

Market Announcement

6 August 2018

PROVISION OF FINANCIAL ASSISTANCE ON BEHALF OF CONTRACT MILK SUPPLIERS

Fonterra Co-operative Group Limited ("**Co-operative**") advises that it has established a scheme ("**Scheme**"), under which the Co-operative will advance financial assistance to The New Zealand Guardian Trust Company Limited ("**Trustee**"), as trustee of The Contract Fee Trust ("**Trust**"), on behalf of the Co-operative's contract milk suppliers.

Background to the Scheme

Farmers are generally required to hold ordinary shares in the Co-operative ("**Shares**") in proportion to their milk production. However, in limited circumstances, the Co-operative purchases milk from farmers who either do not hold any Shares, or hold insufficient Shares to supply milk to the Co-operative ("**Participants**"). The terms of the supply agreements with Participants allow the Co-operative to charge each Participant a "contract fee", currently five cents per kilogram of milk solids supplied by that Participant.

In order to encourage the Participants to supply the Co-operative as farmer shareholders, the Co-operative will transfer an amount equal to the "contract fee" paid by each Participant to the Trustee (such payment referred to below as the "**Participation Payment**"). The terms of the Trust require that the Trustee instructs a broker to acquire, on-market, units ("**Units**") in the Fonterra Shareholders' Fund, using the Participation Payment transferred by the Co-operative (less any applicable taxes).

The Trustee will hold the Units acquired on trust for the Participants, on a separately identifiable basis as between Participants, based on the amount of the "contract fee" paid by the relevant Participant.

Where a Participant indicates that they intend to continue to supply milk to the Co-operative as a shareholder, the Trustee will transfer all Units held in respect of that Participant to them for them to convert those Units into Shares. The Trustee will instruct the broker to sell, on-market, the Units held in respect of a Participant who elects not to continue to supply milk to the Co-operative as a shareholder. The Trustee will distribute the proceeds of that sale to the Co-operative.

The Co-operative will pay for the fees associated with the Scheme (including fees charged by the Trustee and any broker's fees) ("**Expenses**").

Financial assistance

The Scheme will involve the Co-operative providing financial assistance in connection with the acquisition of Shares, because a Participant may exchange Units acquired by the Trustee from funds supplied by Fonterra into Shares.

The Co-operative therefore provides this announcement pursuant to section 80 of the Companies Act 1993.

Shares in respect of which the financial assistance has been provided	The Shares into which the Units (held by the Trustee in respect of Participants) are converted.
Consideration paid for the Shares	The price paid by the broker for Units purchased on the NZX Main Board in accordance with the Scheme.
Recipients of the financial assistance	The Trustee and all Participants who elect to become a shareholder of Fonterra and convert the Units held for them into Shares.
Nature and amount of the financial assistance	The total of all Participation Payments made by the Co-operative, as well as all Expenses paid by the Co-operative. It is expected that this sum will not exceed \$3,800,000 in the 12 month period from 1 June 2018 to 31 May 2019. (A further notice will be given for the following financial year).

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