- Chairman **\$430,000 p.a.** (no change)
- Director **\$175,000 p.a.** (no change)

In addition, at the discretion of the Board, the Chair of each permanent Board Committee may be paid an additional \$35,000 p.a., unless that person is the Chairman of the Board or already in receipt of a Committee Chair allowance (no change).

- Discretionary Pool

Up to **\$75,000** per annum (in aggregate), be provided for fees for Directors to be remunerated for additional duties, workload and responsibilities (in each case not to exceed \$25,000 per annum per Director); such fees to be allocated at the discretion of the People, Culture and Safety Committee of the Board and the Chairman of the Board and the tabling of details of such fee payments to the Directors' Remuneration Committee annually (no change).

The Committee has also approved the expense reimbursement policy for both Directors and Shareholders' Councillors, whereby actual and reasonable expenses associated with their positions are reimbursed. It has also approved, and regularly monitors, the reimbursement of reasonable travel expenses for Directors' spouses/partners.

Resolution 2: Approval of remuneration of Shareholders' Councillors

In accordance with By-law 3.1 of the Shareholders' Council By-laws, the Directors' Remuneration Committee met in July 2018 to consider, and recommend to Shareholders, the form and amount of the remuneration to be paid to Shareholders' Councillors.

The Committee noted that the number of Council wards had been reduced to 25 from the date of the 2017 Annual Meeting.

The Committee considers the Councillor's representative role to be an important one for the Co-operative, and that the level of the honoraria needs to be sufficient to attract and recognise Shareholders of a high calibre serving in that capacity.

Between 2014 and 2016 the Committee recommended that Shareholders' Councillor honoraria remain unchanged, which was appropriate given the very challenging economic conditions experienced by Shareholders.

In 2017 the Committee recommended increases to the Shareholders' Councillor honoraria.

The Committee believes that the Shareholders' Council honoraria remains appropriate and has determined to recommend no change in 2018.

The Committee reviews with the Chair of the Shareholders' Council the allocations made from the discretionary pool in the prior year, and is comfortable that the pool was utilised in a reasonable manner consistent with the intent of the recommendation.

The Committee's recommendation to Shareholders in relation to the remuneration of Shareholders' Councillors is:

That the honoraria for the Shareholders' Councillors and the Chairman of the Council be approved at the following amounts from the date of this Annual Meeting:

- Chair **\$100,000 p.a.** (no change)
- Deputy Chair **\$60,000 p.a.** (no change)
- Councillors **\$35,000 p.a.** (no change)
- Discretionary Pool

Up to **\$100,000** per annum (in aggregate), be provided for additional honoraria of Project Leaders and Subcommittee Chairpersons of the Shareholders' Council (in each case not to exceed \$17,500 per annum per person); and for ordinary Councillors representing the Council at its request on external Committees; such provisions to be allocated in whole or part at the discretion of the Chairman of the Shareholders' Council and the tabling of details of such honoraria payments to the Directors' Remuneration Committee annually (no change to the amount of the current pool arrangement).

Resolution 3: Approval of remuneration of Members of the Directors' Remuneration Committee

The Board met to consider, and recommend to Shareholders, the form and amount of the remuneration to be paid to Members of the Directors' Remuneration Committee. The Directors' Remuneration Committee comprises six elected Shareholders.

The Board noted that the Directors' Remuneration Committee members' honoraria had been increased in 2017.

The Board recommends no change be made in 2018.

The Board's recommendation to Shareholders in relation to the remuneration of Members of the Directors' Remuneration Committee is that the remuneration be set at the following amounts from the date of this Annual Meeting:

- Chairman **\$2,000 p.a.** (no change)
- Member **\$1,000 p.a.** (no change)

Furthermore, Members of the Directors' Remuneration Committee are entitled to be paid for reasonable expenses incurred in connection with the business of the Committee, in line with the policy for remuneration of Directors and Shareholders' Councillors.

Appointment of Auditor

Resolution 4: Appointment of PricewaterhouseCoopers as auditor and authorisation of the Directors to fix the auditor's remuneration

The Companies Act 1993 requires the Company to appoint an auditor. Section 207S of the Companies Act 1993 provides that the fees and expenses of an auditor appointed at an Annual Meeting can be fixed in the manner determined at that meeting.

PricewaterhouseCoopers has audited the Company's financial statements for the year ended 31 July 2018.

The Directors recommend that PricewaterhouseCoopers be appointed as auditor for the coming year. The Directors recommend that Shareholders authorise the Board to fix the auditor's remuneration.

An RFP process is currently underway for the provision of external audit services for the financial year ended 31 July 2020.

Ratification of Appointment of Director

Resolution 5: Ratification of appointment of Mr Clinton Dines

The Company's Constitution requires that the Shareholders of the Company ratify the appointment of each Director appointed by the Board in accordance with clause 12.4 of the Constitution. This is to take place at the first Annual Meeting of the Company following that Director's appointment and, where the appointment is for a term exceeding three years, shall be ratified by Shareholders every three years.

Mr Clinton Dines was appointed by the Board in accordance with clause 12.4 of the Constitution and his appointment is required to be ratified by Shareholders at the 2018 Annual Meeting.

The Fonterra Board has determined that Mr Dines qualifies as an Independent Director.

Mr Dines' remuneration and benefits, as with all of the Independent Directors, are determined by the Board in accordance with section 161 of the Companies Act and are not subject to Resolution 1. However, the Fonterra Board remunerates Independent Directors at the same level as Elected Directors.

Details of his qualifications and experience are set out below.

Clinton Dines

Clinton Dines was President of BHP Billiton China for 7 years and worked within the BHP Billiton business in China for over 20 years, initially as the Company's Senior Country Executive. Prior to joining BHP Billiton Clinton worked for a number of entities based in China and in total spent 36 years living and working in China and is a fluent Mandarin speaker.

Since retiring from BHP Billiton in 2009 Clinton has acted as a Non-Executive Director of a number of entities and currently serves as a Non-Executive Director of North Queensland Airports and Zanaga Iron Ore Company. Clinton also works as a Partner in the Strategic Corporate Advisory of Moreton Bay Partners. He was the Executive Chairman of Caledonia Asia from 2010 to 2013 and is an Adjunct Professor at Griffith University's Asia Institute and is a member of the Griffith University Council. Clinton has extensive experience as a senior executive in China and Asia businesses, including global manufacturing and commodity businesses.

Approval of Shareholders' Council Programme and Budget

Resolution 6: Approval of Shareholders' Council programme and budget

Under this item of business the Chairman of the Shareholders' Council will, in accordance with the requirements of the Company's Constitution:

- Report on the Council's view as to the Company's direction, performance and operations for the preceding season

- Report on the activities undertaken by the Council in the preceding season
- Present the Council's programme and budget for the current season
- Present the Milk Commissioner's Report
- Comment on other dairy industry matters

Shareholders are then asked to approve the programme and budget of the Shareholders' Council for the 2018/19 season:

	FY2018 Budget \$000	FY2018 Actual \$000	FY2019 Budget \$000
Operating Costs:			
Communications	80	32	65
Councillor Honoraria, Staff Salaries and Associated Costs	1,875	1,827	1,825
Professional Services - Milk Commissioner, Milk Price Panel appointees, Legal	100	102	110
Meetings and Engagement	350	397	350
Administration	30	30	35
Total Operating Costs	2,435	2,388	2,385
Connection – contribution to costs of MyConnect conference and Purpose review, Understanding Your Co-operative Programme, Councillor Development and Business Study Trip, Shareholder Engagement	602	555	670
Governance Development Programme	146	123	146
Guardianship - Fonterra Elections (Returning Officer and director candidate meetings costs)	0	0	250
Performance – costs of external analyst including for Value Review	55	98	175
Total	3,238	3,164	3,626

BUDGET

Council seeks Shareholder approval for a budget of \$3.626 million for FY2019 as summarised above.

This is an increase over budgeted and actual spend in FY2018 due to:

- Value Creation Review:** Council has commissioned an independent advisor to determine the value creation for farmers relative to their investment since the inception of Fonterra.

- **Purpose Review:** A Council initiated workstream that seeks to provide greater clarity as to who we are, why we exist and the legacy our people would like to see our Co-op create. Being united in our Purpose will drive strong belief and enable us to create a Vision we all aspire to, and ensure strategy is aligned to - which are vital to the ongoing success of our Co-op. As Fonterra's current and future owners, it is up to us to ensure that our Purpose and Vision extends from our farms to the world.
- **Fonterra Elections** (Director Election, Directors Remuneration Committee Election and Shareholders' Councillor Elections): The costs of the Returning Officer and director candidate meetings have previously been met by the Fonterra Corporate Affairs business unit. Given Council's role in the elections it seems more appropriate for these costs to be met from Council's budget.

As noted, the FY19 budget includes contributions to the costs of the 2019 MyConnect conference (\$210,000) and Purpose review (\$65,000). The balance of costs for these items will be met by Fonterra business units.

In November 2017 Fonterra Shareholders approved a budget of \$3.238 million for FY18 of which \$3.164 million (98%) was utilised. Council meeting expenses exceeded budget due to additional meetings. The Understanding Your Co-operative Programme had a record number of participants resulting in actual costs exceeding those budgeted. These cost overruns were managed by not undertaking other budgeted engagement initiatives.

WORK PROGRAMME

Council's work programme for FY2019 includes:

Performance Monitoring

- Review and report on the outcome of the review of value creation for Shareholders since Fonterra's inception.
- Receive and review Fonterra's Statement of Intentions (SOIs) for FY2019.
- Receive and review Fonterra's strategy, three-year business plan and budget.
- Monitor and report to Shareholders on Council's view of Fonterra's direction, performance and operations, including a commentary on actual achievements compared to the Board's SOIs.
- Continue to work with the Board to evolve a balanced and meaningful performance and reporting framework.
- Understand Fonterra's reasons for any business investments, acquisitions and disposals.
- Report on areas of concern and interest as required.

Connection

Purpose and Vision

- Continue to work with the Board on the Purpose review.
- Review the Co-op's philosophy in light of the outcomes of the Purpose review.

Learning, Development and Succession

- Provide relevant learning and development programmes for Shareholders.
- Provide two appointees to the Governance Development Committee, and receive and consider the Governance Development Committee's annual report on its activities, proposed programme and budget.
- Administer the Governance Development Programme.
- Administer relevant training programmes for Shareholders' Councillors.

Representation

- Engage with officials and make submissions on behalf of Fonterra farmers on the DIRA review.
- Gather and regularly report farmer feedback and views to the Board.
- Consider and investigate any issues referred to Council by Shareholders.
- Meet as a full Council with the full Fonterra Board at least twice during the season.
- Meet with individual members of the Board from time to time as required to perform Council's functions.
- Attend meetings of and represent Fonterra farmers' views to the Board's Co-operative Relations Committee.
- Work to improve Shareholder participation in the Co-operative through providing opportunities for meaningful connection and improving Shareholders' awareness of the importance of engaging with their Co-op.
- Help develop farmers' understanding of our Co-op's strategy and how key Board decisions relate to that strategy.
- Comment to Fonterra farmers on Fonterra and dairy industry matters as they arise.

Guardianship

Independent Appointments

- Appoint the Milk Commissioner.
- Appoint one independent appointee to the Independent Selection Panel (Directors' Election).
- Appoint two representatives to the Board's Milk Price Panel (one of whom must be an independent appointee).
- Appoint one trustee in relation to the operation of the Fonterra Shareholders' Fund.

Co-operative Governance

- Act as a sounding board for the Co-op's Board on matters that impact our individual farming businesses.
- Receive information on and report on the management and operation of the Fonterra Shareholders' Fund.
- Meet with the Milk Price Panel on at least two occasions to receive an overview of the Panel's activities and discuss Milk Price issues.

- Continue to assess the Board's governance practices.

Fonterra Elections

- Manage the Director elections process in consultation with the Board, appoint a Returning Officer to conduct the Fonterra Directors' and Directors' Remuneration Committee Elections, and organise the director candidate meetings.
- Conduct a post-event review of the Fonterra Directors' Election process.
- Appoint two Council observers for Board Nominations Committee meetings when it considers candidates for Farmer Director Elections.

Council Operations

- Convene a minimum of six meetings of the full Council during the year and hold other conference call meetings as required.
- Use Committees and project teams to undertake Council's work programme and address issues in a timely and cost-effective manner.
- Report to Shareholders on Council's activities in the FY2019 Shareholders' Council Annual Report.

Fonterra Constitution and By-laws of the Shareholders' Council

- Propose any changes to the Fonterra Constitution and Council By-laws which the Council considers to be in the best interests of Fonterra Shareholders.
- Review any proposed changes to Fonterra's Constitution.

Shareholder Proposal

Under clause 15.1 of the Constitution, a Shareholder may give written notice to the Board of a matter which the Shareholder proposes to raise for discussion or resolution at the next meeting of Shareholders at which the Shareholder is entitled to vote. Under the provisions of clause 9 of the first schedule to the Companies Act, the Shareholder may include a statement of not more than 1000 words in support of the proposal, together with the name and address of the proposing Shareholder.

Resolution 7: Shareholder Proposal - Mr Murray Beach's Proposal

The Company has received the following proposal from Mr Murray Beach for Shareholder consideration and resolution at the Annual Meeting.

"To direct the Board to initiate within three months a formal Co-operative-wide discussion (to be completed by 1 May 2019) regarding whether the existing share system should be replaced with the New Share Proposal so that all suppliers are equal."

Your Board does not support this proposal and recommends that you vote against it.

The Shareholders' Council has also advised that it unanimously does not support the proposal.

This Shareholder proposal requires the support of farmer Shareholders holding 50% of the voting rights at the Annual Meeting.

The proposing Shareholder, Mr Murray Beach, was entitled to provide a statement in support of the proposal. The following was supplied:

NEW SHARE PROPOSAL

A farmer has 100,000 shares at \$5.50 = \$550,000 Change these to \$2.00 shares

This gives the farmer 275,000 \$2.00 shares

The farmer must keep 100,000 shares worth \$2.00. These could be called his milking quota shares.

This farmer still has 175,000 shares worth \$2.00 that he can sell or transfer. We'll call these his saleable/transferrable shares. The saleable/transferable shares can only be sold to a Fonterra farmer.

If the farmer increases production by 10,000 Milk Solids, he can transfer 10,000 of his saleable/transferable shares to his milking quota shares.

This will give him 110,000 milking quota shares and reduce his saleable/transferable shares to 165,000.

The outsiders' shares, known as the units could be changed to \$2.00 shares and the dividend will have to be honoured on them.

All existing schemes, 6 years to share up, 10 years to share up, contract milk and Mymilk to be replaced by the \$2.00 share over a period of time, say 3 years.

These can be bought from any farmer wishing to sell some of his saleable/transferable shares.

FARM SALES

The farm can be sold with the milking quota shares either incorporated in the price or added on top of the price. These shares are to be connected to the farm as part of the business and are to be sold with the farm.

Fonterra will have to buy back the saleable/transferable shares. These shares are to be bought out of the Retained Dividend Pool.

SO HOW DO WE GET THIS TO WORK

We set 5% as a dividend target but making sure that there is enough money going into the retained dividend pool so that there is no redemption risk to the Co-Op.

Since the change in capital structure, the dividend has averaged at 4.9% and there has been an average of 7 cents retained, therefore 5% is a fair and realistic starting point.

The retained Dividend Pool buys shares from shareholders leaving. All shares bought out of the Retained Dividend Pool drop out of the system.

The Retained Dividend Pool will pay out shareholders that are

leaving within three years from date of notification that they are leaving.

THE RETAINED DIVIDEND POOL REPLACES REDEMPTION

As the shares decrease the dividend should increase. So for that reason the dividend is to be reviewed every second year, taking into account the current interest rate and how much is in the Retained Dividend Pool.

So now we have the Co-op in a position where in 3 years every farmer will have \$2.00 shares to their milking quota. This will encourage farmers to stay with Fonterra. It will put all farmers on an even playing field. This will eliminate the discontent. It will stop farmers leaving, this will safeguard Fonterra's milk supply. As farmers increase production it will start to take the saleable/transferable shares out of the system. This will make it easier for farmers that are struggling as they won't have to buy shares for their extra effort. They'll think this is not such a bad Co-op to milk for.

The ultimate goal is for the saleable/transferable shares to phase out, leaving all suppliers with \$2.00 milking quota shares. This way everybody is the same and it gets rid of a lot of complicated administration also saving the Co-op money.

The contract milk, new identities Mymilk and increased production will take out a lot of the farmer saleable/transferable shares.

We need to know the percentage of contract milk, new identities and Mymilk so that the farmers with saleable/transferable shares can sell to that percentage.

So there is no confusion: Contract milk, Mymilk, 6 years to share up and 10 years to share up amount to about 3%.

Therefore you can only sell about 3% of your saleable/transferable shares, the rest of your saleable/transferable shares sit there and receive the dividend.

If the Retained Dividend Pool builds up we may be able to increase the percentage of saleable/transferable shares that can be sold.

If the dividend is 27 ½ cents on a \$5.50 share, the dividend on a \$2.00 share is 10 cents but you have 2 ¾ times as many shares, giving you exactly the same amount of dividend money.

Farmers that took the 20% special share offer at \$7.92 four years ago and were given vouchers in their place will be able to transfer 20% of their saleable/transferable shares to their milking quota shares. This will not cost the farmer a cent and will give the farmer full voting rights. The farmer will have exactly the same share value.

It will take 20% of the saleable/transferable shares out of the system and won't cost the Co-op a cent either.

It will stop shares going to outsiders that we have to honour the dividend on.

The banks won't lose security.

The New identities, Contract milk and Mymilk will be able to fully share up to their milking quota at \$2.00 per share, so there is something in this for them as well. This way everybody will be the same.

How do we set the share price? The fairest way would be to take the average over the previous 12 months prior to the voting papers going out.

Example as to how the new Share Proposal will work (SUPPORTING STATEMENT)

A farmer milks to 100,000 MSolids. He's previously sold 20% of his shares at \$7.92 which were replaced with vouchers. This means he owns 80,000 shares.

80,000 shares at \$5.50 = \$440,000.00

Change these to \$2.00 shares = 220,000 shares

This gives him 80,000 milking quota shares at \$2.00 and 140,000 saleable/transferable shares. He transfers 20,000 saleable/transferable shares to his milking quota shares getting rid of his vouchers and increasing his milking quota shares to 100,000. He's now fully shared -up with full voting rights. By doing this the saleable/transferable shares drop back to 120,000. Fonterra saves 20% redemption should this person decide to leave.

He has a good season and increases production by 10,000 milk solids, so he transfers 10,000 of his saleable/transferable shares to his milking quota shares. He now has 110,000 milking quota shares and 110,000 saleable/transferable shares. This can save Fonterra another 9% redemption.

He now decides to sell 3% of his saleable/transferable shares to a new identity or contract milker.

That's another 6,000 shares sold. He now has 110,000 milking quota shares and his saleable/transferable shares are down to 104,000. Fonterra saves another 3% redemption.

Now this guy decides to sell his farm so he sells the 110,000 milking quota shares to the new purchaser.

Fonterra's Retained Dividend Pool will only have to pay out the 104,000 saleable/transferable shares which are left at \$2.00 costing the Co-op \$208,000. That's a lot better than 440,000. It's cut the redemption by over 50% on that farm. It also gets rid of 104,000 shares.

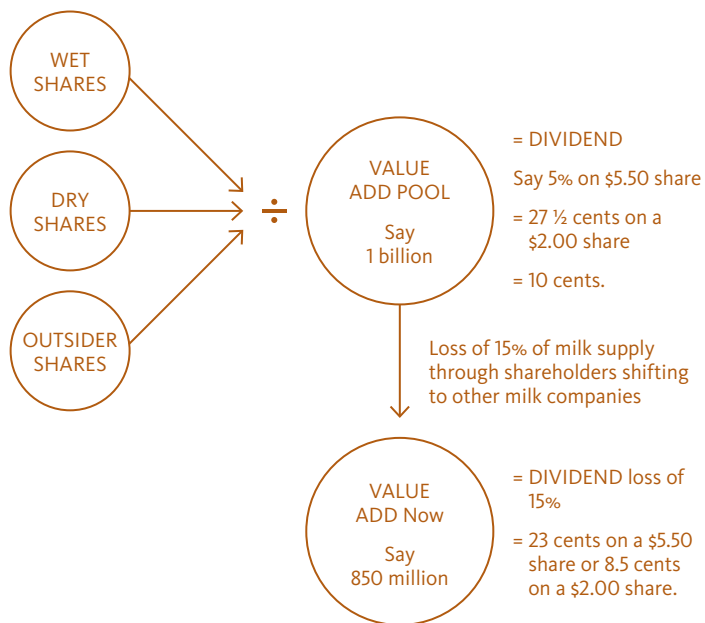
The new farm buyer is in at \$2.00 a share so the chances of him moving to another milk company are less.

Every time there is a farm sale all the existing farmers get more added to their dividend as there are less shares to divide into the value added money.

HOW I SEE IT AT THE MOMENT

When Fonterra stopped paying Redemption if left outsiders to buy up those shares from the people jumping ship.

This has caused the same amount of shares to be out there but the value add pool has decreased due to the loss of milk.



So the shares are staying the same and the Value Add Pool is decreasing through loss of milk and will continue to do so unless we change the system to stop people leaving.

LET'S GET DOWN TO THE BASICS

What happens if we lose another 15% over the next 5 to 10 years? This could put Fonterra down to 65%. That's pretty scary with 21,400 employees and the same overheads. I can't see that lending towards high milk prices.

The problem is the high share price, it encourages people to leave. The second problem is there are too many shares.

If we fix the share price, it stabilises the price, it can't go up or down, so it stabilises your security as well. You know exactly where you are from year to year. The issue is are you milking cows or playing a share market?

So what does the New Share Proposal Achieve?

1. It helps every farmer and the Co-op.
2. It replaces redemption with the Retained Dividend Pool.
3. It encourages farmers to stay with Fonterra.
4. You can increase production without having to buy shares.
5. It fixes the share price.

6. It lets farmers on six years to share up, ten years to share up, contract milk and Mymilk buy shares at \$2.00.
7. It buys out leavers shares increasing the dividend to every shareholder.
8. It stops outsiders buying anymore shares.

It's a good proposal, read it carefully and see how it works on your own individual case, then tell your neighbour. I wasn't asked to bring it forward again for no reason.

I mentioned earlier that there's too many shares.

It's like this: If you have \$100 and there are 10 shareholders, you get \$10 each. If you have \$100 and there are 5 shareholders you get \$20 each.

The amount of our money that Fonterra has invested is only returning 25 - 30 cents dividend to us. With less shares this should increase.

So is there Redemption. Redemption comes across as a dirty word. If there are 300 farm sales a year doing 100,000 milk solids at say \$5.50 a share, under this system it would equate to 105 million and if some of those shareholders had vouchers or increased production might only be 90 million, so it's not that bad.

The theory is if we all put a little bit into buying out the shares, as we get rid of the shares, we'll all get a little bit back.

If the remit gets past the first vote maybe the directors might consider putting a little bit into the Retained Dividend Pool out of what they already retain. That would certainly up their rating.

Fonterra cannot have their cake and eat it too. The problem is the shares are not dropping out of the system, but the milk supply is dropping. In other words we have the same costs but less income. We can cut back on the costs and run more efficiently but we need to save the income as well and that's what this proposal is out to achieve.

I was asked to bring this forward again and to see what shareholders thought of it. I took it to eleven shareholders and got their opinions. Out of the eleven there were seven that supported the remit, three undecided and one against.

Five of these shareholders had been a dairy farm director at some stage of their life. I am only allowed 1,000 words, so if anyone wants to know what those shareholders opinions were, ring or e-mail me.

Murray Beach

Ph: 03 574 2036

e-mail: info.morepork@slingshot.co.nz

Note: The figures used in this proposal are to explain how the proposal works, therefore they are not 100% accurate.

The Board comments on Mr Beach's Proposal

Your Board recommends that you vote AGAINST this proposal.

The Board notes that the New Share Proposal presented by Mr Beach repeats in most respects the New Share Proposal put forward by Mr Beach at the 2015 Annual Meeting which over 91% of Shareholders voted against. The small changes made by Mr Beach to the current form of the New Share Proposal do not shift the fundamental issues that compromised the earlier proposal.

In summary, the proposal would not be in the best interests of our Co-operative for the following reasons:

1. The proposal is detailed but contains a number of inconsistencies and unworkable features. Any proposal to change fundamental features of the Company's capital structure should be properly considered and debated before being recommended to Shareholders. The Board considers that a discussion with Shareholders regarding Mr Beach's proposal would not result in sufficient amendment to Mr Beach's proposal to make it workable or favourable for the Company or provide any tangible benefits to Shareholders.
2. The proposal is inconsistent with the Company's current capital structure. Mr Beach has advised that he believes his proposal would not re-introduce redemption risk. This is incorrect. Mr Beach's proposal would re-introduce redemption risk which was removed by the changes made to the Constitution by Shareholders as part of Trading Among Farmers. The retained dividend pool suggested by Mr Beach to address redemption risk would require Fonterra to retain additional earnings which means Shareholders would receive a reduced dividend each year. If the pool was insufficient to redeem the shares of those leaving our Co-operative, other funding sources within the Company's balance sheet would need to be found. In effect, all remaining Shareholders would be funding those leaving the Co-operative which means redemption risk would be re-introduced.
3. The proposal is also inconsistent with the current statutory framework provided for in the Dairy Industry Restructuring Act 2001. The re-introduction of redemption risk would undermine the Company's financial strength which would impact the Company's strong credit rating and its ability to secure debt funding on favourable terms.
4. The proposal is economically unsound in a number of key respects, and aspects would not be able to be put in place legally. Mr Beach has provided no analysis of the impact of the proposal on the Company and its Shareholders, including any risk analysis, financial benefits and costs, public policy impact or unintended consequences.
5. The Board considers that a nominal share that fails to reflect the investment being made by Shareholders over time in the Company would not be in the best interests of Shareholders or the Company, and could result in decisions and incentives that undermine value.

6. The proposal would undermine the ability of the Company to pursue its strategy, and a Co-operative-wide discussion regarding whether it should replace the existing share system would create an unnecessary distraction to management, the Board and Shareholders, especially at a time when the Board and management are focused on lifting performance and taking stock of our businesses.

The Shareholders' Council has reviewed Mr Beach's Proposal

The Shareholders' Council acknowledges and respects the rights of Shareholders to propose resolutions for consideration by all Shareholders.

The Shareholders' Council considered Mr Beach's proposal and unanimously voted to not support it for the reasons set out below:

1. Mr Beach states that 'the problem is the high share price' and that there is a second problem of 'too many shares'. Mr Beach asserts his proposal will 'stop farmers leaving' the Co-op, will 'encourage farmers to stay' with the Co-op, will 'put all farmers on an even playing field' and will 'eliminate the discontent'. Council does not share these views. Whilst Council acknowledges the loss in share of NZ milk collection, that there are challenges for some farmers with the current capital structure and that a Co-operative wide discussion on capital structure is appropriate from time to time, it considers that at the present time Board and management need to primarily focus on lifting the Co-op's performance. For its part, Council will continue to educate all farmers on the benefit of being in a Co-op, who we are and why our Co-op exists.
2. Any proposal to change Fonterra's capital structure must be thoroughly developed, and then robustly reviewed, analysed, critiqued and debated before it is put to shareholders to vote on to ensure it achieves its desired objectives and that there are no unintended consequences for the Co-op as a whole, both for our business and ourselves as shareholders.
3. Council notes Mr Beach's comment in his Supporting Statement that the 'figures used in [the] proposal are to explain how the proposal works, therefore they are not 100% accurate'. Shareholders should not be asked to support a proposal that is not factually correct.
4. The aspect of the proposal that enables production to increase without the purchase of shares is contrary to the Co-operative Principles. Whilst Council supports the review of those Principles from time to time they are the framework or boundaries within which the Co-op operates. Compromising these Principles without careful consideration could damage the heart of the co-operative and undermine an essential part of who we are.
5. The proposal does not work in all stated respects – for example, redemption risk. Circumstances could arise such that the retained dividend pool is insufficient to fund the redemption of shares by departing shareholders.

6. Council is concerned that the proposal would put further pressure on the balance sheet.
7. A nominal value share does not recognise the investment made by shareholders over time in the Company and as a result removes value from shareholders, and is therefore not in the best interests of shareholders.



If undelivered please return to:

The Returning Officer
Fonterra Elections 2018
PO Box 3138
Christchurch 8140
Free phone 0800 666 034

FONTERRA ANNUAL MEETING 2018

ANNUAL MEETING PROXY PAPER INFORMATION

10.30AM ON 8 NOVEMBER 2018. FONTERRA LICHFIELD SITE, CORNER SH1 AND WILTSDOWN ROAD, LICHFIELD

HOW TO COMPLETE THE PROXY PAPER AND APPOINT A PROXY:

- 1. Appoint a proxy:** Provide the full name and address of your chosen proxy in the box labelled "Primary Proxy". A proxy need not be a Shareholder.

The Chairman of the Meeting is willing to act as your primary proxy. If you wish to appoint the Chairman of the Meeting you can simply write "Chairman of the Meeting".

It is recommended that you appoint an alternate proxy as well, in case your primary proxy is unable to attend on the day of the Annual Meeting. Please provide the full name and address of your alternate proxy in the box labelled "Alternate Proxy".

Please note: You do NOT need to appoint an alternate proxy if the Chairman of the Meeting is your primary proxy.
- 2. Instruct your proxy how to vote:** You can instruct your proxy how to vote by placing a tick in either the "For" or "Against" box. Your proxy CANNOT change the direction of your vote if you instruct them how to vote in this manner. If you do not instruct your proxy how to vote by placing a tick in either the "For" or "Against" box, then your proxy can vote as she/he determines.
- 3. Sign the form:** Each Shareholder must sign the paper:
 - Individuals/Sole Proprietors: the Shareholder must sign the paper.
 - Companies: a duly authorised representative of the company must sign the paper.
 - Joint Shareholders (including trusts, partnerships and estates): it is your responsibility to ensure that the person(s) signing this paper is/are authorised to sign on behalf of, and bind, all joint holders.
 - Attorneys: if the paper is signed under a power of attorney, it must be accompanied by a signed certificate of non-revocation of the power of attorney. The power of attorney under which the paper is signed must be sent with the paper if the power of attorney has not been previously produced to the Company.
- 4. Return the form:** Return the proxy paper as soon as possible. It must be received by the Returning Officer no later than 10.30am on Tuesday, 6 November 2018.
 - Mail by separating, folding and inserting the proxy paper into the freepost envelope provided.

To ensure your Voting Paper reaches the Returning Officer before the close of voting please **post no later than Thursday, 1 November 2018.**

HOW TO APPOINT A CORPORATE REPRESENTATIVE:

In the case of a Shareholder that is a company or other body corporate, a representative can be appointed to attend the Annual Meeting by completing the proxy form. In this form, proxy can mean proxy or representative appointed for a company or other body corporate or entity.

ERRORS AND OMISSIONS:

By signing and returning the proxy paper, you authorise Fonterra, in its sole discretion, to rectify any errors in, or omissions from, the paper form, including by inserting and correcting details.

REVOKING YOUR APPOINTMENT:

If you change your mind on the appointment of a proxy or representative, you can revoke the appointment by written notice to the Company. Such notice must be received at the registered office of the Company - Fonterra Annual Meeting, Fonterra Co-operative Group Limited, Private Bag 92032, Auckland 1142 (or fax to 09 374 9451) no later than 10.30am on Tuesday, 6 November 2018.

FONTERRA ANNUAL MEETING 2018

COMBINED ANNUAL MEETING VOTING/PROXY PAPER



You can vote in **ONE** of the following four ways:

1. INTERNET VOTING

Vote via Farm Source website (at nzfarmsource.co.nz)

- Login using your Farm Source login and password
- Follow the voting links from the homepage
- Enter your Personal Identification Number (PIN) and password – see below.

IMPORTANT: By entering the PIN and password you warrant and undertake that you are authorised to exercise the vote of this Shareholder.

After voting online do not submit this Voting Paper - it can be destroyed.

PIN

PASSWORD

2. POSTAL VOTING

Post the completed Voting Paper to electionz.com in the freepost reply envelope provided.

To ensure your Voting Paper reaches the Returning Officer before the close of voting please **post no later than Thursday, 1 November 2018.**

3. AT THE MEETING

If you plan to attend the meeting, bring this form with you.

Voting instructions:

- Indicate your vote with a tick
- When advised by the Chairman of the Meeting, pass the completed Voting Paper to an official of the meeting.

4. BY PROXY

Appoint a person to attend the Annual Meeting and vote on your behalf. A proxy need not be a Shareholder. To ensure your Proxy Paper reaches the Returning Officer before the close of voting please **post no later than Thursday, 1 November 2018.**

Internet, postal votes and proxy appointments must be received by [electionz.com Ltd](http://electionz.com) no later than: 10.30am on Tuesday, 6 November 2018

For enquiries phone the ELECTION HELPLINE: 0800 666 034



FONTERRA ANNUAL MEETING 2018
ANNUAL MEETING VOTING PAPER

Use this paper to vote by post or by attending the Annual Meeting to vote in person.



Supply No:

Details of person completing this Voting Paper:

First Name:

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Surname:

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Signature:

Indicate your vote with a tick ✓			FOR	AGAINST
1	Resolution 1: Approval of remuneration of Directors		<input type="radio"/>	<input type="radio"/>
2	Resolution 2: Approval of remuneration of Shareholders' Councillors		<input type="radio"/>	<input type="radio"/>
3	Resolution 3: Approval of remuneration of members of the Directors' Remuneration Committee		<input type="radio"/>	<input type="radio"/>
4	Resolution 4: Appointment of PricewaterhouseCoopers as auditor and authorisation of the Directors to fix the auditor's remuneration		<input type="radio"/>	<input type="radio"/>
5	Resolution 5: Ratification of appointment of Mr Clinton Dines		<input type="radio"/>	<input type="radio"/>
6	Resolution 6: Approval of Shareholders' Council programme and budget		<input type="radio"/>	<input type="radio"/>

Shareholder Proposal				
Indicate your vote with a tick ✓			FOR	AGAINST
7	Resolution 7: Mr Beach's Proposal		<input type="radio"/>	<input type="radio"/>

FONTERRA ANNUAL MEETING 2018
ANNUAL MEETING PROXY PAPER



Only use this paper if you do not plan to attend the meeting but wish to be represented by a proxy holder at the meeting. This paper can also be used by a Shareholder that is a company or other body corporate to appoint a representative.

A: Shareholder Details

Name

Supply Number:

Party Number:

B: Appointment of Proxy

If you wish to appoint someone as your proxy, write their full name and address below. The Chairman of the Meeting is willing to act as a proxy.

Primary Proxy: I/We appoint:

Full name of your proxy:

Full address of your proxy:

as my/our proxy to vote for me/us on my/our behalf at the Annual Meeting of Shareholders to be held at 10.30am on Thursday, 8 November 2018 and at any adjournment of that Annual Meeting.

Alternate Proxy: You do not need to appoint an alternate proxy but it is recommended that you do so, unless you are appointing the Chairman of the Meeting as proxy. The Chairman of the Meeting is willing to act as an alternate proxy. If the person I/we have appointed is unable to be my/our proxy then I/we appoint:

Full name of your alternate proxy:

Full address of your alternate proxy:

C: Voting Instructions You only need to complete this section if you want to instruct your proxy holder how to vote.

		FOR	AGAINST	Shareholder Proposal	FOR	AGAINST
1	Resolution 1	<input type="radio"/>	<input type="radio"/>	7	Resolution 7 Mr Beach's Proposal	<input type="radio"/>
2	Resolution 2	<input type="radio"/>	<input type="radio"/>			
3	Resolution 3	<input type="radio"/>	<input type="radio"/>			
4	Resolution 4	<input type="radio"/>	<input type="radio"/>			
5	Resolution 5	<input type="radio"/>	<input type="radio"/>			
6	Resolution 6	<input type="radio"/>	<input type="radio"/>			

Signature(s) of Shareholder(s) named in Section A (Please see signing instructions on the next page.)

By signing this form, I/we warrant and undertake that I/we are authorised to sign on behalf of, and bind, the Shareholder(s) named in Section A.

Name of Shareholder

Signature

Full name and title of signatory

Date

Name of Shareholder

Signature

Full name and title of signatory

Date

Name of Shareholder

Signature

Full name and title of signatory

Date

If you are appointing a proxy, return this paper as soon as possible. It must be received by the Returning Officer no later than 10.30am Tuesday, 6 November 2018.

Mail by separating, folding and inserting this proxy paper into the freepost envelope provided.