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This is an opportunity for the public to invest with New Zealand's biggest company. Fonterra Co-operative Group employs nearly 20,000 people and manufactures and markets dairy products for customers in over 120 countries around the world. It has more than \$12 billion in assets generating revenues in excess of \$14 billion per annum.

While ownership of Fonterra's shares is restricted to New Zealand dairy farmers, Fonterra is issuing Capital Notes to the public and financial institutions. The Capital Notes have an A+ credit rating from Standard & Poor's.

prospectus

An offer of subordinated, unsecured capital notes
This Prospectus is dated 25 October 2001



Fonterra
Co-operative Group



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Introduction

This Prospectus, which is dated 25 October 2001, is for an offer by Fonterra Co-operative Group Limited of unsecured subordinated Capital Notes of an aggregate principal amount of up to \$200 million

This Prospectus contains important information and should be read in its entirety. Investors should note that other important information about the Capital Notes and the Offer is available in the Investment Statement and in the Trust Deed. Copies of the Trust Deed can be obtained from the Fonterra Corporate Centre at Building 103, Leonard Isitt Drive, Auckland Airport, Auckland or from Fonterra's website at www.fonterra.com/capitalnotes

Definitions

Capitalised terms used in this Prospectus have defined meanings which appear in the Glossary section. All references to \$ are to New Zealand dollars unless specified otherwise.

Registration

A copy of this Prospectus signed by or on behalf of the Directors of Fonterra, and having attached to it copies of the documents required (where applicable) by section 41 of the Securities Act 1978, was delivered to the Registrar of Companies for registration under section 42 of the Securities Act 1978.

Offer in New Zealand Only

This Prospectus does not constitute an offer of Capital Notes in any jurisdiction other than New Zealand. No action has been or will be taken by the Company which would permit an Offer of the Capital Notes, or possession or distribution of any offering material, in any country or jurisdiction where action for that purpose is required (other than New Zealand). No Holder, or any other person, may purchase, offer, sell, distribute or deliver Capital Notes, or have in its possession, or distribute to any person, any offering material or any documents in connection with the Capital Notes, in any jurisdiction other than in compliance with all applicable laws and regulations.

Important Dates

Opening Date of the Offer	5 November 2001
Closing Date of the Offer *	28 November 2001
Final Allotment Date and Initial Rate Setting Date **	29 November 2001
Expected date of initial quotation and trading on the NZSE ***	3 December 2001
First interest payment (payable to the initial subscriber)	10 January 2002
Subsequent Interest Payment Dates	10 April, 10 July, 10 October, 10 January
First Election Date	10 July 2002

Notes

- * The Offer will close on the earlier of 28 November 2001 or the date on which subscriptions are received and accepted for the maximum aggregate principal amount of the Capital Notes. The Company has the right to otherwise vary the Closing Date and the Final Allotment Date.
- ** The Initial Rate Setting Date may vary as a consequence of any change in the Closing Date and Final Allotment Date.
- *** Application has been made to the New Zealand Stock Exchange for permission to list the Capital Notes and all the requirements of the Exchange relating thereto that can be complied with on or before the date of this Prospectus have been duly complied with. However the Exchange accepts no responsibility for any statement in this Prospectus.

MAIN TERMS OF THE OFFER

Issuer

Fonterra Co-operative Group Limited is the issuer of the Capital Notes. Fonterra is a new company formed on 16 October 2001 from the merger of Kiwi Co-operative Dairies Limited, The New Zealand Co-operative Dairy Company Limited and a predecessor company also called Fonterra Co-operative Group Limited. As a consequence of the merger, Fonterra inherited its predecessors' 96% shareholding in the New Zealand Dairy Board.

Type of Instrument

The Capital Notes are unsecured subordinated interest bearing debt obligations of Fonterra. Further details of the subordination and interest terms are explained below.

Offer Amount

Fonterra is offering for subscription Capital Notes of a maximum aggregate principal amount of up to \$200 million. All of the Capital Notes have been reserved for allocation to clients of the Joint Lead Managers and other member firms of the Exchange. There is no public pool. Members of the public are, however, encouraged to contact any of the Joint Lead Managers or other member firms of the Exchange to enquire about an allocation of Capital Notes.

Allotments

Allotments will be made daily as applications are received and accepted by Fonterra. Fonterra will advise successful applicants of the allotment of Capital Notes to them as soon as possible after the date of allotment. Interest on the Capital Notes will accrue from the date of their allotment.

Term

The Capital Notes have no fixed maturity date and continue in existence until redeemed by the Company on an Election Date or are otherwise purchased by the Company through the secondary market or off market after allotment with agreement from the Holder or are redeemed or repurchased by the Company from its Shareholders in accordance with the Company's Constitution, or for the purposes referred to on page 20.

The Capital Notes have an Election Date of 10 July in each year commencing on 10 July 2002. The Company has the option to redeem all or part of the Capital Notes for cash on an Election Date. This option prevails over any right of a Holder in respect of any Capital Note. The Company will give notice in writing to Holders of its election to exercise its option ("Election Notice") at least 30 days before the Election Date. The redemption price shall be the greater of

- (a) the principal amount of the Capital Note and
- (b) the amount determined by the Company as representing
 - (i) the volume weighted average sale price at which Capital Notes have been traded on the Exchange during the 10 Business Days preceding (but not including) the date on which the Company issues an Election Notice pursuant to Condition 6.2, discounted if necessary to reflect the interest that has accrued on a Capital Note during the period from (and including) the last Interest Payment Date to (but excluding) the date the Company issues the Election Notice, or
 - (ii) where Capital Notes have not traded on the Exchange on more than 5 of those 10 Business Days or where the Capital Notes have ceased to be quoted on the Exchange, the amount determined by an independent reputable financial institution selected by the Company in consultation with the Trustee, to be a fair market price for such Capital Notes.

The Company's option to redeem Capital Notes may be exercised in respect of some or all of the Capital Notes on a non pro rata basis. The Company will only redeem Capital Notes on the Election Date if, in the reasonable opinion of the Board, the Company will be Solvent immediately following the payment of the aggregate amount owing under the Capital Notes to be redeemed on the Election Date.

If the Company

- gives an Election Notice but fails to redeem the Capital Notes within 5 Business Days of the relevant Election Date,

- continues not to be Solvent for the purpose of redeeming Capital Notes after six months,

the Trustee shall be entitled to demand immediate payment of the Capital Notes. If the demand is unsatisfied, the Trustee may take proceedings to compel the payment of the Capital Notes or, with the approval of an Extraordinary Resolution of Holders, for the liquidation of the Company.

If the Company's financial position improves during the 6 months from the Election Date to such an extent that the Company would be Solvent immediately following the redemption of all the Capital Notes the Company has elected to redeem, the Company may redeem those Capital Notes within that 6 month period. The Company will give notice to Holders specifying the date on which the Capital Notes will be redeemed.

The Company will not, at any time while it has not redeemed Capital Notes it has elected to redeem on an Election Date, make any Distribution or any payment of indebtedness ranking *pari passu* with, or subsequent in priority to, the Capital Notes.

Unsecured and Subordinated

The Capital Notes are variable rate, unsecured, subordinated debt securities. They rank in point of priority and right of payment and in all other respects, equally amongst themselves. Interest Rates, interest entitlements, Interest Payment Dates and Election Dates will be the same for this issue of Capital Notes and any future issues of Capital Notes.

On the liquidation of the Company, no payment may be made to Holders in respect of the Capital Notes until the Company's Senior Debt has been paid in full. "Senior Debt" means all outstanding obligations of the Company except its obligations

- under the Capital Notes,
- under the Peak Notes (as defined in the Glossary to this Prospectus),
- under the Supply Redemption Rights (as defined in the Glossary to this Prospectus),
- to other creditors that have agreed to priority equal with or subsequent to the Capital Notes, and
- to Shareholders in their capacity as Shareholders.

The Company's obligation to pay Shareholders for milk supplied to the Company is Senior Debt and on the liquidation of the Company will rank ahead of the Capital Notes.

Prior to the liquidation of the Company, the Trustee is restricted from taking any action against the Company in relation to the payment of the principal amount and Accrued Interest owing under the Capital Notes. This does not restrict the Trustee from appointing a liquidator for the Company in circumstances described in the Trust Deed, including failure to pay interest on Interest Payment Dates (where additional Capital Notes are not issued in lieu thereof) and breaches of certain other covenants.

Credit Rating

As at the date of this Prospectus, the Capital Notes have been assigned a long-term credit rating of A+ by Standard & Poor's.

Interest Rate

Interest will be denominated and payable in New Zealand dollars. Capital Notes will bear interest payable on a quarterly basis, initially at the rate ("the Interest Rate") fixed on the Initial Rate Setting Date, as the greater of

- 7% per annum, and
- the One Year Government Stock Rate as determined by the Calculation Agent ("Base Rate") plus the applicable margin (as discussed below).

The interest rate will be reviewed on 10 July in each year ("Interest Rate Reset Date") and changed in line with the then current Base Rate and the applicable margin. Following each review, the Company will notify Holders of the change in the Interest Rate which became effective on the relevant Interest Rate Reset Date.

The Initial Rate Setting Date is the first Business Day following the Closing Date or such other date Fonterra and the Joint Lead Managers determine. The initial Base Rate will be determined on the Initial

Rate Setting Date and thereafter the Base Rate will be redetermined on each Interest Rate Reset Date. The Base Rate determined on any date will apply from (and including) that date to (but excluding) the date on which it is redetermined.

The initial margin applicable to the Capital Notes will be determined on the Initial Rate Setting Date on the basis of the Credit Rating of the Capital Notes on that date. As at the date of this Prospectus the initial margin will be 1.70% unless the current A+ Credit Rating of the Capital Notes changes. Thereafter the applicable margin will be determined on each Interest Payment Date on the basis of the Credit Rating of the Capital Notes on that date. The margin determined on any date will apply from (and including) that date to (but excluding) the date on which it is redetermined. If there is a change in the Credit Rating of the Capital Notes then the margin will be redetermined on (and with effect from) the Interest Payment Date at the end of the current Interest Period.

The margin applicable for the determination of the Interest Rate will depend on the Credit Rating of the Capital Notes in accordance with the following table:

<i>Credit Rating</i>	<i>Margin</i>
AA	1.50%
AA-	1.60%
A+	1.70%
A	1.80%
A-	1.95%
BBB+	2.20%
BBB	2.60%
BBB-	3.00%
No Credit Rating	3.00%

If there is a change in the Rating Agency the ratings identified in the above table will be deemed to be the equivalent ratings of the new Rating Agency.

Interest Payments

Interest accrues on the Capital Notes on a daily basis from (and including) the date of allotment on the basis of a 365 day year.

Interest will cease to accrue on the Capital Notes on redemption or purchase by the Company or if a liquidator is appointed for the Company. Interest at the Interest Rate will accrue on the aggregate of the principal amount of a Capital Note and Accrued Interest thereon at the date of liquidation until the Capital Note is redeemed by payment of both the principal amount and Accrued Interest to the date of liquidation and interest accrued after the date of liquidation.

The Interest Payment Dates for each Capital Note are 10 January, 10 April, 10 July and 10 October or if any such date is not a Business Day, the next Business Day. The first interest payment will be made on 10 January 2002 to the original allottee of the Capital Note, whether or not on that date the Holder of the Capital Note is some other person. Subsequent interest payments will be made to the Holder recorded on the Register on the Friday between ten and three days prior to the relevant Interest Payment Date.

Interest payments will be made by cheque or direct bank credit.

Issue of Notes in Lieu of Interest

If the Board resolves that payment of interest on an Interest Payment Date would have, or be likely to have, a material adverse effect on the Company, the Company may issue further Capital Notes to Holders in lieu of the payment of all or part of the interest due on the Interest Payment Date. Such Capital Notes will be issued on the same terms as the Capital Notes issued under this Prospectus. The Company may not, during the Interest Period following an Interest Payment Date on which the Company has elected to issue further Capital Notes in lieu of interest, or at any time during which interest remains unpaid where the Company has not issued Capital Notes in lieu of interest.

- make any Distribution to Shareholders (including financial assistance in respect of any shares in the Company) or make any payments for the supply of milk in excess of Permitted Supplier Payments, or
- make any payment of any indebtedness ranking equally or subsequent in priority to the Capital Notes

Deductions and Withholdings

All amounts payable by the Company in respect of the Capital Notes shall, except as otherwise required by law, be paid free of deductions or set off. New Zealand Resident Withholding Tax will be deducted from payments of interest to resident Holders unless the Company is satisfied, at least ten Business Days prior to the relevant Interest Payment Date, that such deductions are not legally required. New Zealand Non-Resident Withholding Tax will be deducted from payments of interest to non-resident Holders unless the Company is satisfied that such deductions are not legally required. The Company intends to obtain and maintain Approved Issuer status. This will allow the Company at the request and expense of a non-resident Holder to make payments to that Holder without deducting Non-Resident Withholding Tax. Instead it will deduct the Approved Issuer levy from the Holder's interest payments.

Resident Withholding Tax and Non-Resident Withholding Tax will be deducted at their respective maximum rates of 39% and 15%. If resident Holders wish to have Resident Withholding Tax deducted at a lower rate, they will need to provide the Company with their IRD number. If they are exempt from Resident Withholding Tax, they will need to provide the Company with their exemption certificate.

New Zealand Stock Exchange Quotation

Application has been made to the New Zealand Stock Exchange for permission to list the Capital Notes and all the requirements of the Exchange relating thereto that can be complied with on or before the date of this Prospectus have been duly complied with. However, the Exchange accepts no responsibility for any statement in this Prospectus.

Transfers of Capital Notes

If the Capital Notes are quoted on the Exchange, they will be transferable using the FASTER trading settlement and transfer system. If the Capital Notes are traded on the FASTER system, the Company is not required to issue certificates under the Trust Deed.

If the Capital Notes are not quoted on the Exchange, they must be transferred by instrument in writing, executed by both the transferor and transferee and delivered to the Registrar for registration, along with the certificate in respect of the Capital Notes being transferred. The Directors, at their discretion, may require additional evidence of the title or right of a transferor to transfer a Capital Note before allowing a transfer to be registered. Once the Registrar is satisfied of the due execution of the transfer, it will register the transfer and the transferee's name will be entered in the Register as Holder. No transfer will be accepted if it would result in the transferee holding Capital Notes with the same Election Date having an aggregate principal amount of less than \$5,000.

Sale of less than Minimum Holding

The Company may give 3 months' notice to any Holder holding Capital Notes of an aggregate principal amount of less than \$5,000. If, after giving such notice, the Holder still holds Capital Notes of an aggregate principal amount of less than \$5,000, the Company may arrange the sale of those Capital Notes on behalf of the Holder through the Exchange or in any other manner approved by the Exchange. The Company shall account to the Holder for the net proceeds of the sale of those Capital Notes.

Applications

All of the Capital Notes have been reserved for allocation to clients of the Joint Lead Managers and other member firms of the Exchange. Members of the public are, however, encouraged to contact any of the Joint Lead Managers or other member firms of the Exchange to enquire about an allocation of Capital Notes. Applications for Capital Notes must be for a minimum aggregate principal amount of \$5,000 and then in multiples of \$1,000. Payment of the purchase price must be made in full on application. Applications for Capital Notes must be made on an Application Form contained in the Investment Statement. For further details on how to apply for the Capital Notes being Offered, please refer to the current Investment Statement in respect of the Capital Notes, copies of which can be obtained on request to any member firm of the Exchange, the Company or any of the Joint Lead Managers at the contact details contained in the Directory on the last page of this Prospectus.

Refunds

If Fonterra accepts applications in part, the balance of the application monies will be refunded (without interest) within 5 Business Days of the date of allotment of the Capital Notes to the applicant.

Any application money received in respect of applications that are not accepted will be refunded to the applicant within 5 Business Days after the later of the date of receipt and the Closing Date. No interest will be paid on refunds.

Brokerage

No brokerage is payable by any subscriber for Capital Notes under the Offer. Brokerage at the rate of 1.5% of the principal amount in respect of initial allotments is payable by Fonterra to member firms of the Exchange in respect of Capital Notes issued by Fonterra under valid applications bearing the stamp of an Exchange member firm.

No underwriting

This offer of Capital Notes is not underwritten.

CONDITIONS OF THE CAPITAL NOTES

1 OVERVIEW

This section contains a summary of the conditions applying to the Capital Notes ("the Conditions"). References in this section to Conditions relate to Conditions contained in the Supplemental Deed. The summaries of the Conditions set out below are subject to the detailed provisions of the Trust Deed and the Supplemental Deed. Words and expressions capitalised in the summaries set out below and not elsewhere defined in this Prospectus have the meanings given to them in the Trust Deed and the Supplemental Deed.

2 TRUST DEED

- 2.1 Capital Notes** The Capital Notes are constituted pursuant to the Trust Deed.
- 2.2 Trust Deed and Conditions Binding** Holders are entitled to the benefit of, are bound by, and are deemed to have notice of, the Trust Deed and the Conditions.
- 2.3 Conditions to Prevail** If there is a discrepancy between the provisions of the Trust Deed and the provisions of the Conditions, the provisions of the Conditions prevail.

3 STATUS AND SUBORDINATION OF THE CAPITAL NOTES

- 3.1 Status** The Capital Notes constitute direct, unsecured, subordinated obligations of the Company and rank *pari passu* and without priority or preference among themselves.
- 3.2 Subordination** In any distribution of assets by the Company in the Liquidation or (to the fullest extent permissible) statutory management of the Company, the rights of the Trustee on behalf of the Holders (and the rights of each Holder) in respect of the Capital Note Obligations (but no other amounts owing pursuant to the Trust Deed) shall
- (a) in point of priority and right of payment rank behind and be subordinated to all Senior Debt so that in any such distribution no payment shall be made on account of the Capital Note Obligations until the Senior Debt has been paid in full and, for the avoidance of doubt, Holders, by acquiring Capital Notes shall be deemed to have agreed to accept a lower priority in respect of Capital Note Obligations than that which they would otherwise have under section 313 of the Companies Act or at law, and
 - (b) be unsecured and limited to the Liquidation Amount in respect of the relevant Capital Notes.
- 3.3 Redemption on Liquidation** Notwithstanding any other condition or any provision of the Trust Deed, on commencement of Liquidation, each Capital Note will be due to be redeemed for an amount equal to the Liquidation Amount of the Capital Note which will only be payable in accordance with and subject to, clause 5 of the Trust Deed.
- 3.4 Relevant provisions of Trust Deed** The rights of the Trustee and Holders are limited and governed in accordance with the detailed provisions of clause 5 of the Trust Deed relating to the subordination of the rights of the Holders and the Trustee on behalf of the Holders in respect of the Capital Note Obligations. These provisions are set out in full at the end of these summaries. The provisions contained in clause 5 of the Trust Deed and in Condition 3 apply notwithstanding anything to the contrary contained or implied in the Trust Deed or the Conditions.

In the Trust Deed and the Conditions

- *Capital Note Obligations* means all obligations of the Company to the Trustee on behalf of Holders, under the terms of the Capital Notes, including (without limitation) the Principal Amount and interest thereon and the Liquidation Amount, but does not include any liabilities of the Company to the Trustee for the costs, fees and expenses of the Trustee in respect of its duties under this Deed,
- *Liquidation* means the process of liquidation provided for in Part XVI of the Companies Act, or removal of the Company from the register under Part XVII of the Companies Act or any other process under which the Company will cease to validly exist including by way of Amalgamation but does not include the Proposed Amalgamation or any reconstruction or Amalgamation of the Company, which has been approved by the Trustee, and under which the obligations of the Company under this Deed and under the terms of issue of Capital Notes are substantially assumed by a successor to the Company,

- *Liquidation Amount* means, in respect of a Capital Note
 - (a) the Principal Amount of the Capital Note plus accrued interest (as that term is defined in the Conditions) (less any withholdings or deductions required by law) as at the Commencement of Liquidation of the Company, and
 - (b) interest on the amount determined in accordance with paragraph (a) in accordance with the Conditions (as if the full amount thereof were included in the Principal Amount) from the date of the Commencement of Liquidation of the Company until the date on which the Capital Note is redeemed by payment of the amount determined in accordance with paragraphs (a) and this paragraph in accordance with the Conditions,
- *Principal Amount* in respect of a Capital Note means one dollar (\$1 00),
- *Senior Debt* means all outstanding obligations of the Company existing at the date of this Deed or which arise or are created at any time in the future and whether actual or contingent and whether liquidated or unliquidated, but does not include
 - (a) any liabilities by the Company to Holders in respect of Capital Note Obligations,
 - (b) any liabilities of the Company in respect of Peak Notes or Supply Redemption Rights,
 - (c) any obligations of the Company which the Company and a creditor of the Company have agreed will rank *pari passu* with or subsequent in priority to Capital Note Obligations and
 - (d) any obligations to Shareholders in their capacity as holders of shares in the Company, whether such shares are Co-operative Shares, redeemable preference shares or another class of share in the Company

4 INTEREST

4 1 Conditions apply to all Capital Notes Conditions 4 2, 4 3 and 4 4 apply to the calculation and payment of interest on all Capital Notes

4 2 Interest Rate Each Capital Note bears interest at the same Interest Rate The Interest Rate applicable to the Capital Notes at any time will be determined as follows

- (a) subject to Condition 4 2(f), the Interest Rate on any date will be the aggregate of the applicable Margin and the applicable Base Rate as at that date
- (b) the initial Base Rate will be determined on the Initial Rate Setting Date and thereafter the Base Rate will be redetermined on each Interest Rate Reset Date The Base Rate determined on any date will apply from (and including) that date to (but excluding) the date on which it is redetermined,
- (c) the Margin applicable for determination of the Interest Rate will depend upon the Credit Rating of the Capital Notes and will be determined in accordance with the following table

<i>Credit Rating</i>	<i>Margin</i>
AA	1 50%
AA-	1 60%
A+	1 70%
A	1 80%
A-	1 95%
BBB+	2 20%
BBB	2 60%
BBB-	3 00%
No Credit Rating	3 00%

If there is a change in the Rating Agency the ratings identified in the above table will be deemed to be the equivalent ratings of the new Rating Agency,

- (d) the initial Margin will be determined on the Initial Rate Setting Date on the basis of the Credit Rating of the Capital Notes on that date and thereafter the applicable Margin will be determined on each Interest Payment Date on the basis of the Credit Rating of the Capital Notes on such date

The Margin determined on any date will apply from (and including) that date to (but excluding) the date on which it is redetermined,

- (e) if a change in the Credit Rating occurs, or the Capital Notes cease to have a Credit Rating, ("a Credit Rating Event") during an Interest Period the Margin will be redetermined on (and with effect from) the Interest Payment Date at the end of that Interest Period in accordance with Condition 4 2(d),
- (f) notwithstanding Condition 4 2(a) above, on any date during the period from (and including) the date on which the first Capital Notes are issued to (but excluding) the first Interest Rate Reset Date, the Interest Rate shall be the greater of the Specified Rate (defined in the Supplemental Deed as 7% per annum) and the aggregate of the Base Rate on the Initial Rate Setting Date and the applicable Margin

4 3 Interest

- (a) Each Capital Note bears interest on its Principal Amount at the Interest Rate applicable from time to time Interest on the principal amount of each Capital Note accrues daily from (and including) the Issue Date of the Capital Note for the period through to (but excluding) the date on which interest ceases to accrue on that Capital Note in accordance with Condition 4 3(b), on the basis of a 365 day year, but subject to Condition 4 6
- (b) Interest ceases to accrue on each Capital Note on the first to occur of
 - (i) the date on which the Capital Note is redeemed or purchased by the Company, and
 - (ii) the Commencement of Liquidation
- (c) Interest at the Interest Rate on the amount determined in accordance with paragraph (a) of the definition of "Liquidation Amount" (as if the full amount determined in accordance with paragraph (a) were included in the principal amount) shall accrue from the date of the Commencement of Liquidation until the Capital Note is redeemed by the payment of the amount determined in accordance with paragraph (a) of the definition of Liquidation Amount and this Condition 4 3(c)

4 4 Interest Payment Subject to Condition 4 6 on each Interest Payment Date the Company will pay the interest accrued on the Principal Amount of each Capital Note during the Interest Period ending on that date

4 5 First Interest Payment Unless otherwise agreed by the Company and the original Holder of the Capital Note any interest paid on the first Interest Payment Date occurring after the Issue Date will be paid to the original allottee of the Capital Note, whether or not on that date the Holder is some other Person All other interest shall be paid to the Holder recorded in the Register on the relevant Record Date in accordance with the Conditions

4 6 Issue of Notes in Lieu of Interest The Company will pay interest when due in accordance with Condition 4 4 (less any withholdings or deductions required by law) unless prior to any Interest Payment Date, the Board resolves that, due to the financial condition of the Company and/or any other considerations relevant to the Company's solvency, the payment of all or part of the interest due to be paid on that Interest Payment Date would have, or be likely to have, a materially adverse effect on the Company In this event the Company is entitled to withhold payment of such amount of interest as is determined by the Board to be the amount that if paid would have, or be likely to have, a materially adverse effect on the Company and to the extent that all or part of the interest due on the relevant Interest Payment Date is not paid the Company shall on that relevant Interest Payment Date (or at such later date as is agreed between the Company and the Trustee as being the earliest date such Capital Notes can be issued in compliance with the Securities Act 1978) issue further Capital Notes to Holders recorded in the Register on the relevant Record Date, in lieu of the payment of all or that part, of the interest due but unpaid on that Interest Payment Date in each case rounded up to the nearest dollar Capital Notes issued to Holders in lieu of the interest due on an Interest Payment Date shall

- (a) for the purpose of the calculation of interest thereon, be deemed to have been issued on the relevant Interest Payment Date,
- (b) have an aggregate Principal Amount equal to the aggregate amount of interest unpaid on their respective Capital Notes (rounded up to the nearest dollar) and such interest shall be deemed to have been paid or satisfied pro tanto by the issue of such Capital Notes, and

- (c) be issued on the terms set out in the Conditions and shall otherwise be issued in compliance with the Securities Act 1978

4 7 No Distributions The Company will not

- (a) during the Interest Period immediately following an Interest Payment Date on which it has elected to issue Capital Notes in lieu of interest, in accordance with Condition 4 6, or
- (b) at any time during which interest remains unpaid under Condition 4 4 in circumstances where the Company has not issued Capital Notes in lieu thereof in accordance with Condition 4 6,

make any Distribution (including the purchase or provision of financial assistance in respect of the purchase or subscription of any shares in the Company) or make any payments for the supply of milk in excess of Permitted Supplier Payments or make any payment in respect of indebtedness of the Company ranking pari passu with or subsequent in priority to, Capital Notes

4 8 Currency Conversion For the purpose of Condition 4 7, before any amount is paid to a Shareholder for the supply of milk in a foreign currency in any period during which Condition 4 7 applies, for the purpose of determining whether such amount is a Permitted Supplier Payment, the amount shall be notionally converted into New Zealand dollars using the rate of exchange determined by the Company required to meet the actual cost to the Company in New Zealand dollars of that foreign currency equivalent, or if that rate cannot be determined, then the New Zealand currency equivalent shall be determined at the rate equal to the spot exchange rate of Westpac Banking Corporation for the purchase of that foreign currency with New Zealand dollars at or about 11 00 a m on the date such Permitted Supplier Payments are made

4 9 Payment on Demand

- (a) Notwithstanding clause 5 11 of the Trust Deed, the Trustee may not make demand under clause 5 11(e)(i), (ii) or (iii) for payment of the Capital Note Obligations unless
 - (i) in the case of clause 5 11(e)(i) of the Trust Deed, any interest due but not paid on an Interest Payment Date remains unpaid for 10 Business Days after the relevant Interest Payment Date or such longer period as may be agreed between the Company and the Trustee if the Company advises the Trustee it intends to issue Capital Notes in lieu of interest in accordance with Condition 4 6,
 - (ii) in the case of clause 5 11(e)(ii) of the Trust Deed, any Capital Notes the Company has elected to redeem on an Election Date remain unredeemed for 5 Business Days after that Election Date or any Capital Notes remain unredeemed for 5 Business Days after the relevant date on which those Capital Notes should have been redeemed pursuant to Condition 6 7,
 - (iii) in the case of clause 5 11(e)(iii) of the Trust Deed, a breach of the covenant in Conditions 4 7 or 6 9 of the Conditions not to make certain Distributions or make any payment of certain indebtedness remains unremedied for 20 Business Days after the date of that breach
- (b) The Company will, if demand is made by the Trustee in accordance with clause 5 11 of the Trust Deed and this Condition 4 9, make immediate payment to the Trustee of the Capital Note Obligations referred to in such demand

5 INTEREST PAYMENTS

5 1 Payment to Holder Subject to the provisions of this Condition 5 1, and in accordance with Condition 5 4

- (a) all payments in respect of a Capital Note will be paid to the Holder entered in the Register as the Holder of that Capital Note as at the close of business on the Friday more than 3 but no more than 10 days prior to the relevant payment date (or if that Friday is not a day on which the Exchange is open for trading, the previous day on which the Exchange is open for trading (the "Record Date")), notwithstanding any notice the Company or the Registrar may have of any subsequent transfer,
- (b) payment is to be made by cheque or direct bank credit in accordance with Condition 5 4,
- (c) the Trustee, in its sole discretion may at any time direct the Company to pay to the Trustee any amount payable by the Company under Condition 5 1(a), and
- (d) if several persons are entered in the Register as joint Holders of any Capital Notes then, without prejudice to Conditions 5 1(a) or 5 4, the payment to any one of such persons of amounts payable

in respect of such Capital Notes shall be as effective a discharge of the Company's obligations (to the extent of such payment) as if the payee was the sole Holder of such Capital Notes

5.2 Deductions or Withholdings Subject to any other terms and conditions which may be set out or referred to in any Prospectus or Investment Statement

- (a) all sums payable by the Company in respect of a Capital Note shall (except to the extent required by law) be paid
 - (i) free of any restriction or condition
 - (ii) except as provided in this Condition 5.2, free and clear of and without any deduction or withholding on account of any tax, and
 - (iii) without deduction or withholding on account of any other amount whether by way of set-off or otherwise
- (b) New Zealand resident withholding tax will be deducted from payments of interest to resident Holders unless the Company is satisfied by the Holder, at least 10 business days prior to the relevant Interest Payment Date, that such deductions are not required by law
- (c) New Zealand non-resident withholding tax will be deducted from payments of interest to non-resident Holders unless the Company is satisfied by the Holder that such deductions are not required by law or the provisions of Condition 5.2(d) apply,
- (d) the Company intends to obtain and use its best endeavours to maintain approved issuer status and will register and use its best endeavours to maintain registration of the Capital Notes as registered securities for the purposes of the approved issuer levy regime in Part VIB of the Stamp and Cheque Duties Act 1971. For so long as the Capital Notes are registered securities for this purpose, the Company will, upon request from and (unless determined otherwise by the Company) at the expense of a non-resident Holder, make payments to that Holder without deduction of New Zealand non-resident withholding tax, but instead will deduct from payments of interest to that Holder and pay the approved issuer levy which is applicable to such interest payment
- (e) deductions of non-resident or resident withholding tax will be made at the maximum rates from time to time applicable unless a Holder provides evidence satisfactory to the Company or the Registrar that a lesser rate is applicable. The Company and the Registrar will be entitled to rely upon information given by a Holder as to that Holder's tax residency when making any deductions of resident or non-resident withholding tax

5.3 Payments Avoided by Law If any payment made to a Holder by, or on behalf of, the Company is avoided by law then except to the extent that the Holder obtains and retains the benefit of such payment, it shall be deemed not to have discharged or affected the liability of the Company in respect of which that payment was made. In such an event the Holder and the Company shall be restored to the position in which each would have been, and be entitled to exercise all the rights which each would have had, if such payment had not been made (to the extent that payment is so avoided)

5.4 Method of Payment All sums payable by the Company in respect of Capital Notes may be paid

- (a) by cheque crossed "account payee only", sent through the post to the registered address of the Holder, or
- (b) by direct bank credit to such bank account in New Zealand as the Holder or joint Holders may in writing direct

Every such cheque shall be made payable to the order of the person to whom it is sent or to such other person as the Holder or joint Holders may in writing direct and payment of such cheque to the Holder, or to such other person as the Holder or joint Holders may so direct, shall be a satisfaction of the sum in respect of which it was drawn

5.5 Taxation Indemnity by Holder

If any liability is imposed by law on the Trustee or the Company to make any payment of or on account of tax payable by the Holder, the Trustee and the Company shall each be indemnified by such Holder and the personal representatives of such Holder and, in the case of the Trustee alternatively by the Company

(in respect of which the Company shall in turn be indemnified as aforesaid) and any monies paid by the Trustee or the Company in respect of any such liability may be recovered by action from such Holder and the personal representatives of such Holder as a debt due to the Trustee or the Company. Nothing in this Condition 5.5 shall limit any other right or remedy of the Trustee or the Company.

6 REDEMPTION OR PURCHASE AT OPTION OF COMPANY ON ELECTION DATE

6.1 The Company's election to redeem Notwithstanding any other Condition, the Company shall have the option (at its discretion) to redeem for cash on any Election Date all or some of the Capital Notes and such option shall prevail over any right of a Holder in respect of any Capital Note. The redemption price shall be the greater of

- (a) the Principal Amount of the Capital Note, and
- (b) the amount determined by the Company as representing
 - (i) the volume weighted average sale price at which Capital Notes have been traded on the Stock Exchange during the 10 Business Days preceding (but not including) the date on which the Company issues an Election Notice pursuant to Condition 6.2, discounted if necessary to reflect the interest that has accrued on a Capital Note during the period from (and including) the last Interest Payment Date to (but excluding) the date on which the Company issues the Election Notice; or
 - (ii) where Capital Notes have not traded on the Stock Exchange on more than 5 of those 10 Business Days or where the Capital Notes have ceased to be quoted on the Stock Exchange, the amount determined by an independent, reputable financial institution selected by the Company in consultation with the Trustee to be a fair market price for such Capital Notes.

6.2 Election Notice If, and to the extent that, the Company elects to exercise such option it shall give notice (the "Election Notice") of such exercise to the relevant Holders not later than 30 days prior to the Election Date in such manner as the Company determines to be the most practicable in all the circumstances, but the non-receipt of such notice by any Holder shall not invalidate or otherwise affect the rights and obligations of the Company to redeem Capital Notes on the Election Date.

6.3 Right to redeem on non pro rata basis The Company's option under this Condition 6 may be exercised in respect of some or all of the Capital Notes held by some or all of the Holders on a non pro rata basis.

6.4 Content of Election Notice The Election Notice referred to in Condition 6.2 shall in respect of the Holder's Capital Notes contain or refer to (without limitation) the following matters:

- (a) the Company's right in accordance with Condition 6.1 to redeem all or some of the Capital Notes on the Election Date,
- (b) the Redemption Amount (determined in accordance with Condition 6.1) of the Capital Note or Capital Notes the Company has elected to redeem as at the Election Date; and
- (c) the process for redemption and payment by the Company of the relevant Redemption Amount.

6.5 Payment of Redemption Amount

- (a) In respect of any Capital Notes that the Company elects to redeem on an Election Date in accordance with Condition 6.1 to 6.4 above or where redemption is pursuant to Condition 6.8 below, the Company shall, subject to Condition 6.7, redeem the Capital Notes to be redeemed on that Election Date or Redemption Date (as the case may be) by payment of the relevant Redemption Amount of the Capital Notes to be redeemed to the Holder(s) in cash on the Election Date or Redemption Date (as the case may be) in accordance with Condition 5.
- (b) Each such payment shall operate as a transfer of the Capital Note to the Company (or its nominee) (and the Registrar shall amend, or be deemed to have amended, the Register accordingly) and shall be a complete satisfaction and discharge of any obligation of the Company to the relevant Holder in relation to the relevant part of the Capital Note Obligations, and the Company shall have no further obligations or liabilities to the relevant Holder in respect of such Capital Note or part thereof.

6.6 Solvency

- (a) Notwithstanding anything contained in Conditions 6.1 to 6.5 above, the Company shall only give an Election Notice in accordance with Condition 6.2 if, in the reasonable opinion of the Board, the Company will be Solvent immediately following redemption of the Capital Notes to be redeemed on the Election Date
- (b) If the Company has given an Election Notice, or if required to redeem pursuant to Condition 6.8 the Board shall no later than three business days prior to the relevant Election Date or Redemption Date (as the case may be) determine (which determination shall be based on reasonable grounds) whether or not the Company will be Solvent immediately following payment of the aggregate of the relevant Redemption Amount of the Capital Notes to be redeemed on that Election Date or Redemption Date (as the case may be)
- (c) If in the reasonable opinion of the Board, the Company will not be Solvent immediately following payment of the aggregate of the relevant Redemption Amount of the Capital Notes to be redeemed then
 - (i) the Company shall immediately notify the Trustee and the Holders of the Capital Notes to be redeemed thereof,
 - (ii) the Company shall not redeem the Capital Notes to be redeemed on the Election Date or Redemption Date (as the case may be), and
 - (iii) subject to Condition 6.7 the Capital Notes to be redeemed will be unaffected and continue in full force and effect on their then terms and conditions (including as to Interest Rate)

6.7 Rights of Trustee If

- (a) the Company is Solvent, but fails within 5 Business Days of the relevant Election Date to redeem the Capital Notes in respect of which the Company has given an Election Notice pursuant to Condition 6.2, or
- (b) the Company does not redeem Capital Notes pursuant to Condition 6.6 and if after a period of six months from the relevant Election Date the Board continues to be of the opinion that the Company is not to be Solvent for the purposes of, and is unable to redeem the Capital Notes to be redeemed in accordance with Conditions 6.5 and 6.6,

then notwithstanding any other provision of the Conditions or of the Trust Deed the Company shall be deemed to be in breach of its covenant in Condition 6.5 and the Trustee shall be entitled to immediately exercise its rights in accordance with clause 5.11(e)(ii) of the Trust Deed

6.8 Continued Insolvency of the Company

- (a) If, at any time during the period of six months after an Election Date the Board determines that the Company's financial position is such that the Company would be Solvent immediately following the redemption of all the Capital Notes to be redeemed in accordance with Conditions 6.5 and 6.6, then (but subject always to Condition 6.6) the Company shall be entitled to redeem all the Capital Notes to be redeemed in accordance with Condition 6.6 at any time prior to the expiration of that six month period
- (b) If the Company elects to redeem the Capital Notes to be redeemed as provided for in Condition 6.8(a), then the Company shall give written notice of such fact to the Holders of the Capital Notes to be redeemed, which notice shall specify a date (being the Redemption Date for the Capital Notes to be redeemed) which must be a business day not later than ten days after such notice is given. The notice referred to above shall be given to the Holders of the Capital Notes to be redeemed whose names are entered in the Register on the date which is three business days prior to the date such notice is given. All the other relevant Conditions shall apply to and be read subject to all modifications necessary to accommodate, redemption pursuant to this Condition 6.8

- 6.9 No default** The Company will not at any time while it has failed to redeem any Capital Notes to be redeemed in accordance with this Condition 6 make any Distribution (including the purchase or provision of financial assistance in respect of the purchase or subscription of any shares in the Company) or make any payment in respect of indebtedness of the Company ranking *pari passu* with, or subsequent in priority

to Capital Note Obligations. However, any failure to redeem Capital Notes to be redeemed as a result of compliance by the Company with the provisions of Condition 6 shall not, except as expressly provided for in the Conditions, constitute a default by the Company for any purpose nor a breach of the Trust Deed nor a breach of the Conditions by the Company, nor entitle the Trustee, or in the circumstances permitted by the Trust Deed, the Holder, to have any recourse to the Company.

7 TRANSFERS AND REPLACEMENTS OF CAPITAL NOTES

7.1 Transfers The Capital Notes may be transferred in multiples of \$1 000 by an instrument in writing properly executed to the satisfaction of the transferor and transferee in the usual or common form for the time being or by any other means permitted by the Exchange, subject to the following provisions:

- (a) every instrument of transfer in writing must be signed by the transferor, and the transferor shall be deemed to remain the owner of each Capital Note concerned until the name of the transferee is entered in the Register;
- (b) every instrument of transfer in writing must be left duly stamped with all (if any) duty payable on it at the office of the Registrar or at such other place as the Company may direct for registration accompanied by the Certificate (if any) in respect of the Capital Notes to be transferred and such other evidence as the Directors of the Company may require to prove the title of the transferor or its right to transfer each such Capital Note. Upon being satisfied as to the due execution of the transfer and the due payment of any applicable stamp duty the Registrar will, subject to the Conditions, register the transfer and will recognise the transferee named therein as the Holder of each Capital Note comprised in the transfer;
- (c) all instruments of transfer in writing which are registered will be retained by the Company, but any transfer instrument which the Directors decline to register shall be returned to the Person submitting it;
- (d) no fee shall be charged for the registration of a transfer which complies with this Condition; and
- (e) except as approved by the Company (at its absolute discretion), no transfer shall be permissible or be accepted for registration where any proposed transfer would result in the transferee holding Capital Notes having an aggregate principal amount of less than the Minimum Holding.

7.2 Sale of Less than Minimum Holding The Company may at any time give notice to any Holder holding Capital Notes of an aggregate principal amount of less than the Minimum Holding (that is Capital Notes having an aggregate principal amount of \$5,000) that if at the expiration of three months after the date the notice is given the Holder still holds Capital Notes of an aggregate principal amount of less than the Minimum Holding the Company may exercise the power of sale of those Capital Notes set out in Condition 7.2. If that power of sale becomes exercisable:

- (a) the Company may arrange for the sale of those Capital Notes through the Exchange or in some other manner approved by the Exchange;
- (b) the Holder shall be deemed to have authorised the Company to act on the Holder's behalf and to execute all necessary documents for the purposes of that sale;
- (c) the Company shall account to the Holder for the net proceeds of sale of the Capital Notes (after deduction of reasonable sale expenses), which shall be held on trust for the Holder by the Company and paid to the Holder on surrender of any certificates for the Capital Notes sold; and
- (d) the title of a purchaser of any Capital Notes sold pursuant to this Condition 7.2 shall not be affected by any irregularity or invalidity in the exercise of the power of sale or the sale itself.

7.3 Transmission by Operation of Law Any person becoming entitled to a Capital Note by operation of law (including upon the death or bankruptcy of a Holder) may, upon producing such evidence of entitlement as is acceptable to the Company, obtain registration as the Holder of the Capital Note or execute a transfer of the Capital Note. This provision includes any case where a person becomes entitled as a survivor or a person registered as joint Holder.

7.4 Replacement of Certificates If any Certificate be lost, stolen, mutilated, defaced or destroyed, it may be replaced by the Registrar upon payment by the claimant of the fees and expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Company and the Registrar

may require Mutilated or defaced Certificates must be surrendered before replacements will be issued The Registrar may decline to register any transfer unless the relevant Certificate (if any) is produced, but may in its discretion dispense with production of the Certificate subject to production instead of such indemnity or declaration of loss as it may require

- 7 5 FASTER Participation** At any time when the Capital Notes are listed on the Exchange the Company shall ensure the inclusion of Capital Notes in the FASTER system operated by the Exchange ("FASTER"), and while the Capital Notes are so included, the Company shall not be required to issue Certificates in accordance with clause 4 7 of the Trust Deed The Registrar and the Company shall be entitled to access and rely on the integrity of and transfers effected through FASTER, and shall not incur any liability for registering any such transfer which is subsequently discovered to be a forgery or defective
- 7 6 Address and Account Details and Tax Residency of Holder** Every Holder shall designate to the Registrar an address and may, at the Holder's election, designate a bank account to which payments under or in respect of the Capital Notes are to be made, in each case within New Zealand, and the address and account (if any) so designated shall be the address and account of such Holder for all purposes of the Conditions and the Trust Deed Any change of name or address or account to which payments are to be made of a Holder shall forthwith be notified in writing to the Registrar, accompanied by such evidence of such change as the Registrar may reasonably require, and the Register shall be amended accordingly Every Holder shall give written notice to the Registrar of that Holder's residency for taxation purposes (if different from the address provided pursuant to this Condition)
- 7 7 Reliance on Documents** The Registrar and the Company shall be entitled to accept and assume the authenticity and genuineness of any transfer form or other document (including without limitation, in respect of any person's authority to complete a transfer for or on behalf of a transferor), and shall not incur any liability for registering any transfer form which is subsequently discovered to be a forgery or otherwise defective, unless the Registrar and the Company had actual notice of such forgery or defect at the time of registration of such memorandum of transfer

8 NOTICES

All notices given by Holders pursuant to the Conditions will be irrevocable

9 SUBORDINATION PROVISIONS OF THE TRUST DEED

These are set out in clause 5 of the Trust Deed and are quoted below

5 1 Subordination

In any distribution of assets by the Company in the Liquidation or (to the fullest extent permissible) statutory management of the Company the rights of the Trustee on behalf of the Holders (and the rights of each Holder) in respect of the Capital Note Obligations (but no other amounts owing pursuant to the Trust Deed) shall

- (a) in point or priority and right of payment, rank behind and be subordinated to all Senior Debt so that in any such distribution no payment shall be made on account of the Capital Note Obligations until the Senior Debt has been paid in full, and
- (b) be unsecured and limited to the Liquidation Amount in respect of the relative Capital Notes

5 2 Amounts Payable Prior to Commencement of Liquidation

Nothing in this Clause 5 shall restrict the payment or performance of Capital Note Obligations in accordance with this Deed and the terms and conditions applicable to the Capital Notes (including the applicable Conditions), prior to the Commencement of Liquidation of the Company and the Trustee and the Holders (as the case may be) shall be entitled to receive and retain such amounts paid by the Company The payment by the Company and receipt by the Trustee or a Holder of any such amount shall not constitute a breach of Clause 5 1 or be subject to the trust mentioned in Clause 5 4

5 3 No enforcement prior to Liquidation

Prior to the Commencement of Liquidation of the Company neither the Trustee nor any Holders may claim, demand plead, sue prove for, compel or seek to enforce, directly or indirectly, including by way of set off or counterclaim, or in any other manner the payment by the Company of any Capital Note Obligations in respect of the Capital Notes Nothing in this Clause applies to the rights of the Trustee under Clauses 5 10 and 5 11

5.4 Commencement of Liquidation

Upon the Commencement of Liquidation of the Company

- (a) the Trustee shall be entitled to claim demand, sue or prove for the payment by the Company of
 - (i) the Liquidation Amount in respect of the Capital Notes to the extent, but only to the extent, necessary to preserve the claim thereto of any Holder(s) (but without limiting the Trustee's right to claim demand sue or prove for the payment of such Liquidation Amount following repayment in full of the Senior Debt), and
 - (ii) any amount owing to the Trustee but unpaid,
 in any Liquidation of the Company,
- (b) subject to the succeeding provisions of this Clause each Capital Note will upon the Commencement of Liquidation of the Company be due to be redeemed for an amount equal to the Liquidation Amount of the Capital Note,
- (c) any proof of debt or other claim (including by way of set off) made by a Holder or the Trustee in relation to Capital Note Obligations in respect of Capital Notes shall be made subject to the Holder or the Trustee acknowledging the priority for payment of all Senior Debt of the Company and shall be limited to the Liquidation Amount,
- (d) no Holder nor the Trustee shall be entitled to take or receive payment from the Liquidator of the Company whether directly or indirectly (including by way of set off or counterclaim) of any Capital Notes Obligations in respect of the Capital Notes then outstanding unless and until all Senior Debt of the Company has been paid or satisfied in full. If any such payment or benefit by way of set off is received by, or on behalf of, a Holder or the Trustee, the amount or benefit received shall except to the extent otherwise provided for in the Conditions of the Capital Notes, be held upon trust by the Holder or the Trustee for the Liquidator and shall be paid by the Holder or the Trustee (as the case may be) to the Liquidator upon trust for the purpose of being applied as provided in paragraph (e) of this Clause
- (e) any amounts received by the Trustee or a Holder from the Company under paragraph (d) above and not paid to the Liquidator shall be received by the Trustee or the Holder on trust to be applied
 - (i) first, in or towards payment or satisfaction of the costs, charges, expenses and liabilities incurred by the Trustee in the execution of the trusts of this Deed (including any unpaid remuneration),
 - (ii) secondly, in or towards payment of the claims of those persons who the Liquidator of the Company determines as at the date of the Commencement of Liquidation of the Company were Senior Creditors of the Company to the extent that those claims have been admitted to proof in such Liquidation (and have not been satisfied out of the other resources of the Company)
 - (A) first, to the Senior Creditor(s) of the Company from or in respect of whom such amount was received, rateably according to their respective entitlements to Senior Debt, until all such Senior Debt has been paid or satisfied in full, and
 - (B) secondly, to the Senior Creditor(s) of the Company rateably according to their respective entitlements to such Senior Debt
 - (iii) thirdly (and subject, at all times, to the Conditions applicable to each Capital Note) subject to all the Senior Debt of the Company having been paid or satisfied in full, in or towards payment pari passu and rateably the Liquidation Amount of all Capital Notes remaining unpaid and any other obligations of the Company which rank pari passu with the Capital Note Obligations in respect of the Capital Notes, and
 - (iv) fourthly, the balance, if any in payment to the Company, or to such other person (including a Liquidator of the Company) as may be lawfully entitled thereto

5 5 Performance of Trust

The Trust mentioned in Clause 5 4 may be performed by the Holder or the Trustee by paying or repaying the amount so received or recovered, or so much thereof as shall be necessary to ensure that all of the Senior Creditors are fully paid or repaid, on trust to the Liquidator or other person charged with or responsible for the making of distributions on behalf of, the Company or, where there is no such person the Company, for distribution to the appropriate Senior Creditors. The receipt of the Liquidator or other such person or the Company, shall be a good discharge to the Holder or the Trustee (as the case may be) for the performance by it of the trust mentioned in Clause 5 4. Any amount which becomes subject to the trust mentioned in Clause 5 4 and which is paid or repaid by any Holder or the Trustee (as the case may be) pursuant to this Clause 5 5 shall thereafter be treated as between the Company and the Trustee or the Holder as if it had never been received or recovered in the first place.

5 6 Reliance on Liquidator

Following the Commencement of Liquidation of the Company the Trustee and every Holder will be entitled and is authorised to call for and to accept, as conclusive evidence a certificate from the Liquidator of the Company for the time being regarding the amount of Senior Debt of the Company which has not been satisfied or otherwise provided for and the Trustee shall be entitled to rely upon a statement in writing from such Liquidator to the effect that all Senior Debt of the Company has been satisfied or discharged and upon receipt of such statement by the Trustee the recipient shall no longer be bound by Clause 5 4.

5 7 Right to Appoint Liquidator

If at any time after the Commencement of Liquidation of the Company and while the Company remains in Liquidation there is no person who holds the office of Liquidator of the Company, the Trustee may (without requiring an Extraordinary Resolution) appoint a person to that office for the purpose of complying with the requirements of this Deed.

5 8 Production of Certificate

Upon any payment by the Trustee to a Holder of any Capital Note Obligations in respect of the Capital Notes, the Trustee may (but shall not be obliged to) require that the relevant Certificate be produced to the Trustee who may endorse it with details of the payment.

5 9 Termination of Trusts

The trusts contained in this Deed and the Conditions in favour of the Senior Creditors shall terminate on the date which is 80 years less one day after the date of this Deed subject to Clause 20 of this Deed.

5 10 No Set-Off

To the fullest extent permitted by law, neither the Trustee nor any Holder shall be entitled to set off against any amounts due in respect of any Capital Notes, any amount held by the Trustee or the Holder to the credit of the Company, whether in an account, in cash or otherwise nor any advances to or debts of the Company, nor any other amount owing by the Trustee or the Holder to the Company on any account whatsoever, nor shall the Trustee or any Holder be entitled to effect any reduction of the amount due to the Trustee or that Holder in respect of a Capital Note by merger of accounts or lien on the exercise of any other right, in all such cases the effect of which set-off, merger, lien or exercise of such rights is or may be to reduce the amount due in respect of that Capital Note in breach of the subordination provisions of this Clause 5 and the Conditions.

5 11 Permitted Proceedings

Nothing in this Deed or the Conditions shall exclude, limit, defer or otherwise prejudicially affect

- (a) the right of the Trustee or, in the circumstances permitted by this Deed, a Holder to take such action as is expressly permitted by this Deed or the Conditions,
- (b) the right of the Trustee to seek directions from a court pursuant to the Securities Act 1978 or to take any other proceedings seeking the directions of or guidance by any court tribunal or other authority as to the performance of its functions and duties hereunder or otherwise in relation to this Deed or the Capital Notes,
- (c) any proceedings taken by the Trustee and/or (but subject to Clause 4 12) any Holder(s) at any time seeking a judgment or order declaratory of the rights or obligations of any Holder or any of

the parties to, or any person having an interest in, this Deed (other than a judgment or order directing, requiring or compelling the payment of Capital Note Obligations in respect of the Capital Notes or otherwise impugning or challenging the provisions of this Clause 5 or the Conditions),

- (d) the right of the Trustee or, in the circumstances permitted by this Deed, any Holder to take proceedings in respect of any breach or threatened breach of, or to compel or enforce performance of, any of the covenants, undertakings and obligations of the Company under this Deed or the Conditions other than (except where expressly permitted) in relation to the payment of Capital Note Obligations in respect of the Capital Notes prior to Commencement of Liquidation of the Company,
- (e) subject to the Conditions applicable to each Capital Note, the right of the Trustee (if and for so long as any breach referred to below is continuing unremedied and the Conditions so provide) to make written demand upon the Company for immediate payment of the Capital Note Obligations if
 - (i) the Company breaches any covenant in the Conditions to pay interest due on the Interest Payment Dates other than in the circumstances permitted by, and where the Company is complying with, the Conditions, or
 - (ii) the Company breaches any covenant in the Conditions to redeem the Capital Notes it has elected to redeem, other than in the circumstances permitted by the Conditions, or
 - (iii) the Company breaches any covenant in the Conditions not to make certain Distributions or make any payment in respect of indebtedness of the Company ranking pari passu with, or subsequent in priority to the Capital Notes,

and, if such demand is not satisfied for 30 days after such written demand is made upon the Company, the right of the Trustee to take proceedings to compel payment by the Company of the Capital Note Obligations or for the Liquidation of the Company (provided that, unless otherwise provided in the Conditions the Trustee shall not issue such proceedings for the Liquidation of the Company without first obtaining an Extraordinary Resolution of the Holders of all outstanding Capital Notes issued under the Trust Deed)

- (f) the right of the Trustee to take proceedings for the Liquidation of the Company for failure to redeem a Capital Note in any circumstances where this Deed or the Conditions specifically give that power to the Trustee, (provided that, where required by this Deed or the Conditions, the Trustee has first obtained an Extraordinary Resolution of the Holders of all Outstanding Capital Notes under this Deed)

5 12 Maintenance of Subordination

If any modification to this Deed including the Conditions or any other documentation consent or acknowledgement is necessary or expedient to permit, facilitate or give effect to the subordination and ranking of any Capital Notes, the Trustee is authorised and directed to concur with the Company in executing the same and any such concurrence shall be on behalf of, and shall bind, the Holders

5 13 No Subordination of Trustee's Entitlement

Nothing in this Deed including the Conditions shall

- (a) subordinate, defer in priority or point of payment, or otherwise affect or prejudice the payment or reimbursement of the costs, charges, expenses, liabilities remuneration indemnities or other monies payable to, the Trustee arising out of its duties as the Trustee under this Deed or the rights and remedies of the Trustee in respect thereof all of which shall be payable to the Trustee at the time and in the manner herein provided, and the payment of which may be claimed and/or enforced by the Trustee, free of the restrictions contained in Clause 5 1 or the Conditions or
- (b) impose upon the Trustee or oblige the Trustee to acknowledge any personal liability to pay any amount which has not first been received by the Trustee in its capacity as Trustee under this Deed and any such liability shall cease in respect of any amount so received and disbursed by the Trustee in good faith in the reasonable belief that the disbursement is authorised under this Deed and, in particular, but without limiting the generality of the foregoing, the Trustee shall not be obliged to pay, or to account for or incur any other liability (whether as a constructive trustee

or otherwise) in respect of any amount which it receives and disburses to any Holders before the Trustee has received actual notice of the Commencement of Liquidation of the Company

5 14 Unclaimed money

If for any reason the Company is not able to pay to a Holder the Principal Amount or interest thereon (other than due to the fault of the Company) the Company may set aside in any bank account the money so owing and the Company's obligation to pay interest thereon shall cease, but without prejudice to the Holder's claim to the money so set aside

5 15 Paramountcy

The provisions contained in this Clause 5 shall apply to the Capital Notes notwithstanding anything to the contrary contained or implied herein or in the Capital Notes or the Conditions

5 16 Reinstatement

Notwithstanding anything elsewhere contained in this Deed or the Conditions, and to the maximum extent permitted by law, if the Company ceases to be in Liquidation (or in any similar process including statutory management), then, to the extent that all or any part of the Liquidation Amount remains outstanding and unpaid, the Trustee the Holder and the Company shall be restored to the position in which each would have been, and be entitled to exercise all the rights which each would have had, if there had been no Commencement of Liquidation

5 17 Further Provisions

The Capital Notes are issued on the basis that

- (a) the provisions of this Clause 5 shall apply notwithstanding any variation or amendment to any agreement creating or evidencing any Senior Debt, and nothing in these Conditions shall prevent the Company from increasing, varying or otherwise dealing with Senior Debt or creating new Senior Debt in such manner as the Company and any Senior Creditor think fit
- (b) the provisions of the Contracts (Privity) Act 1982 shall apply to the benefits conferred in this Clause 5 upon the Senior Creditors and each Senior Creditor is to be considered a "beneficiary" for the purposes of such Act and that such benefits are intended to be enforceable at the suit of any such person and

notwithstanding Clause 5 17(b) above but subject to Clause 13, the Company and the Trustee shall be entitled at any time to vary or discharge any provision of this Clause 5 without requiring the consent or agreement of the Senior Creditors (or any of them)

SUMMARY OF THE TRUST DEED

The Capital Notes are constituted pursuant to the Trust Deed. The Trustee acts as trustee for the holders of Capital Notes. The Trustee does not guarantee the Capital Notes or the payment of interest on the Capital Notes offered under this Prospectus. In this summary, unless otherwise indicated, words commencing with capital letters are defined in the Trust Deed.

Introduction

The following is a summary of the principal provisions of the Trust Deed under which the Capital Notes will be constituted and issued. Investors requiring further information should refer to the Trust Deed which is available for inspection at the Companies Office, Business and Registries Branch, Ministry of Economic Development, Level 5, 3 Kingston Street, Auckland for a fee or at the registered office of the Company or the Trustee, for free, during normal business hours. A copy of the Trust Deed can also be obtained from Fonterra's website at www.fonterra.com/capitalnotes.

Holders are entitled to the benefit of, are bound by and are deemed to have notice of the provisions of the Trust Deed.

General

The Trust Deed is dated 22 March 2001 and was entered into between a predecessor company called Fonterra Co-operative Group Limited and the Trustee. The Trust Deed was modified by a Deed of Modification dated 19 April 2001 and by a further Deed of Modification dated 24 October 2001 and supplemented by an Initial Supplemental Deed dated 24 October 2001. As a result of the merger of Kiwi, New Zealand Dairy and a predecessor company also called Fonterra Co-operative Group Limited, Fonterra has succeeded to the powers, rights, duties, obligations and liabilities of that predecessor company under the Trust Deed. The Capital Notes offered under this Prospectus will be constituted by and issued in accordance with the Trust Deed. The Capital Notes are subject to the detailed provisions of the Trust Deed. The Trust Deed became effective on 16 October 2001.

Relationship between Trust Deed and Constitution

The Company's Constitution contains provisions relating to the discretion of the Company to purchase or redeem Capital Notes in satisfaction of the issue price of Co-operative Shares and Peak Notes in the Company. In addition, the Company will have the discretion to issue Capital Notes to Shareholders who are redeeming Co-operative Shares, Peak Notes, Supply Redemption Rights or Redeemable Preference Shares, in lieu of paying cash. The Trust Deed does not address these rights other than to expressly state that the Trustee has no duty to make enquiries in relation to, consent to, or exercise any discretion with regard to, the exercise of the rights of the Company pursuant to the Constitution.

Relationship between the Trust Deed and the Dairy Industry Restructuring Act 2001

Section 103 of the Dairy Industry Restructuring Act 2001 requires the Company to repurchase Capital Notes issued to exiting shareholding farmers or shareholding farmers who are reducing supply in certain circumstances at the election of the Holder (by notice to the Company within 6 weeks of their issue) for cash and at a price not less than 97.5% of the market price at which they were issued. This requirement applies where the Company (or an associated person as defined in the Act or person with whom the Company or its associate has an arrangement in respect of acquiring Capital Notes) has acquired its Capital Notes during the month immediately before the date the Capital Notes which must be repurchased were issued.

Subordination of Capital Notes

The Trust Deed does not create any security over the assets of the Company. Capital Notes constitute unsecured subordinated indebtedness of the Company.

The Trust Deed and the Supplemental Deed contain detailed subordination provisions with the effect that, in the event of liquidation of the Company, the Capital Notes rank ahead of the Peak Notes, Supply Redemption Rights, Redeemable Preference Shares and obligations to Shareholders in their capacity as Shareholders but otherwise rank behind and subordinate to all outstanding obligations of the Company (including the obligation of the Company to pay Shareholders for milk supplied to the Company).

The subordination provisions in the Trust Deed will apply notwithstanding any variation or amendment to any obligation of the Company ranking in priority to the Capital Notes. In the liquidation of the Company,

the maximum amount available to be distributed to Holders is the principal amount of all Capital Notes plus Accrued Interest

Other Terms and Conditions of Capital Notes

The Trust Deed provides that the conditions for the Capital Notes will be as set out in the Supplemental Deed entered into on 24 October 2001. The principal provisions of the Supplemental Deed are summarised in this Prospectus in the section entitled "Conditions of the Capital Notes" on pages 7 to 19.

Trust Deed Covenants

Under the Trust Deed, the Company covenants, amongst other things, to

- notify the Trustee promptly if the Company fails to make a payment of interest on the Capital Notes when due, or is, or may become, otherwise in breach of its obligations under the Trust Deed,
- send to the Trustee a copy of each notice given by it to Holders
- send to the Trustee at regular intervals copies of the annual and half-yearly financial statements and annual report of the Company, a half-yearly directors' report and an annual auditor's report,
- maintain its corporate existence and not amalgamate, merge or consolidate with any person unless the resulting or surviving entity assumes, to the satisfaction of the Trustee, the obligations of the Company under the Capital Notes,
- not pay dividends or other distributions to its Shareholders, or make any payments for the supply of milk in excess of Permitted Supplier Payments, or make payments in respect of indebtedness ranking equally with or behind the Capital Notes during the Interest Payment period following the issue of further Capital Notes in lieu of interest or, if further Capital Notes in lieu of interest are not issued at any time during which interest is owing but unpaid, until such interest is paid,
- comply with the provisions of the Securities Act applicable to the Capital Notes, and
- whenever so requested, promptly give to the Trustee or any other person authorised by the Trustee to receive it, such information as the Trustee reasonably considers necessary to the discharge of its duties, trusts and powers vested in the Trustee under the relevant Trust Deed or imposed upon it by law, and for this purpose the Company will procure and facilitate the provision of information to the Trustee by the Auditors under the procedures contemplated by section 50 of the Securities Act

No restrictions on borrowing powers of Company

The Trust Deed does not impose any limitations on the Company and its subsidiaries relating to

- the creation of any mortgages or charges ranking in point of security ahead of the Capital Notes,
- the incurring of indebtedness ranking in point of security ahead of, or equally with the Capital Notes,
- any ratio of liabilities, or of any class of liabilities, to assets or to any class of assets of the Company

Trustee's Powers and Duties

Capital Notes are distinguishable from ordinary debt securities on their terms, particularly their limited recourse nature, subordination, priority, limitations on rights of enforcement and the limited availability of remedies. The Trust Deed reflects these features. Therefore, the Trustee's duties are primarily to act as the agent of Holders in certain limited circumstances and, in particular, to collect or preserve the claims of Holders to amounts due, payable and enforceable upon the liquidation of the Company. The Trustee's powers and responsibilities under the Trust Deed are limited accordingly.

In particular, except following the commencement of liquidation of the Company or in the limited circumstances described below, the Trustee may not initiate any proceedings against the Company to obtain payment of the Capital Notes or any interest due on the Capital Notes.

The Trustee may, among other things, in relation to the Capital Notes

- agree to certain amendments to the provisions of the Trust Deed on behalf of Holders,
- represent the Holders in certain matters or proceedings concerning them,

- give certain waivers and make certain determinations which will be binding on Holders, if, in the case of a waiver the Trustee is satisfied that the interests of Holders will not be materially prejudiced or if the waiver is approved by an Extraordinary Resolution of Holders,
- invest any monies held in its capacity as Trustee, at its discretion in the name of the Trustee or its nominee, in any investment it considers fit, with power to vary, transpose or dispose of such investments in accordance with the terms of the Trust Deed,
- notify Holders of certain matters affecting their interests, convene meetings or otherwise seek directions from them or the court in respect of such matters,
- receive and distribute amounts paid in respect of Capital Notes (if they are not paid to Holders directly) and hold and return to, or for the account of, the Company or Senior Creditors any amounts required by the terms of subordination of the Capital Notes
- in performance of its duties rely on reports from the directors and auditors and, in the event of the liquidation of the Company, its liquidator, and the advice or opinion of professional advisers,
- decline to act unless protected for its liabilities costs and expenses
- demand redemption of all outstanding Capital Notes and Accrued Interest if the Company
 - does not pay interest due on the Capital Notes and such interest remains unpaid for 10 Business Days after the relevant Interest Payment Date or such longer period as may be agreed between the Company and the Trustee where the Company intends to issue further Capital Notes in lieu of interest after the Board has resolved that payment of interest would have a material adverse effect on the Company, or
 - has not redeemed within 5 Business Days after the relevant Election Date any Capital Notes it has elected to redeem except where the Company would not be Solvent if it redeemed those Capital Notes and postpones redemption for up to 6 months, or
 - pays a dividend or other Distribution to its Shareholders or makes any payment in respect of indebtedness of the Company ranking pari passu with, or subsequent in priority, to the Capital Notes, in circumstances where it has covenanted not to do so and such breach of a covenant remains unremedied for 20 Business Days and
- apply for the liquidation of the Company, if the Company does not redeem the Capital Notes within 30 days of the Trustee's demand referred to in the preceding paragraph provided that the Trustee may not apply for liquidation unless the Holders have directed it to do so by an Extraordinary Resolution of Holders

The Trust Deed contains provisions limiting the liability of the Trustee in certain circumstances. In addition, the duties set out in clause 1 of the Fifth Schedule to the Securities Regulations 1983 are deemed to be included in the Trust Deed. Such duties are, to the maximum extent permitted by law expressed to be limited and construed by reference to the special features of the Capital Notes

All Holders are deemed to have agreed and have accepted and will be bound by, these limitations

The Trust Deed also provides for certain indemnities in favour of the Trustee, which rank in priority to the claims of Holders, and contains restrictions on the disclosure of information by the Trustee

Amendments to Trust Deed

The Trustee may, without the consent of the Holders if in agreement with the Company, modify or amend the Trust Deed in the circumstances specified in the Trust Deed, including where the Trustee is of the opinion that the proposed amendment

- will correct a manifest error or is made to comply with law, is either of a formal or technical nature or is convenient for the purpose of obtaining or maintaining the quotation of the Capital Notes on the Exchange, or
- is necessary to comply with the Securities Act 1978, the Companies Act, the Co-operative Companies Act 1996, the Financial Reporting Act 1993 or the Act or
- is authorised by an Extraordinary Resolution of the Holders or

- if Capital Notes have been issued, is not, and is not likely to become, materially prejudicial to the interests of the Holders generally

Each such variation will be binding on all Holders and will only be effective if it is in writing and signed by both the Company and the Trustee

An Extraordinary Resolution (or ordinary resolution in limited circumstances) of Holders is binding on all Holders, whether or not the Holders are present or represented at the meeting. An Extraordinary Resolution is a resolution supported by not less than 75% of the votes cast in person or by proxy.

Limitation on Rights

In accordance with their unsecured, subordinated nature, special terms apply to the Capital Notes that restrict the rights and powers of the Trustee and the Holders to require redemption of the Capital Notes by the Company.

Prior to liquidation of the Company, both the Trustee and the Holders have limited rights of recourse against the Company.

Except as described below, a breach by the Company of any representation, warranty or covenant contained in the Trust Deed or the terms of issue of the Capital Notes will not by itself constitute a default by the Company under the Trust Deed or the terms of issue, nor will it entitle the Trustee or the Holders to exercise any rights of recourse against the Company for payment of the principal amount or any interest due on the Capital Notes. The only right of the Trustee or a Holder to require redemption of the Capital Notes is on commencement of the Company's liquidation (which occurs when a liquidator or statutory manager is appointed to the Company or the Company is otherwise dissolved or removed from the Register of Companies) or in the limited circumstances described above under "Trustee's Powers and Duties".

Miscellaneous

The Trust Deed also contains detailed provisions relating to meetings of Holders, registration of the holdings of Holders, the transfer of Capital Notes and various other matters.

Each Holder must (where required by law) be issued a certificate representing his or her Capital Notes. The Trustee and the Company are entitled to rely on the Register as the sole and conclusive record of the Capital Notes, notwithstanding any discrepancy between the Register and a certificate.

Neither the Trustee nor the Company is liable to the other or to any Holder for relying on the Register or for accepting in good faith as valid the details recorded on the Register if they are subsequently found to be forged, irregular or not authentic.

TRUSTEE'S STATEMENT

24 October 2001

To The Directors
Fonterra Co-operative Group Limited
Building 103
Leonard Isitt Drive
Auckland Airport
AUCKLAND

Dear Sirs

Clause 13(3) of the Second Schedule to the Securities Regulations 1983 requires us to confirm that the offer of Capital Notes (the "**Securities**") set out in the Prospectus complies with any relevant provisions of the Trust Deed between a predecessor company called Fonterra Co-operative Group Limited and the Trustee dated 22 March 2001, as amended by a Deed of Modification dated 19 April 2001 and by a further Deed of Modification dated 24 October 2001 and supplemented by an Initial Supplemental Deed dated 24 October 2001 (the "**Trust Deed**"). As a result of the merger of Kiwi Co-operative Dairies Limited, The New Zealand Co-operative Dairy Company Limited and that predecessor company Fonterra Co-operative Group Limited (the "**Company**") has succeeded to the powers, rights, duties, obligations and liabilities of that predecessor company under the Trust Deed

The relevant provisions of the Trust Deed are those which

- (a) entitle the Company to constitute and issue under the Trust Deed the Securities offered in the Prospectus,
- (b) impose any restrictions on the right of the Company to offer the Securities,

and are described in the "Summary of the Trust Deed" and "Conditions of Capital Notes" in the Prospectus

The Auditors have reported on the financial information set out in the Prospectus and our statement does not refer to that information or to any other material in the Prospectus which does not relate to the Trust Deed

We confirm that the offer of the Securities set out in the Prospectus complies with any relevant provisions of the Trust Deed. We have given the above confirmation on the basis

- (a) set out above, and
- (b) that the Trustee relies on the information supplied to it by the Company pursuant to the Trust Deed and does not carry out any independent check of the statements or the figures supplied to it in that information

The Trustee draws your attention to the explanation of the Trustee's role described under the heading "Trustee's Powers and Duties" in the 'Summary of Trust Deed' section of the Prospectus. The Trustee does not guarantee the repayment or purchase of the Securities or the payment of interest thereon

Signed for and on behalf of the Trustee
**The New Zealand Guardian Trust
Company Limited**



D R Church - Chief Manager - Corporate Trusts

FINANCIAL INFORMATION

Certain financial information for Fonterra and for Fonterra and its subsidiaries ("the group"), of which Fonterra is the parent, is presented on the following pages of this Prospectus. In reviewing that information, investors should bear in mind that for the purposes of the Securities Regulations 1983, Fonterra is the issuer, the borrowing group and the sole obligor of the Capital Notes. None of Fonterra's subsidiaries guarantees Fonterra's obligations in respect of the Capital Notes. Accordingly, the financial statements of the group (that is, in the column headed "Consolidated" below) are provided only for the information of prospective investors.

SUMMARY FINANCIAL STATEMENTS

On 16 October 2001 Fonterra succeeded to property, rights, powers and privileges and all liabilities and obligations of New Zealand Dairy, Kiwi and a predecessor company also called Fonterra Co-operative Group Limited in accordance with section 225 of the Companies Act. Historical consolidated financial summaries for New Zealand Dairy, Kiwi and the New Zealand Dairy Board in the form required by the Securities Act (New Co-op Capital Notes Issue) Exemption Notice 2001 are set out below.

The New Zealand Co-operative Dairy Company Limited and its subsidiaries

	Years ended 31 May				
	1997 \$ millions	1998 \$ millions	1999 \$ millions	2000 \$ millions	2001 \$ millions
Total operating revenues	2,346	2,576	2,451	3,427	4,578
Total interest expense	(28)	(26)	(30)	(48)	(60)
Operating surplus (deficit) before taxation	1,366	1,471	1,393	2,157	3,150
Provision for taxation	-	-	-	(5)	(1)
Net surplus (deficit) attributable to minority interests	-	-	-	(12)	-
Payout to suppliers	(1,356)	(1,471)	(1,401)	(2,139)	(3,139)
Net surplus (excluding equity accounted earnings of associates)	10	-	(8)	1	10

	as at 31 May				
	1997 \$ millions	1998 \$ millions	1999 \$ millions	2000 \$ millions	2001 \$ millions
Total assets	1,313	1,492	1,650	2,590	3,418
Total tangible assets	1,311	1,488	1,642	2,584	3,412
Total liabilities	546	618	775	1,121	1,676
Total equity	767	874	875	1,469	1,742

Notes

The amounts stated above have been taken from the audited financial statements of The New Zealand Co-operative Dairy Company Limited and its subsidiaries (but excluding the New Zealand Dairy Board and its subsidiaries) in each year.

Kiwi Co-operative Dairies Limited and its subsidiaries

	Years ended 31 May				
	1997 \$ millions	1998 \$ millions	1999 \$ millions	2000 \$ millions	2001 \$ millions
Total operating revenues	1,410	1,543	1,756	2,587	3,866
Total interest expense	(20)	(31)	(43)	(45)	(103)
Operating surplus (deficit) before taxation	858	868	887	1,449	2,127
Provision for taxation	1	(2)	-	(2)	(11)
Net surplus (deficit) attributable to minority interests	(1)	(1)	(5)	(4)	(7)
Payout to suppliers	(841)	(868)	(896)	(1,442)	(2,106)
Net surplus (excluding equity accounted earnings of associates)	17	(3)	(14)	1	3

Kiwi Co-operative Dairies Limited and its subsidiaries (continued)

	as at 31 May				
	1997 \$ millions	1998 \$ millions	1999 \$ millions	2000 \$ millions	2001 \$ millions
Total assets	1,289	1,535	1,631	2,067	3,213
Total tangible assets	1,282	1,518	1,616	2,048	2,874
Total liabilities	645	855	887	1,012	1,885
Total equity	644	680	744	1,055	1,328

Notes

The amounts stated above have been taken from the audited financial statements of Kiwi Co-operative Dairies Limited and its subsidiaries in each year

New Zealand Dairy Board and its subsidiaries

	Years ended 31 May				
	1997 \$ millions	1998 \$ millions	1999 \$ millions	2000 \$ millions	2001 \$ millions
Total operating revenues	6 129	7,677	7,421	7 651	9,992
Total interest expense	(126)	(165)	(158)	(145)	(140)
Operating surplus (deficit) before taxation	34	49	49	53	399
Provision for taxation	(23)	(29)	(36)	(23)	(128)
Net surplus (deficit) attributable to minority interests	(9)	(12)	(8)	(22)	(29)
Net surplus (excluding equity accounted earnings of associates)	2	8	5	8	242

	as at 31 May				
	1997 \$ millions	1998 \$ millions	1999 \$ millions	2000 \$ millions	2001 \$ millions
Total assets	3 719	4,200	3,649	4,346	5 756
Total tangible assets	3,664	4,115	3 578	4,252	5,619
Total liabilities	2,235	2,601	2 164	2,667	3,659
Total equity	1,484	1,599	1 485	1,679	2,097

Notes

The amounts stated above have been taken from the audited financial statements of the New Zealand Dairy Board and its subsidiaries in each year

PRO-FORMA FINANCIAL STATEMENTS

The Pro-Forma Statements of Financial Position set out below are required by the Securities Act (New Co-op Capital Notes Issue) Exemption Notice 2001. The Pro-Forma Statements of Financial Position have been prepared by the Directors to provide information to the readers of this Prospectus about the financial position of Fonterra Co-operative Group Limited ("Fonterra") and its subsidiaries as at 1 June 2001 assuming Fonterra, The New Zealand Co-operative Dairy Company Limited ("New Zealand Dairy") and Kiwi Co-operative Dairies Limited ("Kiwi") had been amalgamated on 1 June 2001 to form a new company also called Fonterra Co-operative Group Limited.

FONTERRA CO-OPERATIVE GROUP LIMITED PRO-FORMA STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS AT 1 JUNE 2001

	Unaudited Parent (The Issuer) \$millions	Unaudited Consolidated \$millions
ASSETS		
Current Assets	2,257	6,428
Intangible Assets	-	1,879
Other Non Current Assets	5,870	4,246
Total Assets	8,127	12,553
LIABILITIES		
Current Borrowings	1,436	3,634
Other Current Liabilities	1,055	2,415
Non Current Borrowings	788	971
Other Non Current Liabilities	-	265
Total Liabilities	3,279	7,285
SHAREHOLDERS' EQUITY AND MINORITY INTERESTS	4,848	5,268

The Pro-Forma Statements of Financial Position set out above must be read in conjunction with the Notes and Statement of Significant Accounting Policies set out below.

1 Basis of preparation

The Pro-Forma Statements of Financial Position have been prepared in accordance with the Securities Act (New Co-op Capital Notes Issue) Exemption Notice 2001 and on the basis of the assumptions set out below.

The Pro-Forma Consolidated Statement of Financial Position has been derived from the consolidated audited financial statements of Kiwi, New Zealand Dairy and the New Zealand Dairy Board for the year ended 31 May 2001. These financial statements have been adjusted for intercompany eliminations and also for certain fair value and other adjustments as set out below.

The Pro-Forma Parent Statement of Financial Position has been derived from the parent audited financial statements of Kiwi and New Zealand Dairy for the year ended 31 May 2001. These financial statements have been adjusted for intercompany eliminations and certain other adjustments as set out below.

The amalgamation of Fonterra, New Zealand Dairy and Kiwi will be accounted for as a purchase transaction. This exercise will involve considering:

- the fair value of the shares issued in Fonterra,
- the fair value of the underlying identifiable tangible and intangible assets and liabilities of Fonterra, New Zealand Dairy, Kiwi and the New Zealand Dairy Board.

Any difference between the fair value of shares issued and the fair value of the underlying identifiable net assets will be treated as goodwill.

The formal fair value exercise has not been undertaken for the purposes of these Pro-Forma Statements of Financial Position and therefore differences between the Pro-Forma Statements of Financial Position and actual Statements of Financial Position may be material

The Pro-Forma Statements of Financial Position set out above must be read in conjunction with the assumptions, Notes and Statement of Significant Accounting Policies set out below

2 Notes to the Pro-Forma Statements of Financial Position

(a) Principal Assumptions in relation to the Pro-Forma Consolidated Statement of Financial Position

(i) Pro-Forma Fair Value Adjustments

During the year ending 31 May 2002 Fonterra will undertake a formal fair value exercise, including obtaining independent valuations with respect to a number of these adjustments. Accordingly a more accurate adjustment to reflect fair value will be included in the audited financial statements for the year ending 31 May 2002.

The following material pro-forma fair value adjustments have been made

- an increase in the value of identifiable intangible assets (comprising brands, principally related to those held by the New Zealand Dairy Board) of \$1.6 billion,
- an increase in the value of inventory of \$1,080 million,
- an increase in the value of fixed assets of \$275 million,
- inclusion of a provision for restructuring and rationalisation costs of \$90 million,
- a decrease in the value of investments (principally relating to National Foods Limited) of \$40 million,
- other current liabilities and other non current liabilities combined have increased by \$370 million in relation to derivative financial instruments, and
- the deferred taxation liability has been increased by \$260 million to reflect the tax effect of the fair value adjustments for inventory, fixed assets, derivative financial instruments and restructuring and rationalisation costs.

(ii) Pro-Forma Other Adjustments

- All amounts for goodwill previously reported by either Kiwi New Zealand Dairy and the New Zealand Dairy Board have been excluded.
- An accrual has been made of an additional \$55 million share capital arising from new conversions for the season ending 31 May 2002.
- The value of share capital, Peak Notes and Supply Redemption Rights issued to Shareholders is equal to the value of the Consolidated Group's net assets after fair value and other adjustments. As a result the Pro-Forma Consolidated Statement of Financial Position does not reflect any goodwill. Goodwill (if any) arising as a result of the fair value exercise will be determined once the formal fair value exercise has been undertaken in the year ending 31 May 2002.

(b) Principal Assumptions in relation to the Pro-Forma Parent Statement of Financial Position

Pro-Forma Adjustments

- Investments in subsidiaries have been revalued to reflect the net tangible asset backing of subsidiaries including the pro-forma fair value adjustments made to the pro-forma statements of financial position of those subsidiaries.
- The group provision for restructuring and rationalisation costs of \$90 million has been accounted for in the Parent.
- An accrual has been made of an additional \$55 million share capital arising from new conversions for the season ending 31 May 2002.

3 Statement of Significant Accounting Policies

(a) Reporting Entity

Fonterra Co-operative Group Limited ('the Company') is a co-operative company domiciled in New Zealand, registered under the Companies Act 1993, the Co-operative Companies Act 1996 and the Dairy Industry Restructuring Act 2001. The reporting currency used in the preparation of these Pro-Forma Statements of Financial Position is New Zealand dollars.

The accounting policies set out in (b) – (m) below are the accounting policies that will be adopted in the historical financial statements of the Company. The Pro-Forma Statements of Financial Position and the Forecast Financial Statements have been prepared on a basis consistent with the accounting policies set out below.

(b) Basis of consolidation

The consolidated financial statements comprise the Company, its subsidiaries and in-substance subsidiaries (the group) and the group's interest in associates and partnerships. Intra-group transactions are eliminated in preparing the consolidated financial statements.

Subsidiaries

Subsidiaries, including in-substance subsidiaries, are included in the consolidated financial statements using the purchase method of consolidation.

Associates

The consolidated financial statements include the group's share of the net surplus of associates on an equity accounted basis.

Acquisition or disposal during the year

Where an entity becomes or ceases to be a part of the group during the year, the results of the entity are included in the consolidated results from the effective date that the entity became a subsidiary or an associate or until the date it ceased to be a subsidiary or associate.

Goodwill and discount arising on acquisition

Fair values are assigned to the identifiable assets and liabilities of subsidiaries and associates of the group at the date they are acquired. Where the fair value of the identifiable net assets acquired in the purchase of a subsidiary or an associate is less than the purchase price paid, the difference is treated as goodwill and is written off on a straight line basis over the period of expected benefit, up to 20 years following the date of acquisition.

Where the fair value of the identifiable net assets acquired in the purchase of a subsidiary or an associate exceeds the purchase price paid, the difference is treated as discount on acquisition and is applied to reduce the fair value of acquired non-monetary assets.

(c) Foreign currency

Exchange differences

Short term transactions covered by forward exchange contracts are translated at the exchange rates specified in those contracts. Other foreign currency transactions are translated to New Zealand currency at the exchange rates ruling at the dates of the transactions.

Monetary assets and liabilities in foreign currencies at balance date covered by forward exchange contracts are translated at the exchange rates specified in those contracts. Monetary assets and liabilities in foreign currencies at balance date not covered by forward exchange contracts are translated at the exchange rates ruling at that date. Exchange differences arising on the translation of monetary assets and liabilities in foreign currencies are recognised in the statement of financial performance except as detailed below.

If a foreign currency liability is designated as a hedge of a foreign non-monetary asset (or vice versa), both the asset and the liability are translated at the exchange rate ruling at balance date. Exchange movements are taken to the foreign currency translation reserve except where the exchange movements on the liability exceed that of the asset.

Translation of the financial statements of independent foreign operations

The assets and liabilities of overseas operations, being independent foreign operations, are translated at the exchange rates ruling at balance date. The revenues and expenses of these operations are

translated at rates approximating the exchange rates ruling at the dates of the transactions. Exchange differences arising on the translation of the financial statements of independent foreign operations are recognised directly in the foreign currency translation reserve.

(d) Derivative financial instruments

The group uses derivative financial instruments within predetermined policies and limits in order to reduce its exposure to fluctuations in foreign currency exchange rates and interest rates.

Derivative financial instruments that are designated as hedges of specific items or economic exposures are recognised on the same basis as the underlying hedged items. Where a hedge of an anticipated purchase or sale transaction is undertaken the exchange difference on the hedging transaction up to the date of the purchase or sale transaction, and any costs associated with the hedge transaction to that date, are deferred and included in the measurement of the purchase or sale transaction. Derivative financial instruments that do not constitute hedges are stated at market value and any resultant gain or loss is recognised in the statement of financial performance.

Where a derivative financial instrument, which is a hedge of an anticipated transaction, is terminated early but the anticipated transaction is still expected to occur, the deferred gain or loss that arose prior to termination continues to be deferred and is recognised as part of the transaction when it occurs. If the transaction is no longer expected to occur, the deferred gain or loss is recognised in the statement of financial performance immediately.

The group does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

(e) Investments

Investments are stated at cost.

(f) Identifiable intangible assets

Brands and other identifiable intangible assets purchased

The fair value of brands and other identifiable intangible assets purchased by the group is recognised where the intangible asset is controlled through custody or legal rights and could be sold separately from the rest of the business. Where such intangible assets are regarded as having limited useful lives their value is amortised over those estimated useful lives. Where such intangible assets are regarded as having indefinite useful lives they are not amortised. Impairment reviews are carried out to ensure that such intangible assets are not carried at above their recoverable amounts. Any amortisation or impairment write-downs are recognised in the statement of financial performance.

Research and development expenditure

All research expenditure is recognised in the statement of financial performance as incurred. Significant development expenditure is recognised as an asset when it can be demonstrated that the commercial production of the material or product, or use of the process, will commence.

Development expenditure recognised as an asset is stated at cost and amortised in the statement of financial performance over the period of expected benefits not exceeding five years. Amortisation begins at the time that commercial production or use of the process commences. All other development expenditure is recognised in the statement of financial performance as incurred.

(g) Property, plant and equipment

Owned assets

Property, plant and equipment is stated at cost upon acquisition and depreciated in accordance with its estimated useful life as outlined below. Cost includes the purchase consideration and those costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Costs cease to be capitalised when substantially all the activities necessary to bring an asset to the location and condition for its intended use are complete.

Depreciation

Depreciation is calculated on a straight line basis to allocate the cost of the asset less any residual value over its estimated useful life. The range of estimated useful lives for each class of property, plant and equipment is as follows:

Land	Indefinite
Buildings	25 – 50 years
Plant and equipment	3 – 30 years

(h) Inventories

Inventories are stated at the lower of cost and net realisable value

The cost of dairy produce manufactured from milk supplied in New Zealand is established by using a Commodity Milk Price. In the case of manufactured inventories and work-in-progress, cost includes all direct costs plus that portion of the fixed and variable production overhead incurred in putting inventories into their present location and condition.

(i) Receivables

Receivables are stated at estimated net realisable value

(j) Impairment

If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the statement of financial performance.

(k) Revenue recognition

Sales revenue includes revenue earned net of returns, discounts and allowances from the sale of inventory items. Sales revenue is recognised when the significant risks and rewards of ownership of the inventory items have passed to the buyer.

(l) Taxation

Income tax expense is recognised on the operating surplus before taxation adjusted for permanent differences between taxable and accounting income. Deferred tax is calculated using the comprehensive basis under the liability method. This method involves recognising the tax effect of all timing differences between accounting and taxable income as a deferred tax asset or liability in the statement of financial position. The future tax benefit or provision for deferred tax is stated at the income tax rates prevailing at balance date.

Future tax benefits are not recognised unless realisation of the asset is virtually certain.

Future tax benefits and provisions for deferred tax are not offset if they arise in different tax jurisdictions.

(m) Cash and cash equivalents

For the purpose of the statement of cash flows, cash comprises cash balances (net of bank overdrafts) and demand deposits. Cash excludes borrowings at call that are not used as part of the group's day-to-day cash management.

FORECAST FINANCIAL STATEMENTS

Basis of preparation of Forecast Financial Statements

The Forecast Financial Statements set out in this section of this Prospectus are financial forecasts based on assumptions as to future events and economic conditions which the current Directors of Fonterra reasonably expect to occur during the forecast period and actions the Directors reasonably expect to take place at the date of this document. A forecast is not a projection. A projection is prospective financial information prepared using hypothetical assumptions that are possible outcomes, but not necessarily the most probable outcomes.

The Forecast Financial Statements should not be regarded as a warranty or representation by Fonterra or the current Directors of Fonterra as to the achievement of the results set out in the Forecast Financial Statements or that the underlying assumptions used will, in fact, be the case.

Investors must consider the principal assumptions described below in order to fully understand the Forecast Financial Statements.

The Forecast Financial Statements have been prepared on behalf of, and are the responsibility of, the Directors of Fonterra as at the date of this document. They have given due care and attention to the preparation of the Forecast Financial Statements, including the underlying assumptions. However, forecasts by their nature involve risks and uncertainties, many of which are beyond the control of Fonterra. These risks and uncertainties include, but are not limited to, those discussed under the heading 'Other Material Matters' on pages 46 to 48. Accordingly, actual results are likely to vary from the forecasts, and variations may be material. Therefore, the current Directors of Fonterra cannot and do not guarantee the achievement of the forecasts set out in the Forecast Financial Statements. It is not intended that these forecasts will be updated subsequent to the issue of this document.

In preparing the Forecast Financial Statements the Directors of Fonterra used and relied on forecasts and ancillary information (referred to as the "Input Forecast Data") provided by Kiwi, New Zealand Dairy, the New Zealand Dairy Board, and the Fonterra Budget. The Input Forecast Data was prepared on the basis of the assumptions adopted by Fonterra as set out below.

The Forecast Financial Statements have been prepared in accordance with the accounting policies adopted by Fonterra as set out on pages 29 to 31.

The Forecast Financial Statements have been derived from

- the Pro-Forma Statements of Financial Position as at 1 June 2001 set out on page 27,
- the Kiwi, New Zealand Dairy and New Zealand Dairy Board Input Forecast Data to the year ending 31 May 2002, and
- the Fonterra Budget for the year ending 31 May 2002.

No adjustments have been made to the Forecast Financial Statements for actual results occurring since 1 June 2001.

FONTERRA CO-OPERATIVE GROUP LIMITED
FORECAST STATEMENT OF FINANCIAL PERFORMANCE (PROFIT & LOSS)
FOR THE YEAR ENDING 31 MAY 2002

	Notes	Unaudited Parent (The Issuer) \$millions	Unaudited Consolidated \$millions
Total Operating Revenue		5,996	14,103
Total Operating Expenses	(1)	(230)	(7 729)
Operating Surplus before Interest and Taxation		5,766	6,374
Net Interest (Expense)/Income		73	(298)
Operating Surplus before Taxation		5,839	6,076
Income Tax Expense		(7)	(82)
Minority Interests		-	(55)
Share of Retained Net Surplus of Associates		-	22
Operating Profit after Minority Interests		5,832	5,961
Total Payment to Suppliers	(2)	5,948	5,948
Net Surplus/(Loss)		(116)	13

Notes

- (1) Excludes the payment for raw milk supplied to Fonterra by its Shareholders
(2) Comprising the payment to Shareholders for raw milk supplied plus the distribution of value added profits

FONTERRA CO-OPERATIVE GROUP LIMITED
FORECAST STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)
AS AT 31 MAY 2002

	Unaudited Parent (The Issuer) \$millions	Unaudited Consolidated \$millions
Current Assets	4,468	5,552
Intangible Assets	-	1,838
Other Non-Current Assets	6 045	4,579
Total Assets	10,513	11,969
Current Borrowings	1 145	1,172
Other Current Liabilities	1 417	2 420
Non Current Borrowings	2,671	2,736
Other Non Current Liabilities	-	271
Capital Notes	200	200
Total Liabilities	5,433	6 799
Shareholders' Equity and Minority Interests	5,080	5,170
<i>Statistical Analysis</i>		
Percent of Net Debt to Net Debt plus Equity	42 9%	42 6%
Percent of Equity to Total Assets	48 1%	43 0%

FONTERRA CO-OPERATIVE GROUP LIMITED
FORECAST STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING 31 MAY 2002

	Unaudited Parent (The Issuer) \$millions	Unaudited Consolidated \$millions
Net Cash Flows from Operating Activities	228	879
Net Cash Flows used in Investing Activities	(2,069)	(815)
Net Cash Flows used in Financing Activities	1,861	(304)
Net Increase/(Decrease) in Cash Held	<u>20</u>	<u>(240)</u>
Opening Cash Deposits	(1)	320
Closing Cash Deposits	19	80

Principal Assumptions in relation to the Forecast Consolidated Financial Statements

The assumptions set out below were adopted on 24 October 2001 and relate to the forecast year ending 31 May 2002

- 1 The business of the group will not change substantially from the date of this Prospectus
- 2 For accounting purposes the assumed date of the amalgamation is 1 June 2001
- 3 The fair value adjustments and other adjustments adopted in the Pro-Forma Consolidated Statement of Financial Position are adopted in the Forecast Consolidated Financial Statements
- 4 Fonterra's revenue will be derived principally from the sale of manufactured dairy product in the New Zealand and international markets
- 5 Fonterra will generate a significant proportion of its earnings in foreign currency, and hold interests in foreign operations. The Forecast Consolidated Statement of Financial Position assumes all assets and liabilities denominated in US dollars are converted into New Zealand dollars at an average New Zealand to US dollar exchange rate of 43 cents. The Forecast Consolidated Statement of Financial Performance assumes
 - an average New Zealand to US dollar spot exchange rate of 43 cents and
 - average commodity prices of USD 1,959 per tonne as was achieved in the year ended 31 May 2001
- 6 The product mix of Fonterra will not change materially to that currently provided by Kiwi and New Zealand Dairy and marketed by the New Zealand Dairy Board at the date of this Prospectus
- 7 The total supply of milksolids by Shareholders for the year ending 31 May 2002 will increase by 2.6% to 1,076 million kilograms relative to the supply of milksolids to Kiwi and New Zealand Dairy for the year ended 31 May 2001
- 8 Forecast Revenue from existing operations of Kiwi, New Zealand Dairy and the New Zealand Dairy Board is included in the Forecast Consolidated Financial Statements. No revenue from new activities or acquisitions since 1 June 2001 is included
- 9 \$31.5 million of expected operational savings resulting from the amalgamation is included in the Forecast Consolidated Financial Statements representing the value of category one merger benefits that Fonterra expects to capture in the year ending 31 May 2002. This is consistent with the business case commitment that Fonterra will achieve \$120 million of annualised category one cost savings within one year of the merger
- 10 Capital Notes will be issued to the general public as a result of this Prospectus in November 2001, resulting in the raising of \$200 million cash that will be used to retire existing debt. The Forecast

Consolidated Statement of Financial Performance includes interest on the Capital Notes at an assumed rate of 7% per annum

- 11 Shares and Peak Notes issued by Fonterra are included in the amount separately disclosed in the Forecast Consolidated Statement of Financial Position as "Shareholders' Equity and Minority Interests"
- 12 Interest costs are calculated using known rates or a margin over the assumed bank bill rate and on this basis have been estimated at an average of 8.9% per annum, including interest on Capital Notes for the year ending 31 May 2002
- 13 Other than income tax paid on the retention as outlined in assumption 16 below, New Zealand assessable income is forecast to be zero. The forecast income tax expense relates primarily to offshore operations
- 14 The pro-forma fair value adjustment with respect to fixed assets are depreciated in the Forecast Consolidated Financial Statements using an estimated average useful life of 15 years. For all other fixed assets, the forecast depreciation expense for the year ending 31 May 2002 is calculated in a manner consistent with the estimated useful lives adopted by Fonterra
- 15 Aggregate identifiable intangible assets are amortised on the basis that approximately \$1,085 million of the pro-forma fair value relates to brands with an indefinite life and accordingly no amortisation charge is made while the balance of approximately \$795 million is amortised using an estimated average useful life of 20 years
- 16 The Forecast Consolidated Financial Statements assume that Fonterra will retain \$20 million from the tax paid surplus of NEW ZEALAND MILK, a division of the Fonterra Co-operative Group in the financial year ending 31 May 2002. Readers should refer to page 43 for further information regarding NEW ZEALAND MILK
- 17 During the year ending 31 May 2002 the cost to suppliers of increasing milk supply or new Shareholders commencing supply to Fonterra will average \$4.00 per kilogram of milksolids
- 18 At the date of this Prospectus, The Tatua Co-operative Dairy Company Limited, Westland Co-operative Dairy Co Limited and New Zealand's Premier Dairy Cooperative Limited are current minority shareholders in the New Zealand Dairy Board. The Forecast Consolidated Financial Statements assume that Fonterra will acquire these minority shareholder interests by 31 May 2002
- 19 These Forecast Consolidated Financial Statements assume there will be no significant legislative changes during the forecast period other than those needed to implement the amalgamation. Furthermore, they assume there will be no material industrial disputes or regulatory intervention which will materially affect the group and the current economic climate will prevail

Principal Assumptions in relation to the Forecast Parent Financial Statements

The structure of the group and the activities to be conducted by the Parent have not been finally determined at the date of this Prospectus and therefore actual variations from the Forecast Parent Financial Statements are likely to be material

The assumptions set out below were adopted on 24 October 2001 and relate to the forecast year ending 31 May 2002. The assumptions should be read in conjunction with the Principal Assumptions in relation to the Forecast Consolidated Financial Statements set out above

- 1 For the purposes of the Forecast Parent Financial Statements the key operations of the Parent are assumed to be
 - the purchase of milk in New Zealand and the sale of that milk to subsidiary companies,
 - arranging financing on behalf of the group
- 2 Revenues are forecast to consist primarily of sales of milk from the Parent to subsidiaries. No dividends from subsidiaries have been assumed
- 3 Income tax expense is nil

- 4 All payments to suppliers for milk are made from the Parent
- 5 The majority of the group's financing is arranged by the Parent and remitted to subsidiaries
- 6 Non Current Assets include investments in subsidiaries which have been revalued to the Parent's share of net assets
- 7 The Parent owns no identifiable intangible assets
- 8 During the forecast period fixed assets of \$74 million are transferred from the Parent to a subsidiary
- 9 During the forecast period a direct investment in a subsidiary is transferred to a fellow subsidiary resulting in term borrowings and the combined carrying value of investments in subsidiaries and advances to subsidiaries reducing by \$307 million

AUDITOR'S REPORT

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KPMG Centre
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Auckland
New Zealand

Mail Address
P O Box 1584
Auckland
New Zealand

Telephone (09) 367 5800
Fax No (09) 367 5875

The Directors
Fonterra Co-operative Group Limited
Auckland

24 October 2001

Dear Directors

Capital Note Prospectus

We have prepared this report for inclusion in the prospectus to be dated on or about 25 October 2001

As auditor of Fonterra Co-operative Group Limited, and in accordance with the requirements of the Securities Act 1978 Clause 36 of the Second Schedule of the Securities Regulations 1983 and the Securities Act (New Co-op Capital Notes Issue) Exemption Notice 2001 we report as follows

Unaudited Pro-Forma Statements of Financial Position of Fonterra Co-operative Group Limited ('Fonterra') and Fonterra Co-operative Group Limited and its subsidiaries ('Fonterra Co-operative Group')

We have examined the Fonterra and Fonterra Co-operative Group Pro-Forma Statements of Financial Position set out on pages 27 to 31. The Fonterra and Fonterra Co-operative Group Pro-Forma Statements of Financial Position are required by the Securities Act (New Co-op Capital Notes Issue) Exemption Notice 2001

The Fonterra and Fonterra Co-operative Group Pro-Forma Statements of Financial Position have been prepared by the Directors to provide information to the readers of this Prospectus about the pro-forma financial position of Fonterra and Fonterra Co-operative Group as at 1 June 2001 as if a predecessor company called Fonterra Co-operative Group Limited, The New Zealand Co-operative Dairy Company Limited and Kiwi Co-operative Dairies Limited had been amalgamated on 1 June 2001 to form a new company called Fonterra Co-operative Group Limited. This information is stated in accordance with the basis of presentation and assumptions set out in Notes 1 and 2.

The Fonterra and Fonterra Co-operative Group Pro-Forma Statements of Financial Position have been derived from the audited consolidated financial statements of each of The New Zealand Co-operative Dairy Company Limited, Kiwi Co-operative Dairies Limited and the New Zealand Dairy Board for the year ended 31 May 2001, together with pro-forma adjustments set out in Note 2.

The Fonterra and Fonterra Co-operative Group Pro-Forma Statements of Financial Position do not purport to represent what the financial statements of Fonterra and Fonterra Co-operative Group would actually have been if the amalgamation of Fonterra Co-operative Group Limited, The New Zealand Co-operative Dairy Company Limited and Kiwi Co-operative Dairies Limited to form a new company Fonterra Co-operative Group Limited had in fact occurred on 1 June 2001. A formal fair value exercise has not been undertaken for the purposes of the Pro-Forma Statements of Financial Position and therefore differences between the Pro-Forma Statements of Financial Position and actual Statements of Financial Position may be material. In addition the Pro-Forma Statements of Financial Position do not project the financial position of Fonterra and the Fonterra Co-operative Group for any future date or period.



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Winton
New Plymouth
Palmerston North

The Fonterra and Fonterra Co-operative Group Pro-Forma Statements of Financial Position should be read together with the audited consolidated financial statements of each of The New Zealand Co-operative Dairy Company Limited, Kiwi Co-operative Dairies Limited and the New Zealand Dairy Board for the year ended 31 May 2001

Directors' responsibilities

The Directors are responsible for the preparation and presentation of the Fonterra and Fonterra Co-operative Group Pro-Forma Statements of Financial Position including the basis of presentation and assumptions, set out in Notes 1 and 2

Auditor's responsibilities

It is our responsibility to report whether the Fonterra and Fonterra Co-operative Group Pro-Forma Statements of Financial Position have been properly compiled on the basis of presentation adopted by the Directors, set out in Notes 1 and 2

Basis of opinion

We conducted our examination in accordance with New Zealand Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our examination so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the Fonterra and Fonterra Co-operative Group Pro-Forma Statements of Financial Position have been properly compiled on the basis of the presentation and assumptions adopted by the Directors, set out in Notes 1 and 2

We carry out other assignments for Fonterra and certain of its subsidiaries in the areas of taxation advice and consulting projects. We have no other relationship or interests in Fonterra or any of its subsidiaries

Opinion

We have obtained all the information and explanations we have required

In our opinion, the unaudited Pro-Forma Statements of Financial Position for Fonterra and for Fonterra Co-operative Group as at 1 June 2001 set out on pages 27 to 31 have been properly compiled on the basis of the presentation and assumptions adopted by the Directors set out in Notes 1 and 2

Summary financial statements

In our opinion the amounts, for the five years to 31 May 2001, stated pursuant to the Securities Act (New Co-op Capital Notes Issue) Exemption Notice 2001, included in the summary financial statements set out on pages 25 to 26 have been correctly taken from the audited consolidated financial statements of each of The New Zealand Co-operative Dairy Company Limited (excluding the New Zealand Dairy Board and its subsidiaries), Kiwi Co-operative Dairies Limited and the New Zealand Dairy Board respectively

Ranking of securities

In our opinion the amounts stated pursuant to clause 12 of the Second Schedule of the Securities Regulations 1983 have been correctly taken from audited consolidated financial statements of each of The New Zealand Co-operative Dairy Company Limited (excluding the New Zealand Dairy Board and its subsidiaries), Kiwi Co-operative Dairies Limited and the New Zealand Dairy Board respectively

Forecast Financial Statements

We have examined the Forecast Financial Statements, stated pursuant to the Securities Act (New Co-op Capital Note Issue) Exemption Notice 2001 set out on pages 32 to 36. The Directors are responsible for the Forecast Financial Statements including the assumptions on which they are based

In our opinion the Forecast Financial Statements, so far as the accounting policies and calculations are concerned have been properly compiled on the footing of the assumptions made or adopted by the issuer set out at pages 34 to 36 and are presented on a basis consistent with the accounting policies to be adopted by the Fonterra Co-operative Group

It is likely that actual results will vary from those forecast since anticipated events frequently do not occur as expected, and these variations may be significant

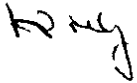
We have no responsibility to update our opinion on the Forecast Financial Statements for events and circumstances occurring after the date of this report

Directors' responsibilities

The Directors are responsible for the preparation of this prospectus, including the unaudited Pro-Forma Statements of Financial Position of Fonterra Co-operative Group Limited and Fonterra Co-operative Group Limited and its subsidiaries historical summaries of consolidated financial statements of The New Zealand Co-operative Dairy Company Limited Kiwi Co-operative Dairies Limited and the New Zealand Dairy Board, ranking of securities and the Forecast Financial Statements contained therein

It is our responsibility to report on the matters contained in this report KPMG takes no responsibility for, nor do we report on, any part of the prospectus not mentioned in this report

Yours faithfully



KPMG

STATUTORY INFORMATION

1 Main Terms of the Offer

The issuer of the Capital Notes is Fonterra Co-operative Group Limited. Fonterra is a new company formed on 16 October 2001 from the merger of Kiwi Co-operative Dairies Limited, The New Zealand Co-operative Dairy Company Limited and a predecessor company also called Fonterra Co-operative Group Limited. As a consequence of the merger, Fonterra inherited its predecessors' 96% shareholding in the New Zealand Dairy Board. The Company's registered office is at Building 103, Leonard Isitt Drive, Auckland Airport, Auckland.

The Capital Notes are unsecured subordinated interest bearing debt obligations of Fonterra.

A further description of the Capital Notes, including the maximum aggregate principal amount of Capital Notes being offered and the price to be paid for the Capital Notes is set out in the section of this Prospectus entitled 'Main terms of the Offer' on page 2.

2 Name and Address of Offeror

As the Capital Notes are being issued for the first time there is no "offeror" for the purposes of the Securities Regulations 1983.

3 Details of Incorporation of Issuer

Fonterra is a co-operative company, incorporated under the Companies Act and registered under the Co-operative Companies Act 1996 on 16 October 2001. Its registered number is 1166320.

The Company's public file is kept at the office of the Registrar of Companies, Business and Registries Branch, Ministry of Economic Development, Level 5, 3 Kingston Street, Auckland.

4 Guarantors

The repayment of and the payment of interest on and any other amounts in connection with, the Capital Notes are not guaranteed by any of the Company's directors, subsidiaries, or by any other person.

5 Directorate and Advisers

The Directors of the Company and their technical or professional qualifications as at the date of this Prospectus are:

- **John Cecil Roadley**, *Chairman*
Ashburton
- **Gregory William Gent**, *Deputy Chairman*
Ruawai
- **Harry Gordon Bayliss**, BAgSci (Massey)
Taranaki
- **Richard Charles Booth**, MBA (Massey) DipAg (Massey)
Whangarei
- **Murray James Flett**, BCom Ag (Lincoln)
Invercargill
- **Graeme Scott Hawkins**, B Com BSc ACA
Auckland
- **Henry William van der Heyden**, BE (Hons) (Lincoln)
Putaruru
- **Dr John Antony Hood**, BE, PhD MPhil (Oxford)
Auckland
- **Marise Lynne James**, Chartered Accountant
Inglewood
- **Gerard Alan Lynch**, BAgSci (Hons) (Massey), MBA (Dist) (Cornell New York)
Wanganui

- **Earl Steven Rattray** B Agr Econ (Massey)
Otorohanga
- **Philip Michael Smith** MCom
Auckland
- **Mark Gray Townshend**
Ngatea

The Directors can be contacted at the Fonterra Co-operative Group Corporate Centre, Building 103 Leonard Isitt Drive, Auckland Airport, Auckland

No Director is employed by the Company No Director has been adjudged bankrupt during the five years preceding the Specified Date

The names of the Company's auditor, securities registrar, Joint Lead Managers and solicitors for the Offer who have been involved in the preparation of this Prospectus are set out in the Directory on the last page of this Prospectus

This offer of Capital Notes is not underwritten

The Trustee for the Capital Notes is The New Zealand Guardian Trust Company Limited, whose address is set out in the Directory on the last page of this Prospectus

None of the Trustee the Company's subsidiaries, its directors advisors or any other person guarantees the Capital Notes or the payment of interest or any other amount in connection with the Capital Notes offered under this Prospectus

5A Restriction on Directors' Powers

There are no modifications exceptions or limitations on the powers of the Board imposed under the Companies Act or the Constitution or otherwise, except

- the Directors may only issue, and approve transfers of, shares in the Company to the categories of persons specified in the Constitution,
- subject to specified exceptions the Directors may only authorise the payment of remuneration or other benefits to a Director with the approval of an ordinary resolution of Shareholders

In addition the Companies Act and the Co-operative Companies Act contain a number of provisions which could have the effect or consequence, in certain circumstances of imposing modifications exceptions or limitations on the powers of the Board Such provisions are common to any co-operative dairy company registered under the Companies Act and the Co-operative Companies Act

The Company has applied for the Capital Notes to be quoted on the Exchange Further restrictions are imposed on the Directors by the Rules Such restrictions are common to any company listed on the Exchange

6 Description of Activities of Borrowing Group

This section should be read in conjunction with the further information contained in the financial statements set out in the section entitled Financial information of this Prospectus

As no subsidiaries of Fonterra have guaranteed Fonterra's obligations in respect of the Capital Notes Fonterra constitutes the borrowing group for the purposes of the Securities Regulations 1983

Fonterra is the parent company of the Fonterra Co-operative Group Fonterra was formed by the merger of Kiwi, New Zealand Dairy and a predecessor company also called Fonterra Co-operative Group Limited on 16 October 2001 The group's principal business activities are the

- manufacture and sale of butter, cheese dried milk or casein and other milk products
- sale of milk and milksolids, and
- the collection treatment and distribution of milk and cream

In addition Fonterra proposes to continue the activities undertaken prior to 16 October 2001 by Kiwi New Zealand Dairy and the New Zealand Dairy Board Further details on the group's activities are set out below

As the Capital Notes are unsecured, no assets of the Company are charged as security for the Capital Notes

Overview

Fonterra Co-operative Group is one of the world's leading manufacturers and marketers of dairy products, and overwhelmingly the largest player in New Zealand's biggest export industry

Fonterra's principal activities are the collection, treatment and distribution of milk and cream, and the manufacture and sale of milk, butter, cheese, dried milk or casein, and other milk products

The group has more than \$12 billion in assets, generating revenues in excess of \$14 billion per annum, and nearly 20,000 staff manufacturing and marketing dairy products to customers in 120 countries around the world. It generates more than 20% of New Zealand's export revenues and more than 7% of its GDP.

Fonterra is owned exclusively by New Zealand dairy farmers and is proud to be a co-operative and a New Zealand company.

Fonterra recognises that New Zealand's economic performance will be significantly influenced by that of Fonterra. The group is a significant employer and the country's biggest corporate investor in Research & Development.

From its position as one of the largest dairy companies in the world, Fonterra aims to earn the status of a leading multinational dairy company. As New Zealand's largest company, it plans to earn the status of a true national champion.

History

Fonterra is the result of the consolidation of the New Zealand dairy industry over several decades and, particularly in the 1990s. It brings together the manufacturing and export marketing arms of the industry for the first time.

Fonterra was formed in October 2001 from the merger of New Zealand Dairy, Kiwi and a predecessor company also called Fonterra Co-operative Group Limited. The group incorporates the assets of the New Zealand Dairy Board, New Zealand's largest single exporter and the world's largest dairy export marketing organisation.

Fonterra owes its formation to the past success of the New Zealand dairy industry, to its shareholders who voted for the industry merger, and to the New Zealand Government which supported legislation to allow the merger to happen.

Corporate Structure

The group has two main operating divisions, NZMP and NEW ZEALAND MILK. Both operating divisions and their Managing Directors are based in Wellington. The Chief Executive Officer, Chief Financial Officer, Chief Development Officer and Managing Director of Fonterra Enterprises and the Group Director Human Resources are based at the Corporate Centre in Auckland.

Corporate Centre

The Fonterra Corporate Centre is responsible for driving strategy and performance across the group. It is charged with attracting and retaining the best possible talent from New Zealand and internationally.

It is the custodian of the group's balance sheet and will ensure the optimal use of capital. The Corporate Centre will lead international developments such as the planned 50/50 alliance in the Americas between Fonterra and the world's largest food company, Nestle SA (which is still subject to due diligence at the date of this Prospectus), and the proposed joint venture with Arla Foods AmbA in relation to the European yellow fats market (subject to regulatory approval).

NZMP

NZMP is Fonterra's operating division which integrates the industry's manufacturing and marketing arms. It has approximately 7,200 staff in approximately 90 sites in New Zealand and internationally. It manages a complete value chain, from inputs to suppliers, milk collection, processing and manufacturing, logistics and the New Zealand dairy industry's long-standing and successful global ingredients business.

NZMP is the world's largest dairy ingredients marketing organisation with over 600 products. It has particular skills in large-scale milk procurement, processing and management. Low-cost production and

manufacturing have long been a key source of the New Zealand dairy industry's international competitive advantage

NZMP includes the former Anchor Products, Kiwi Dairy Products, Food Solutions Group, New Zealand Dairy Ingredients, Transport & Milk Quality and the New Zealand Dairy Board's global ingredients business and global operations division. Among its assets are the world's largest cheese complex, whey processing facility, milk processing complex, cream processing complex and the second-largest casein plant.

NZMP's product mix spans from its traditional ingredients business to the marketing of health-enhancing nutraceuticals manufactured from milk proteins.

NEW ZEALAND MILK

NEW ZEALAND MILK, comprising approximately 11 000 staff world-wide, is the fast-moving consumer goods operating division of Fonterra. NEW ZEALAND MILK brands are marketed in over 120 countries.

Through its operations around the globe, NEW ZEALAND MILK sells dairy products under popular brands, including ANCHOR, SOPROLE, ANLENE, CHESDALE, FERN, FERNLEAF, MAINLAND, TIPTOP, PETERS and TARARUA. In New Zealand, the ANCHOR and CHESDALE brands are licensed to New Zealand Dairy Foods Limited, which is to be divested as described on page 47 below.

NEW ZEALAND MILK has a number of interests in leading dairy companies, including Australasian Food Holdings (Mainland, Peters & Brownes and Tip Top) and Bonland Dairies in Asia-Pacific and Cadipiro Milk, Inlaca, Soprole, La Mesa and Eugenia in the Americas.

NEW ZEALAND MILK sources 68% of its raw material from New Zealand. Through acquisitions and partnerships, it has interests in companies who produce their own branded products locally and also gains entry to markets that may be protected by trade tariffs and barriers. NEW ZEALAND MILK has established strong market positions in countries throughout the Americas.

To expedite entry into some countries and maximise supply chain cycles, NEW ZEALAND MILK also owns and operates packaging facilities around the world, in countries as diverse as Chile, Malaysia, Sri Lanka, El Salvador and Bangladesh.

NEW ZEALAND MILK is constantly developing new, innovative products for marketing to consumer and food service segments internationally.

7 Summary of Financial Statements

As the issuer is a new company, this clause is not applicable.

8 Acquisition of Business or Subsidiary

On 16 October 2001, Fonterra succeeded to the property, rights, powers and privileges and all the liabilities and obligations of New Zealand Dairy, Kiwi, and a predecessor company also called Fonterra Co-operative Group Limited in accordance with section 225 of the Companies Act. Historical financial summaries in the form required by the Securities Act (New Co-op Capital Notes Issue) Exemption Notice 2001 are set out in the section of this Prospectus entitled "Financial information" on pages 25 to 26.

9 Material Contracts

Fonterra (or the Kiwi group, the New Zealand Dairy group or the predecessor company called Fonterra Co-operative Group Limited) has entered into the following material contracts during the two years preceding the Specified Date (not being contracts entered into in the ordinary course of business):

- the Merger Proposal for the merger of The Northland Co-operative Dairy Company Limited ("Northland") and Kiwi Northland Co-operative Dairy Company Limited ("Kiwi North") dated 16 November 1999, by which each of those companies agreed to amalgamate and continue as Kiwi North together with an Exchange Deed between Kiwi and Kiwi North dated 16 November 1999, by which Kiwi agreed to issue former Northland shareholders shares in Kiwi,
- the Merger Agreement entered into by New Zealand Dairy and Kiwi on or about 21 December 2000 by which New Zealand Dairy and Kiwi agreed to form the Company and to integrate the New Zealand Dairy Board with this new company as amended by an agreement dated 24 May 2001 by which New Zealand Dairy and Kiwi agreed to extend the date for satisfaction of the Merger conditions to 30 September 2001 and to record agreement to the CEO Selection Process described on page 11 of the Merger Proposal.

- the Peak Notes Trust Deed dated 22 March 2001 between the predecessor company called Fonterra Co-operative Group Limited and The New Zealand Guardian Trust Company Limited, as modified by Deeds of Modification dated 19 April 2001 and 16 October 2001 and supplemented by an Initial Supplemental Deed dated 16 October 2001, constituting the Peak Notes and a Supplemental Deed relating to the issue of Supply Redemption Rights pursuant to the Constitution,
- the Capital Notes Trust Deed dated 22 March 2001 between the predecessor company called Fonterra Co-operative Group Limited and The New Zealand Guardian Trust Company Limited, as modified by Deeds of Modification dated 19 April 2001 and 24 October 2001, and supplemented by an Initial Supplemental Deed dated 24 October 2001 constituting the Capital Notes offered under this Prospectus and the Investment Statement dated 25 October 2001,
- the Merger Proposal for the merger of Kiwi, New Zealand Dairy and the predecessor company called Fonterra Co-operative Group Limited dated 24 May 2001, by which each of those companies agreed to merge and continue as the Company, and
- the Registration, Paying and Calculation Agency Agreement dated 24 October 2001 between the predecessor company called Fonterra Co-operative Group Limited and BK Registries Limited, for the provision of registration, paying and calculation services in respect of the Capital Notes

On 16 October 2001, Fonterra succeeded to all liabilities and benefits of contracts entered into by New Zealand Dairy, Kiwi, or the predecessor company also called Fonterra Co-operative Group Limited in accordance with section 225 of the Companies Act

10 Pending Proceedings

Kiwi, its then Chief Executive Officer and its former Chairman are defendants in litigation brought by a group of former Tui shareholders in relation to the 1996 Kiwi/Tui merger terms. The former Tui shareholders are also suing the former Tui directors and the independent advisers to Tui on that merger. They allege that Kiwi made misleading statements at the time of the merger with Tui. The amount claimed by way of damages essentially relates to the payout differential agreed to by the Tui and Kiwi shareholders in the merger contract. Kiwi and its legal advisers believe the allegations are misconceived and the claim is being vigorously defended. A trial was held in June to August 2001. As at the date of this Prospectus, the High Court had yet to deliver its judgement on the case.

Two of the New Zealand Dairy Board's United Kingdom subsidiaries are the subject of claims for allegedly underpaid duties by the United Kingdom Customs and Excise. The main matters to which the claims relate are the application of the European Union (EU) quota regulations to

- the fat content of butter,
- spreadable butter and butter manufactured by the Ammix process,
- the weight of butter and cheese,
- import licensing issues,
- time of debonding issues,
- scheduling issues

The issues raised by these investigations are complex. There are a number of civil proceedings, claiming alleged arrears of duties.

The subsidiaries are strongly defending all of the claims. Appropriate levels of resources are available to those defences. In each case, appeals against the claims have been lodged with the United Kingdom VAT and Duties Tribunal. In addition, applications for remission by the EU of the amount claimed in respect of several issues have been made. In the case of the import licensing issues (which amounts to over one third of the total amount claimed) this application has been successful. Appeals in respect of other matters have not yet been heard. Substantial costs have been awarded against United Kingdom Customs and Excise in favour of the subsidiaries in respect of a number of Court proceedings. Not all of these costs have been paid yet by United Kingdom Customs and Excise.

There is a range of possible outcomes to the various issues. The financial effect on the New Zealand Dairy Board of the contingent liabilities arising from all these matters cannot reasonably be estimated at this stage. Having received legal and accounting advice and made their own enquiries, the directors of the

New Zealand Dairy Board do not expect that the financial outcome will have a material adverse effect on the New Zealand Dairy Board's financial position

While the dispute is not considered material a representative member of the Concerned Dairyman's Association commenced proceedings against the New Zealand Dairy Board and Livestock Improvement Corporation in 1997. The proceedings have been vigorously defended. The New Zealand Dairy Board's legal advice to date has not revealed any significant concerns as to the allegations regarding scientific validity of the animal evaluation model or the way it is implemented. No evidence has been provided that provides any foundation to allegations made regarding breaches of the Commerce Act and/or Fair Trading Act.

Apart from the proceedings referred to in the previous paragraphs, there are no legal proceedings or arbitrations that are pending at the date of this Prospectus that may have a material adverse effect on the Company.

11 Issue Expenses

Issue expenses, including brokerage, issue management fees, legal and accounting fees, audit fees, printing, distribution and promotion expenses and other costs incurred in the issue of the Capital Notes are estimated to be \$4 million.

The Company will pay brokerage on the initial allotments to member firms of the Exchange at the rate of 1.5% of the principal amount in respect of Capital Notes issued on acceptance of applications bearing the stamp of those member firms of the Exchange.

12 Ranking of Securities

As an unsecured, subordinated investment, the Capital Notes will, on the winding up of Fonterra, rank equally and without priority or preference amongst themselves ahead of

- the Peak Notes
- the Supply Redemption Rights,
- other creditors which have agreed to priority equal with or subsequent to the Capital Notes, and
- obligations to Shareholders in their capacity as Shareholders.

Otherwise the Capital Notes rank behind and subordinate to all indebtedness of the Company. Full details of the ranking of the Capital Notes and their subordination are set out in the section of this Prospectus entitled "Conditions of the Capital Notes" on pages 7 to 19.

As at the Specified Date, the Company has not issued any securities that are secured by any mortgages or other charges that rank in point of security ahead of or equally with the Capital Notes.

Under the Trust Deed, power is reserved by the Company (without the consent of the Holders) to create and issue additional Capital Notes from time to time which may rank equally with the Capital Notes to be issued under this Prospectus.

13 Provisions of Trust Deed and other restrictions on the Company

On 22 March 2001, the predecessor company called Fonterra Co-operative Group Limited entered into a trust deed with the Trustee relating to the Capital Notes as amended by Deeds of Modification dated 19 April 2001 and 24 October 2001 and supplemented by an Initial Supplemental Deed dated 24 October 2001. As a result of the merger of Kiwi, New Zealand Dairy and a predecessor company also called Fonterra Co-operative Group Limited on 16 October 2001, Fonterra has succeeded to the powers, rights, duties, obligations and liabilities of that predecessor company under the Trust Deed. A summary of the Trust Deed is set out in the section of this Prospectus entitled "Summary of the Trust Deed" on pages 20 to 23.

The Trust Deed contains no limitations on the Company relating to

- the creation of new mortgages or charges ranking in point of security ahead of the Capital Notes or the incurring of further indebtedness ranking senior to or equally with the Capital Notes, or
- any ratio of liabilities or any class of liabilities to assets or to any class of assets of the Company.

The duties of the Trustee are set out in the section of this Prospectus entitled "Summary of the Trust Deed" on pages 20 to 23.

There are no restrictions on the ability of the Company to borrow, being restrictions that result from any undertaking given or contract or deed entered into by the Company which are not set out elsewhere in this Prospectus

The statement required to be made by the Trustee pursuant to clause 13(3) of the Second Schedule of the Securities Regulations 1983 is set out in the section of this Prospectus entitled 'Trustee's Statement' on page 24

14 Other Terms of Offer and Securities

There are no terms of the Offer, or the Capital Notes, which are not set out elsewhere in this Prospectus, other than those

- implied by law, or
- which are set out in a document that is registered with a public official, is available for public inspection and is referred to in this Prospectus

15-32 Financial Statements

The financial statements of Fonterra and the group as required under the Securities Act (New Co-op Capital Notes Issue) Exemption Notice 2001 are set out in the section of this Prospectus entitled "Financial information" on pages 27 to 31

33 Places of Inspection of Documents

Fonterra's Constitution and the material contracts referred to in clause 9 above may be inspected at the Companies Office, Business and Registries Branch, Ministry of Economic Development, Level 5, 3 Kingston Street Auckland for a fee, or at the Fonterra Corporate Centre, Building 103 Leonard Isitt Drive, Auckland Airport, Auckland, for free, during normal business hours. The Trust Deed may also be inspected, for free during normal office hours at the office of the Trustee whose address is set out in the Directory on the last page of this Prospectus

34 Other Material Matters

Regulatory Framework

The formation of Fonterra Co-operative Group Limited was authorised by the Dairy Industry Restructuring Act 2001, which authorised, under the Commerce Act, the merger of Kiwi, New Zealand Dairy and a predecessor company also called Fonterra Co-operative Group Limited. The Act also provides for the regulation of the dairy industry after the merger. As a consequence of the merger Fonterra inherited its predecessors' 96% shareholding in the New Zealand Dairy Board.

A copy of the Act and any regulations that are made under it can be purchased from Bennetts Bookstores. Key provisions of the Regulatory Framework are described below.

The Regulatory Framework has two key possible effects on Fonterra:

- (a) Fonterra could face significant competition in acquiring milk from farmers as the Regulatory Framework makes new entry (both large and small scale) into the New Zealand dairy markets more likely.
- (b) Fonterra could face additional costs in collecting milk from farmers and processing that milk as it is required to maintain open entry.

The extent of, and reasons for, these possible effects are set out below.

Removal of export monopoly

The Act removed the Dairy Board's exclusive rights to export dairy products on 16 October 2001. As a result, large international dairy processors that wish to establish themselves in New Zealand will be able to freely export dairy products, or new New Zealand dairy exporters may emerge.

The Act does, however, grant to the New Zealand Dairy Board exclusive export rights to a small number of designated markets that are subject to foreign government controls for between six and ten years. Following this period, quota market access rights will be reallocated pursuant to legislation.

The Act also provides The Tatua Co-operative Dairy Company Limited and Westland Co-operative Dairy Company Limited with the right to sell specified volumes of dairy products to Fonterra on terms specified in the Act as a transitional measure.

Supply of Milk to Competitors

Fonterra will be required by the Dairy Industry Restructuring (Raw Milk) Regulations 2001 to supply raw milk to anyone in New Zealand who seeks it, including competitors up to a maximum of 400 million litres per year (around 3% of the Company's total annual milk production). The price of the milk must be the payout to farmers less the annualised capital value of Fonterra's shares, plus transport, reasonable additional organic milk costs and the winter premium paid by Fonterra. Of the 400 million litres, Fonterra must supply New Zealand Dairy Foods Limited with up to 250 million litres a year and any other customer up to 50 million litres a year.

This requirement makes new entry into the New Zealand dairy markets easier as processors can commence or continue business without establishing their own network of suppliers.

Suppliers able to supply competitors

Fonterra is required to allow its supplying shareholders to supply up to 20% of their milk to a third party, without Fonterra being able to discriminate against them in any way, provided the milk does not have a unique patentable feature.

Again this makes it easier for other processors as they will be able to take milk from suppliers without having to ask those suppliers to cease supplying Fonterra entirely. Suppliers can spread their risk by supplying more than one processor.

Limits on long-term supply contracts

Fonterra must offer suppliers, as a minimum, a one year supply contract. It may offer longer-term contracts but it must ensure that a third of all the milk produced in a 160 kilometre radius of any point in New Zealand is either supplied to someone other than Fonterra or under a contract to Fonterra that expires at the end of the season or which can be terminated at the supplier's option without penalty.

This means that at any time some milk supply will always be available for other processors to acquire provided that they agree to pay the supplier a price that makes that supplier willing to leave Fonterra.

Open entry

Fonterra must accept all new suppliers who make application by the end of February in any year, and whose transportation costs are no more than any existing Fonterra supplier in the region subject to minimum delivery and quality requirements and any capacity constraint on Fonterra. This reduces Fonterra's flexibility to reduce its costs because it will not have discretion to refuse to accept suppliers, except in limited circumstances. It will also require Fonterra to provide capacity to accept additional supply.

Open exit

A supplying shareholder who wants to leave Fonterra may do so by giving notice by the end of February in any year for exit on 31 May of that year except where the supplier has a longer-term contract. When the supplier leaves they will receive cash, Capital Notes or Redeemable Preference Shares that are equal to the value of their shareholding in the Company. Open exit makes it easier for a new or existing processor to encourage suppliers to leave Fonterra as that processor need only agree to pay the processor a milk price that is competitive with Fonterra's price. The suppliers will be paid out the current value of their capital investment in Fonterra if they leave Fonterra. Prior to the merger, Kiwi's and New Zealand Dairy's exiting suppliers received only the nominal value of their shares in their co-operative not the current value of those shares.

Milk and share prices

Fonterra must offer to new suppliers the same terms and conditions of milk supply as it offers to current suppliers in the same circumstances. Similarly the terms and effect of securities (such as shares and peak notes) must be the same for new suppliers as for current suppliers. As a result Fonterra is permitted to respond to competition but cannot discriminate between new and current suppliers.

Sale of 50% shareholding in New Zealand Dairy Foods Limited

By 27 September 2002 the Company must have sold the 50% shareholding in New Zealand Dairy Foods Limited that it inherited from New Zealand Dairy. New Zealand Dairy Foods Limited currently has approximately 40% market share of the New Zealand dairy market and the domestic rights to key brands including Anchor, Fernleaf and Fresh n' Fruity. This will ensure that there continues to be competition for the sale of dairy products in New Zealand. New Zealand Dairy Foods may also be a convenient entry point for an international dairy processor wishing to enter or expand in New Zealand.

Minorities

The Tatua Co-operative Dairy Company Limited, Westland Co-operative Dairy Co Limited and New Zealand's Premier Dairy Cooperative Limited currently own shares in the New Zealand Dairy Board. They may sell these shares to the New Zealand Dairy Board or its nominee. Consequently, should any of them exercise that option, the New Zealand Dairy Board would be liable to pay the purchase price for the relevant parcel of shares.

Livestock Improvement Corporation

Livestock Improvement Corporation Limited ("LIC") is currently owned by the New Zealand Dairy Board. Under the Act, the shares in LIC (which includes the national dairy herd improvement database) must be transferred to past users of LIC's products and services. Regulations are expected to be made under the Act providing that access to the database by third parties, including Fonterra, will be governed by a panel independent of LIC, although LIC will set the price payable for this access.

Overall effect of Regulatory Framework

The effect of the Regulatory Framework on Fonterra, compared with the framework applying to Kiwi and New Zealand Dairy before the merger, is uncertain because that framework has only recently come into effect.

Dairy Industry Restructuring Act 2001

Section 103 of the Dairy Industry Restructuring Act 2001 requires the Company to repurchase Capital Notes issued to exiting shareholding farmers or shareholding farmers who are reducing supply in certain circumstances at the election of the Holder (by notice to the Company within 6 weeks of their issue) for cash and at a price not less than 97.5% of the market price at which they were issued. This requirement applies where the Company (or an associated person as defined in the Act or person with whom the Company or its associate has an arrangement in respect of acquiring Capital Notes) has acquired its Capital Notes during the month immediately before the date the Capital Notes which must be repurchased were issued.

Regulatory risks

There are some risks associated with the reforms made by the Act. As noted above under the heading 'Regulatory Framework' in this section, the Company has been granted an initial allocation of exclusive export rights to certain designated markets subject to foreign government controls. The Act provides for quota to be reallocated after the initial 6 to 10 year period by Orders in Council, but it is anticipated that a formal allocation mechanism will be implemented. It is understood at the date of this Prospectus that the Government will announce details of this new mechanism before the end of 2001.

The proposed restructuring of the New Zealand dairy industry (and in particular, the conversion of the New Zealand Dairy Board into a company and removal of its statutory export powers) raises potential risks for the New Zealand Dairy Board. These risks fall into three broad categories:

- these events could be seen as creating potential termination rights under a number of contracts and other arrangements with third parties,
- these events could, in some cases, mean that some foreign government registrations and licences held by the New Zealand Dairy Board need to be updated or reapplied for, and
- foreign laws may no longer treat the New Zealand Dairy Board as a foreign state entity which foreign laws will not challenge by reason of international comity laws. The New Zealand Dairy Board is seeking foreign law advice on the implications of the new structure and what risks, if any, this will raise and how these can be addressed.

The Act provides for contracts to be preserved to the extent that can be achieved by New Zealand legislation. The New Zealand Dairy Board is currently negotiating with third parties in relation to foreign contracts and arrangements, and is in the process of reapplying for licences and registrations where necessary.

General risks

Special trade factors and risks that are unlikely to be known or anticipated by the general public and which could materially affect the trading prospects of the Company and the Company's financial performance or position include a downturn in general economic and business conditions (domestic and global) (in addition to that described under the heading 'Regulatory Framework' in this section), increased competition (domestic and global), increases or decreases in customer demand, changes in timing and

amount of forecast capital expenditure, changes to industry relevant regulation, business alliances judgements of management, changes to prices paid for milk to suppliers, changes to New Zealand and international prices for dairy products and climatic conditions, and changes to exchange rates. In addition, the international trade in dairy products is heavily influenced by foreign government actions including tariffs, quotas, state trading enterprises and subsidies. The interaction of these factors is complex and can result in substantial shifts in the levels of returns from overseas markets. Most of these factors are beyond the control of the Company.

Exchange Ruling and waivers

The Exchange has ruled that the Capital Notes do not constitute 'equity securities' under the Rules. This means that where the Capital Notes are quoted on the Exchange, the Company is not required to comply with the Rules which apply to an issuer of quoted equity securities. The Exchange has granted the Company technical waivers from Listing Rule 3.2(b) (reflecting the fact that rule does not contemplate securities that do not have a fixed election (maturity) date) and Listing Rule 7.1.17 (reflecting the fact that the Prospectus and Investment Statement do not appear in 12 point Arial type, but that the statements required by the Listing Rules are in the same typeface and typesize relative to an A4 page as the text in the body of each document). The Exchange has also determined that a 'Minimum Holding' for Fonterra Capital Notes is Capital Notes having a face value of \$5,000 (rather than \$1,000 as currently provided for in Appendix 2 of the Listing Rules).

35 Directors' Statement

The Directors, after due inquiry by them in relation to the period between 1 June 2001 and the Specified Date, are of the opinion that no circumstances have arisen that materially adversely affect

- the trading or profitability of the Company,
- the value of the Company's assets, or
- the ability of the Company to pay its liabilities due within the next 12 months

36 Auditor's Report

The auditor's report required by clause 36 of the Second Schedule of the Securities Regulations 1983 and the Securities Act (New Co-op Capital Notes Issue) Exemption Notice 2001 is set out in the section of this Prospectus entitled "Auditor's Report" on pages 37 to 39.

This Prospectus has been signed by each Director of Fonterra Co-operative Group Limited (or by their agent authorised in writing).

GLOSSARY

In this Prospectus, unless the context otherwise requires

Accrued Interest means interest payable on the Principal Amount (as defined in the Supplemental Deed) of a Capital Note which has accrued but has not yet been paid,

Act means the Dairy Industry Restructuring Act 2001,

Approved Issuer has the same meaning as in section NG6 of the Income Tax Act 1994,

Base Rate has the meaning given on page 3,

Board means the board of directors of the Company,

Business Day means any day on which banks are open for the transaction of general banking business in Auckland, New Zealand,

Calculation Agent means the Registrar

Capital Note means a Capital Note issued by the Company in accordance with this Prospectus and the Investment Statement,

Closing Date means 28 November 2001 or such other date that Fonterra determines,

Companies Act means the Companies Act 1993,

Conditions means the terms and conditions from time to time applicable to the Capital Notes set out in the Supplemental Deed this Prospectus and the Investment Statement,

Constitution means the Company's constitution as it may be amended from time to time,

Co-operative Shares means co-operative shares issued by the Company,

Credit Rating means the credit rating assigned to the Capital Notes by the Rating Agency from time to time

Deeds of Modification means the Deeds of Modification of the Trust Deed dated 19 April 2001 and 24 October 2001,

Directors means the directors of the Company,

Distribution means a distribution by the Company to Shareholders,

Election Date means 10 July in each year commencing on 10 July 2002,

Election Notice means notice given by the Company to Holders of its election to purchase or redeem Capital Notes at an Election Date,

Exchange or NZSE means the New Zealand Stock Exchange,

Extraordinary Resolution means a resolution of the Holders or any class of Holders (as the case may require) approved by at least 75% of the votes given on such resolution,

Fonterra or the Company means Fonterra Co-operative Group Limited, a company incorporated on 16 October 2001 which was formed following the merger of a predecessor company also called Fonterra Co-operative Group Limited, Kiwi and New Zealand Dairy under Part XIII of the Companies Act,

Fonterra Co-operative Group or group means Fonterra and its subsidiaries,

Holder means the person for the time being entered in the Register as the holder of Capital Notes,

Initial Rate Setting Date means the first Business Day following the Closing Date or such other date Fonterra and the Joint Lead Managers determine

Interest Payment Date means 10 January, 10 April, 10 July and 10 October in each year commencing on 10 January 2002

Interest Period of a Capital Note means the period from and including, one Interest Payment Date (or in the case of the first Interest Period, the Issue Date of the Capital Note) to, but excluding the next (or, in the case of the first Interest Period, the first) Interest Payment Date or the Redemption Date (as defined in the Supplemental Deed),

Interest Rate has the meaning given on page 3,

Interest Rate Reset Date means 10 July in each year commencing on 10 July 2002,

Investment Statement means the investment statement for the Capital Notes dated 25 October 2001,

in writing and *written* includes words written, printed, typewritten, lithographed, telexed, cabled or otherwise represented or reproduced in visible form by any other means,

Joint Lead Managers means each of Westpac Institutional Bank (a division of Westpac Banking Corporation), ABN Amro Craigs Limited, Forsyth Barr Limited and Forsyth Barr Frater Williams Limited

Kiwi means Kiwi Co-operative Dairies Limited a company incorporated on 4 September 1908 which merged with a predecessor company also called Fonterra Co-operative Group Limited and New Zealand Dairy to form Fonterra on 16 October 2001,

Merger Proposal means the proposal dated 24 May 2001 for the merger of Kiwi New Zealand Dairy and a predecessor company also called Fonterra Co-operative Group Limited to form Fonterra, under Part XIII of the Companies Act 1993,

New Zealand Dairy or New Zealand Dairy Group means The New Zealand Co-operative Dairy Company Limited a company incorporated on 8 November 1919 which merged with a predecessor company also called Fonterra Co-operative Group Limited and Kiwi to form Fonterra on 16 October 2001,

Offer means the offer of Capital Notes under this Prospectus and the Investment Statement,

One Year Government Stock Rate means the interpolated one year government stock rate as determined by the Calculation Agent using the rates specified on Reuters page NZspread[mid] or its successor page at 10 45 am on the Initial Rate Setting Date and on each Interest Rate Reset Date, on a straight line/linear calculation basis provided that

- (a) if Reuters page NZspread[mid] or its successor page is not available then the Calculation Agent shall obtain a quote from any three registered banks (selected by the Calculation Agent and approved by the Trustee) for the yield at which each bank would bid on that date for the purchase of New Zealand Government Stock of each of the following

- (i) a term which is the nearest equivalent to, but greater than a one year term
 - (ii) a term which is the nearest equivalent to but less than a one year term

and the Calculation Agent shall calculate the average (to two decimal places) of the quoted yield rates for the New Zealand Government Stock relevant to (i) and (ii) above, as the case may be (each an "average yield amount") and the Calculation Agent shall, after having calculated the average yield amounts and by a process of linear interpolation, determine the appropriate yield to be applicable for the purposes of the Base Rate, and

- (b) if, in the opinion of the Company, the interpolated one year government stock rate using Reuters page NZspread[mid] or its successor page or the average of the relevant bid rates used for the purposes of the calculations referred to in paragraph (a) above does not accurately reflect the then current market yield to maturity (expressed as a percentage rate per annum) obtainable on such New Zealand Government Stock or on other then available New Zealand Government debt securities or if, at or about that time, for any reason, fewer than three registered banks are quoting such bid rates or in the opinion of the Company, such New Zealand Government Stock or other then available New Zealand Government debt securities is not a suitable benchmark for the calculation of the market yield to maturity for a one year term, the One Year Government Stock Rate shall be the rate determined by an independent financial expert to be selected by the Trustee after consultation with the Company as being equal to the then current yield to maturity (expressed as a percentage rate per annum) obtainable on New Zealand Government Stock (or if there is none or New Zealand Government Stock is not a suitable benchmark (as provided for above) other fixed interest securities or other securities considered by such expert to be substantially the equivalent of New Zealand Government Stock) having a term which is the nearest equivalent to one year,

Peak Notes means the Peak Notes (being unsecured non-interest bearing subordinated debt securities of no fixed maturity but redeemable in accordance with the Constitution) issued by the Company to

Shareholders pursuant to a Peak Notes Trust Deed dated 22 March 2001 as amended by Deeds of Modification dated 19 April 2001 and 16 October 2001,

Permitted Supplier Payments means, as at any date during a Season and in relation to Milk supplied to the Company by Shareholders to that date, amounts paid or due and payable by the Company to Shareholders for that Milk up to a maximum of \$3 00 per kilogram of Milk Solids contained in that Milk, provided that

- (a) prior to the start of a Season the maximum payment for Milk supplied during such Season for the purposes of this definition may be varied so that it is measured against a factor other than Milk Solids (or any other factor) provided that the Trustee is satisfied that new level of maximum payment is not materially different to the previous level of maximum payment,
- (b) the dollar amount of the maximum payment for the purposes of this definition shall be adjusted with effect from the end of each Season (in relation to payments for Milk supplied in the following Season) to reflect any movement in the Producer's Price Index (Inputs) (or any replacement for that index) during the 12 month period ending on the quarterly date immediately preceding the end of the Season,

Prospectus means the registered prospectus for the Offer of Capital Notes dated 25 October 2001,

Purchase Price means the minimum aggregate principal amount of \$5,000, and any multiples of \$1,000, as appropriate

Rating Agency means Standard & Poor's or any other rating agency selected by the Company and approved by the Trustee,

Redeemable Preference Shares means redeemable preference shares issued by the Company to Shareholders under the Constitution in satisfaction of some or all of the surrender value of Co-operative Shares,

Register means the register (or registers) of Capital Notes to be kept pursuant to the Trust Deed,

Registrar means BK Registries Limited or any other person appointed as registrar by the Company,

Rules means the Listing Rules of the New Zealand Stock Exchange

Senior Creditor means a person to whom Senior Debt is owing,

Senior Debt has the meaning given on page 3,

Shareholder means a holder of Co-operative Shares in the Company,

Solvent means that the Company is able to pay its debts from its own moneys as those debts fall due in the normal course of its business,

Specified Date means the date that the Prospectus was delivered to the Registrar of Companies for registration under section 42 of the Securities Act 1978,

Standard and Poor's means Standard and Poor's Australia Pty Limited

Supplemental Deed means the Initial Supplemental Deed dated 24 October 2001 recording the Conditions of the Capital Notes,

Supply Redemption Right means an option to acquire a Co-operative Share issued by the Company to former shareholders of Kiwi and New Zealand Dairy issued by the Company to Shareholders pursuant to the Constitution,

Trust Deed means the Capital Notes Trust Deed (including the Schedules thereto) dated 22 March 2001 between a predecessor company also called Fonterra Co-operative Group Limited and the Trustee, as modified by Deeds of Modification dated 19 April 2001 and 24 October 2001, and supplemented by the Supplemental Deed dated 24 October 2001 and to which Fonterra has succeeded to under section 225 of the Companies Act 1993 and as it may from time to time be further supplemented modified or novated,

Trustee means The New Zealand Guardian Trust Company Limited, or if it has retired from office or been removed from office in accordance with the Trust Deed, it means the person from time to time who has been appointed Trustee pursuant to Clause 11 2 of the Trust Deed

Directors John Roadley, Chairman Greg Gent, Deputy Chairman Harry Bayliss Richard Booth Murray Flett Graeme Hawkins Henry van der Heyden Dr John Hood Marise James Gerard Lynch Earl Rattray Michael Smith Mark Townshend	Auditor KPMG 9 Princes Street Auckland	Joint Lead Managers for the Offer Forsyth Barr Limited Forsyth Barr House The Octagon Private Bag 1999, Dunedin Ph: 0800 367 227
	Trustee The New Zealand Guardian Trust Company Limited Level 7, Royal and SunAlliance Centre 48 Shortland Street Auckland	Forsyth Barr Frater Williams Limited Level 13, Forsyth Barr Frater Williams Tower Shortland Centre 55 – 65 Shortland Street PO Box 97, Auckland Ph: 0800 367 227
	Securities Registrar BK Registries Limited 138 Tancred Street PO Box 384, Ashburton Ph: (03) 308 8887 Fax: (03) 308 1311	Legal Adviser to the Offer Chapman Tripp Level 35, ANZ Centre 23 – 29 Albert Street Auckland Optimisation House 1 – 13 Grey Street Wellington
Senior Management Craig Norgate, Chief Executive Officer Chris Möller David Pilkington Graham Stuart Alexander Töldte	Joint Lead Managers for the Offer Westpac Institutional Bank (a division of Westpac Banking Corporation) Level 24, WestpacTrust Tower 120 Albert Street Auckland Ph: 0800 900 910	Legal Adviser to the Joint Lead Managers Simpson Grierson Levels 6 – 9, Simpson Grierson Building 44 – 52 The Terrace Wellington
	ABN Amro Craigs Limited Farming House 102 – 104 Spring Street PO Box 13155, Tauranga Ph: 0800 272 442	Legal Adviser to the Trustee Bell Gully Royal and SunAlliance Centre 48 Shortland Street Auckland
Corporate Centre Building 103, Leonard Isitt Drive Auckland Airport Auckland Private Bag 92032, Auckland Mail Centre Ph: (09) 256 5400 Fax: (09) 256 5419 www.fonterra.com		



COMPANIES
NEW ZEALAND
OFFICE

CERTIFICATE OF REGISTRATION OF SATISFACTORY COPY OF PROSPECTUS

(Under Section 42(5) of the Securities Act 1978)

**FONTERRA CO-OPERATIVE GROUP
LIMITED**

AK. 1166320

This is to certify that a satisfactory copy of a Prospectus dated the 25th day of October 2001 and delivered for registration by/on behalf of the abovenamed issuer relating to an issue of subordinated unsecured capital notes was registered on the 1st day of November 2001

Christine Docherty
Assistant Registrar of Companies



Dated this 15th day of November 2001