

FONTERRA CO-OPERATIVE GROUP LIMITED
INVESTMENT STATEMENT RELATING TO
AN OFFER OF FIXED RATE BONDS



JOINT LEAD MANAGER



JOINT LEAD MANAGER &
ORGANISING PARTICIPANT



CO-MANAGERS



Dairy for life

IMPORTANT INFORMATION

(The information in this section is required under the Securities Act 1978)

Investment decisions are very important. They often have long-term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

CHOOSING AN INVESTMENT

When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

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In addition to the information in this document, important information can be found in the current registered prospectus for the investment. You are entitled to a copy of that prospectus on request.

ENGAGING AN INVESTMENT ADVISER

An investment adviser must give you a written statement that contains information about the adviser and his or her ability to give advice. You are strongly encouraged to read that document and consider the information in it when deciding whether or not to engage an adviser.

Tell the adviser what the purpose of your investment is. This is important because different investments are suitable for different purposes, and carry different levels of risk.

The written statement should contain important information about the adviser, including:

- relevant experience and qualifications, and whether dispute resolution facilities are available to you; and
- what types of investments the adviser gives advice about; and
- whether the advice is limited to investments offered by one or more particular financial institutions; and
- information that may be relevant to the adviser's character, including certain criminal convictions, bankruptcy, any adverse findings by a court against the adviser in a professional capacity, and whether the adviser has been expelled from, or prohibited from joining, a professional body; and
- any relationships likely to give rise to a conflict of interest.

The adviser must also tell you about fees and remuneration before giving you advice about an investment.

The information about fees and remuneration must include:

- the nature and level of the fees you will be charged for receiving the advice; and
- whether the adviser will or may receive a commission or other benefit from advising you.

An investment adviser commits an offence if he or she does not provide you with the information required.

IMPORTANT NOTICE

This is an Investment Statement for the purposes of the Securities Act 1978. It is prepared as at 30 January 2009. The purpose of this Investment Statement is to provide certain key information that is likely to assist a prudent but non-expert person to decide whether or not to subscribe for the Bonds.

OFFER ONLY IN NEW ZEALAND

This Investment Statement does not constitute an offer of Bonds in any jurisdiction other than New Zealand. No action has been taken by Fonterra which would permit an offer of Bonds, 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 person may purchase, offer, sell, distribute or deliver the Bonds, or have in its possession, or distribute to any person, any offering material or any documents in connection with the Bonds, in any jurisdiction other than in compliance with all applicable laws and regulations.

By its subscription for or purchase of the Bonds, each Holder agrees to indemnify Fonterra, each Joint Lead Manager, each Co-Manager and the Trustee and each of their respective directors, officers and employees for any loss or liability sustained or incurred by Fonterra, that Joint Lead Manager, that Co-Manager or the Trustee, as the case may be, as a result of the breach by that Holder of the above selling restrictions.

DEFINITIONS

Certain capitalised terms used in this Investment Statement have defined meanings which appear in the *Glossary* section on page 39. Other capitalised terms have defined meanings given to them in the Trust Documents. All references to \$ are to New Zealand dollars unless specified otherwise.

NON-RELIANCE

This Investment Statement does not constitute a recommendation by the Joint Lead Managers, the Co-Managers, the Trustee, nor any of their respective directors, officers, employees or agents to subscribe for, or purchase, any of the Bonds. None of the Joint Lead Managers, the Co-Managers, the Trustee or any of their respective directors, officers, employees or agents accepts any liability whatsoever for any loss arising from this Investment Statement or its contents or otherwise arising in connection with the Offer.

The Joint Lead Managers, the Co-Managers and the Trustee have not independently verified the information contained in this Investment Statement. In accepting delivery of this Investment Statement, the recipient acknowledges that none of the Joint Lead Managers, the Co-Managers, the Trustee or their respective officers, employees, agents or advisers give any warranty or representation of accuracy or reliability and they take no responsibility for it. None of them shall have any liability for any errors or omissions (including for negligence) in this Investment Statement, and each recipient waives all claims in that regard.

Each recipient of this Investment Statement must make its own independent assessment and investigation of the financial condition and affairs of Fonterra as it may deem necessary and base any investment decision upon such independent investigation.







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Offer Highlights

Issuer	Fonterra Co-operative Group Limited.
Description	Unsecured, unsubordinated, fixed rate debt obligations of Fonterra.
Credit Rating of the Bonds	A+ Standard & Poor's (Australia) Pty Limited. AA- Fitch Australia Pty Limited.
Minimum Application Amount	\$5,000 and multiples of \$1,000 thereafter.
Aggregate Principal Amount	\$300,000,000 (with the ability to accept unlimited oversubscriptions).
Interest Rate	The Bonds shall pay interest at the Interest Rate to be announced on the Interest Rate Set Date at the higher of: <ul style="list-style-type: none">• 7.75%; and• the aggregate of the applicable Six-Year Swap Rate (on the Interest Rate Set Date) plus a margin of 3.40%.
Interest	Quarterly in arrears.
Interest on Subscription Moneys	Fonterra will pay, no later than 14 days after the Issue Date, interest to each Holder on the Subscription Moneys for that Holder at the Interest Rate for each day in the period from (and including) the date on which the Subscription Moneys were credited in cleared funds to Fonterra's bank account to (but not including) the Issue Date.
Issue Price	\$1.00 per Bond (being the "Principal Amount" of each Bond).
NZDX Listing	Application has been made to NZX for permission to list the Bonds and all the requirements of NZX relating thereto that can be complied with on or before the date of distribution of this Investment Statement have been duly complied with. However, NZX accepts no responsibility for any statement in this Investment Statement.
Use of Proceeds	The net proceeds from the issue of Bonds will be used for general business purposes, including working capital requirements.

Important Dates

Opening Date 9 February 2009

Closing Date 6 March 2009

Interest Rate Set Date 9 March 2009

Issue Date 10 March 2009

Expected date of initial quotation and trading on NZDX 11 March 2009

First Interest Payment Date 10 June 2009

Interest Payment Dates 10 March, 10 June, 10 September and 10 December of each year up to and including the Maturity Date

Maturity Date 10 March 2015

Fonterra, in conjunction with the Joint Lead Managers, may change these dates prior to the issue of the Bonds. Notwithstanding any changes to these dates, an investor by signing an Application Form irrevocably offers to subscribe for Bonds on the terms set out or referred to in this Investment Statement and the Application Form.





CHAIRMAN
HENRY VAN DER HEYDEN

Chairman's Letter

Dear Investor

Fonterra is pleased to offer you the opportunity to invest in an issue of senior retail fixed rate bonds.

Dairying is one of the mainstays of agriculture in New Zealand and it underpins the national economy – representing approximately one quarter of the country's export earnings. Fonterra is very much at the heart of the dairying industry, with the Fonterra Group processing around 90% of New Zealand's milk supply and co-operatively owned by around 10,500 dairy farmer shareholders. Our brands include many household names in dairy, including ANCHOR, MAINLAND, TIP TOP, FRESH 'N FRUITY and ANLENE.

The Fonterra Group is the world's largest dairy exporter and plays an increasingly important role in the globally-traded markets for dairy commodities. With this solid foundation, we are in a position to capitalise on the expected long-term growth in demand for quality dairy products in emerging and established economies around the world. The Fonterra Group is looking to leverage these positions to help see it through the global economic conditions now being experienced.

On behalf of the Fonterra Board, I invite you to consider the offer set out in this Investment Statement and would welcome your interest in Fonterra's retail bonds.

Yours sincerely

HENRY VAN DER HEYDEN
CHAIRMAN

Summary of Main Terms of the Offer

For a more complete description of the Bonds, see the *Answers to Important Questions* section on pages 19 to 35.

Issuer	Fonterra Co-operative Group Limited ("Fonterra" or "Issuer" or "Company"). A description of Fonterra is set out in the <i>Profile of the Fonterra Group</i> on pages 12 to 18 and under the heading <i>Who is involved in providing it for me?</i> on page 19.
Description	Unsecured, unsubordinated, fixed rate debt obligations of Fonterra.
Joint Lead Managers	ANZ, part of ANZ National Bank Limited. BNZ Capital, a division of Bank of New Zealand.
Co-Managers	ABN AMRO Craigs Limited and First NZ Capital Securities Limited.
Organising Participant	BNZ Capital, a division of Bank of New Zealand.
Opening Date	9 February 2009.
Closing Date	6 March 2009.
Registrar	Computershare Investor Services Limited.
Aggregate Principal Amount	Up to \$300,000,000 (with the ability to accept unlimited oversubscriptions).
Currency	New Zealand Dollars.
Minimum subscription amount	\$5,000 with multiples of \$1,000 thereafter.
Issue Price	\$1.00 per Bond (being the "Principal Amount" of each Bond).
Selling Restrictions	This Investment Statement does not constitute an offer of Bonds in any jurisdiction other than New Zealand. No action has been taken by Fonterra which would permit an offer of Bonds, 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 person may purchase, offer, sell, distribute or deliver the Bonds, or have in its possession, or distribute to any person, any offering material or any documents in connection with the Bonds, in any jurisdiction other than in compliance with all applicable laws and regulations.
How to apply	Applications must be made on the Application Form contained at the back of this Investment Statement and must be submitted together with payment to the addresses set out on page 21 under the heading <i>Where to send your Application Form and payment</i> .
Listing and quotation	Application has been made to NZX for permission to list the Bonds and all the requirements of NZX relating thereto that can be complied with on or before the date of distribution of this Investment Statement have been duly complied with. However, NZX accepts no responsibility for any statement in this Investment Statement.
Maturity Date	10 March 2015.
Status of the Bonds	The Bonds offered under this Investment Statement are debt securities and constitute unsecured, unsubordinated, fixed rate debt obligations of Fonterra. The Bonds will rank equally and without any preference among themselves and equally with all other unsecured and unsubordinated indebtedness of Fonterra, except indebtedness preferred by law.
Interest Rate	The Bonds offered under this Investment Statement shall pay interest at the Interest Rate. The Interest Rate for the Bonds will be set by Fonterra in consultation with the Joint Lead Managers on the Interest Rate Set Date at the higher of: <ul style="list-style-type: none">• 7.75%; and• the aggregate of the applicable Six-Year Swap Rate (on the Interest Rate Set Date) plus a margin of 3.40%. Accordingly, the Interest Rate for the Bonds is not known at the date of printing this Investment Statement. The Interest Rate for the Bonds will be announced by Fonterra to NZX on the Interest Rate Set Date. The Interest Rate will not change after the Bonds have been issued.
Interest Payment Dates	Interest will be payable quarterly in equal amounts in arrears on 10 March, 10 June, 10 September and 10 December of each year up to and including the Maturity Date. The first Interest Payment Date is 10 June 2009.

Interest will be payable on each Interest Payment Date to the Holders as at the Record Date immediately preceding the relevant Interest Payment Date.

A Record Date is the date 10 days before an Interest Payment Date or, if not a Business Day, the immediately preceding Business Day.

Fonterra will pay, no later than 14 days after the Issue Date, interest to each Holder on the Subscription Moneys in respect of Bonds allotted to that Holder at the Interest Rate for each day in the period from (and including) the date on which the Subscription Moneys were credited in cleared funds to Fonterra's bank account to (but not including) the Issue Date.

A more detailed description of how the Interest Rate is determined is set out under the heading *What returns will I get?* on page 22.

Form of Bonds

The Bonds will be entered onto the Register maintained by the Registrar. No certificates in respect of the Bonds will be issued to Holders. Title to the Bonds passes by transfer and registration. Fonterra and the Registrar will rely on the Register for the purpose of determining entitlements to interest on each Interest Payment Date, and for the repayment of the Principal Amount of the Bonds when they are redeemed.

Scaling

The Joint Lead Managers in consultation with Fonterra reserve the right to scale at their discretion.

Firm Allocation

Up to \$300,000,000 in Principal Amount of Bonds (constituting 100% of the Bonds offered) and up to 100% of any oversubscriptions may be reserved for firm allocations to clients of the Joint Lead Managers, the Organising Participant, the Co-Managers, other NZX Firms and invited financial intermediaries in the bookbuild as determined by the Joint Lead Managers.

Underwriting

The Offer is not underwritten.

Ratings

Standard & Poor's (Australia) Pty Limited ("S&P") has assigned a rating of A+ to the Bonds. Further information about the rating is available at www.standardandpoors.com. Fitch Australia Pty Limited ("Fitch") has assigned a rating of AA- to the Bonds. Further information about the rating is available at www.fitchratings.com.

The ratings referred to in this Investment Statement are not a recommendation to buy, sell or hold the Bonds, and each rating may be subject to revision or withdrawal at any time by S&P or Fitch, as the case may be. Any downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

Neither S&P nor Fitch have been involved in the preparation of this Investment Statement.

Use of proceeds

The net proceeds from the issue of Bonds will be used for general business purposes, including working capital requirements.

Further issues

Fonterra may from time to time without the consent of the Holders issue further notes so as to form a single class with the Bonds. Fonterra may also from time to time without the consent of Holders issue notes having different terms to those applicable to the Bonds. There is no restriction on the amount of debt which Fonterra may issue or guarantee.

Alteration of dates

Fonterra, in conjunction with the Joint Lead Managers, may change the dates applicable to the Offer and the Bonds referred to in this Investment Statement prior to the Issue Date. Accordingly, all references to particular dates in this Investment Statement should be read in that light. The manner in which dates can be altered is set out in more detail under the heading *Can the investment be altered?* on page 32.

Profile of the Fonterra Group

For the purposes of the Securities Regulations, Fonterra is the issuer and is the only member of the borrowing group in relation to the Bonds. However, most of the business activities of Fonterra are carried out by its Subsidiaries (which together with Fonterra are referred to as the “Fonterra Group”) and accordingly the information contained in this profile relates to the Fonterra Group as opposed to solely Fonterra. No Subsidiary guarantees the obligations of Fonterra in respect of the Bonds.

OVERVIEW

The Fonterra Group is the world’s largest dairy exporter and New Zealand’s largest and truly multinational business, currently responsible for around one quarter of New Zealand’s export earnings.

Its core business is the collection of milk and the manufacture and sale of dairy ingredients, both commodity and specialty, which are sold in the globally-traded dairy market. It is the world’s largest seller of globally-traded dairy commodities (milk powders, proteins, butter, milk fats and cheese).

The Fonterra Group’s product portfolio covers dairy ingredients, liquid and powdered milks, cultured foods and yoghurts, butter, cheese and specialty foodservice products. Its brands include ANCHOR, ANLENE, ANMUM, FRESH ‘N FRUITY, MAINLAND, KAPITI, PETERS, BROWNES, SOPROLE, TIP TOP and CHESDALE.

Fonterra is the parent company of the Fonterra Group which includes around 70 trading companies throughout the world and has around 16,000 employees.

OWNERSHIP

As a co-operative, Fonterra is owned by around 10,500 New Zealand dairy farmer shareholders. These farmers – all members of the co-operative – supply the Fonterra Group with raw milk for processing into a range of dairy products, over 90% of which are exported to more than 140 countries.

Share ownership is restricted to the New Zealand dairy farmers who supply milk to Fonterra. Shares are held largely in direct proportion to the amount of milk supplied in a 12-month dairy season. Changes in the quantity of milk supplied from one season to

the next must, in most cases, be accompanied by a proportionate change in shareholding.

BUSINESS STRUCTURE AND OPERATIONS

The Fonterra Group’s business has several key components:

- Dairy supply, collection, manufacturing and supply chain – predominantly in New Zealand, but also in offshore markets.
- Global trading and supply of commodity dairy products.
- Sales of dairy ingredients (including specialty ingredients) to key customers around the world.
- Regionally-focused consumer dairy businesses within Australia/New Zealand; Asia/Africa, Middle East; and Latin America. As well, Fonterra operates through a number of joint venture arrangements, partnerships with other suppliers and customers, and product sourcing arrangements such as the arrangement it has with Dairy Farmers of America.

The Fonterra Group is the world’s largest dairy exporter currently responsible for around one quarter of New Zealand’s export earnings.

Supply and Manufacturing

Milk in its natural form is perishable and so its distribution as a liquid is largely limited to local market consumption. The Fonterra Group processes approximately 95% of its annual milk production into less perishable forms such as dried powder formats for both milk powder and protein products, UHT milk, various food ingredients, and butter and cheese.

The Fonterra Group’s New Zealand and international manufacturing assets are core to its business. With 26 processing sites in New Zealand, 10 in Australia and another 50 around the world, the Fonterra Group has the scale to process around 20 billion litres of milk a year. The Fonterra Group’s scale and range of manufacturing plants means it is well suited to take account of changing market demands, which may impact product mix and returns.



These assets include the world's largest dairy ingredients manufacturing site in Whareroa, Taranaki which alone processes approximately 20% of the milk collected by Fonterra in New Zealand. On this site are five powder plants, two cheese plants and plants producing cream products, casein and whey.

A \$212 million investment in additional milk powder production and support facilities at the Fonterra Group's Edendale site in Southland will bring that site's peak processing to more than 14 million litres a day, a level commensurate with the Whareroa site. When complete, the powder drier at Edendale will be the largest in the world.

The Fonterra Group is focused on improving its operational performance in key areas such as quality, cost efficiency and sustainability. Product quality has improved continuously over the past seven years, while incremental cost reduction initiatives have achieved cost savings over recent years. The core business includes a Global Supply Chain function that enables products sourced from around the world to be delivered to customers across 140 countries.

GlobalTrade

The Fonterra Group's GlobalTrade business is one of the world's largest sellers of bulk dairy commodities (milk proteins, powders, cream and butter products and cheese). Nestlé is one of GlobalTrade's key customers.

GlobalTrade has a key role to monitor international supply and demand trends in a manner that allows sales and production planning for the Fonterra Group to be optimised in support of achieving a competitive milk price to be paid to dairy farmer shareholders. As a matter of course, this includes planning the allocation of product mix and the extent of inventory held in support of such plans.

In July 2008, the Fonterra Group established the world's first internet trading platform to sell bulk dairy commodities into the international market. Branded as *global/DairyTrade*, the Fonterra Group intends at the outset to sell approximately 10% of its commodity production through this trading platform. Total sales through the trading platform and the types of commodity products sold through it are expected to expand over time.

Ingredients

Fonterra Ingredients is responsible for products sold to a range of global account customers, including those in the formulated foods sector – such as infant formula manufacturers. Customers include some of the biggest names in the food and nutrition industries: Abbott, Coca-Cola, Danone, Domino's Pizza, Kraft, Mars, McDonalds, Mead Johnson, Wyeth and Yum! (the owner of KFC and Pizza Hut).

Utilising its worldwide network and market leverage, the business delivers world-class products and service throughout the globe. For customers operating in multiple markets, the Fonterra Group can provide a single source supply chain of dairy ingredients supported by world-proven marketing expertise, technology and research capabilities.

The specialised local knowledge and experience of the Fonterra Group's network of regional office staff members can add real value to customers' businesses. From language to logistics, the Ingredients business has a local understanding of the markets that it serves.

Australia/New Zealand

The Fonterra Group's Australia/New Zealand business is one of the largest food businesses in Australasia. It comprises consumer-related operations in New Zealand, and in Australia covers the full value chain, including local milk collection, manufacturing and ingredients, and consumer and foodservice businesses.

In New Zealand, the Fonterra Group leads in all consumer dairy categories, with icon brands such as MAINLAND, PERFECT ITALIANO, ANLENE, ANCHOR, FRESH 'N FRUITY, KAPITI and TIP TOP.

In Australia, the Fonterra Group has national market leading positions in cheese and spreads, a leading position in yoghurt and dairy desserts, as well as small regional positions in milk and ice-cream.

Asia/Africa, Middle East

The Asia/Africa, Middle East and China businesses stretch across 40 countries with a combined population of more than 2 billion. The South East Asian businesses are focused on seven dairy categories and aim to be leading nutritional dairy players and providers of foodservice solutions in each of their regions. Leading brands include ANCHOR, ANLENE and

ANMUM. With a strong pipeline of product innovation, leadership positions have been created in Malaysia and Sri Lanka in chilled and cultured categories. The operations in Sri Lanka are the largest consumer business in that country. The ANLENE brand is a market leader in several major countries: it is focused on bone nutrition, has developed a leading global association with the World Osteoporosis Society and the business is spearheading bone scanning for consumers throughout the region. In China, the Fonterra Group is a leader in the imported ingredients and foodservice sectors and has invested in and manages a 3000 cow dairy farm.

Customers include some of the biggest names in the food and nutrition industries: Abbot, Coca-Cola, Danone, Domino's Pizza, Kraft, Mars, McDonalds, Mead Johnson, Wyeth and Yum! (the owner of KFC and Pizza Hut).

Latin America

The Fonterra Group's Latin American business operates in Argentina, Brazil, Chile, Colombia, Ecuador and Venezuela.

Key investments include:

- 99.8% ownership of Soprole, Chile's leading consumer dairy business. Soprole has a share of more than one-third of the Chilean consumer dairy market. Soprole also has a manufacturing subsidiary in southern Chile, Prolesur, in which Fonterra has an indirect 86.2% ownership.
- A consumer joint venture with Nestlé, Dairy Partners Americas, which operates in Brazil, Venezuela, Ecuador and Argentina.
- A manufacturing joint venture with Nestlé, Dairy Partners Americas Manufacturing, which operates at a number of sites across Brazil, Argentina, Colombia and Ecuador.

INNOVATION AND SUSTAINABILITY

The Fonterra Group is committed to developing innovative processes, food ingredients and consumer products.





Innovation teams operate purpose built research and development facilities situated at Palmerston North, New Zealand and Melbourne, Australia. These teams work in close collaboration with various New Zealand and overseas universities and New Zealand Crown Research Institutes, and fund work at overseas research organisations and universities.

The Fonterra Group also operates Technical Centres of Excellence in support of its manufacturing plants and in-market Development Centres that work in close collaboration with customers requiring dairy ingredient application solutions. This includes a Development Centre in Chicago, United States, which opened in 2008 and allows more innovations to be tailored specifically to the needs of the Fonterra Group's customers in North America.

Sustainability is a cornerstone of the Fonterra Group's strategy. Priorities are managing the quality and efficient use of water resources, achieving world-leading status as one of the most greenhouse gas-efficient dairy producers in the world, and reducing waste in every area of the business. Other sustainability initiatives are focused on transport, infrastructure and bio-security.

FONTERRA STRATEGY

Dairy is a global growth business, with long-term growth trends driven by rising demand for healthy and nutritious products, increasing wealth in developing countries and recognition of dairy's role in promoting and protecting health.

Fonterra's vision is to 'Lead in Dairy'.

Fonterra's strategy is focused on delivering a competitive milk price to Fonterra's dairy farmer shareholders and delivering growth in earnings. It has five strategic platforms:

- Driving profitability in Fonterra's core commodity business and maintaining a competitive milk price to its dairy farmer shareholders.

- Developing deeper relationships with Fonterra's major ingredients customers globally and regionally.
- Continuing to globalise Fonterra's sourcing and supply chain model to support these relationships.
- Becoming the market leader in managing risk and security of dairy ingredients supply.
- Maximising value from Fonterra's consumer positions to fund growth and provide a commodity price hedge.

These platforms are underpinned by a focus on the people, processes and infrastructure required to enable growth and achieve efficiencies through the scale of the business. An increased focus has also been applied to the Fonterra Group's sustainability practices – predominantly in relation to energy, water and wider environmental factors.

Sustainability is a cornerstone of the Fonterra Group's strategy.

CAPITAL STRUCTURE REVIEW

The Fonterra Board of Directors regularly looks to ensure that Fonterra's capital structure is appropriately robust and responsive to the needs of Fonterra shareholders and other stakeholders. A range of options, including a preferred option, were presented to shareholders at the end of 2007. The preferred option involved the introduction of external capital.

Following detailed consultation, the Fonterra Board indicated to shareholders that the preferred option would not be pursued. The Fonterra Board continues to look at capital structure issues but there are no proposals due to go to Fonterra's shareholders. Any proposal would be the subject of extensive consultation with Fonterra shareholders.

Some of Fonterra Group's Brands



Answers to Important Questions

1. WHAT SORT OF INVESTMENT IS THIS?

THE BONDS

The Bonds offered under this Investment Statement are debt securities and constitute unsecured, unsubordinated, fixed rate debt obligations of Fonterra. The Bonds will rank equally and without any preference among themselves and equally with all other unsecured and unsubordinated indebtedness of Fonterra, except indebtedness preferred by law.

The terms and conditions applicable to the Bonds are contained in the Prospectus and the Trust Documents.

TRUSTEE

The Bonds are issued pursuant to the Trust Documents. The Trustee holds on trust for the benefit of Holders the right to enforce Fonterra's obligations under the Bonds.

The Trustee does not guarantee the payment of interest on, or the repayment of the Principal Amount of, the Bonds.

INTEREST

The Bonds bear interest at a fixed rate (being the Interest Rate). Interest will be paid on the Bonds quarterly in equal amounts in arrears on each Interest Payment Date (being 10 March, 10 June, 10 September and 10 December of each year until and including the Maturity Date). The first Interest Payment Date for the Bonds is 10 June 2009.

A more detailed description of the Interest Rate which will apply to the Bonds and how it is determined is set out under the heading *What returns will I get?* on page 22.

REDEMPTION

The Principal Amount of the Bonds will be repaid by Fonterra on the Maturity Date (10 March 2015).

Holders have no right to require redemption of the Bonds, except in the case of an Event of Default. This means that Holders have no ability to cash in their investment before the Maturity Date, except following an Event of Default or by selling their Bonds in the secondary market (if one develops).

ALTERATION OF DATES

Fonterra, in conjunction with the Joint Lead Managers, may change the dates applicable to the Offer and the Bonds referred to in this Investment Statement prior to the Issue Date. Accordingly, all references to particular dates in this Investment Statement should be read in that light. The manner in which dates can be altered is set out in more detail under the heading *Can the investment be altered?* on page 32.

FURTHER ISSUES

Fonterra may from time to time without the consent of the Holders issue further notes so as to form a single class with the Bonds. Fonterra may also from time to time without the consent of Holders issue notes having different terms to those applicable to the Bonds. There is no restriction on the amount of debt which Fonterra may issue or guarantee.

NZDX LISTING

Application has been made to NZX for permission to list the Bonds and all the requirements of NZX relating thereto that can be complied with on or before the date of distribution of this Investment Statement have been duly complied with. However, NZX accepts no responsibility for any statement in this Investment Statement.

2. WHO IS INVOLVED IN PROVIDING IT FOR ME?

ISSUER

Fonterra Co-operative Group Limited is the issuer of the Bonds. Fonterra's registered office is at 9 Princes Street, Auckland.

The Directors of Fonterra at the date of this Investment Statement are Colin Charles Armer, Malcolm Guy Bailey (B Ag Econ (Massey)), John Charles Ballard (MBA), Ian James Farrelly (B.Ag. (Massey)), Gregory William Gent, David Alexander Jackson (M.Com. (Hons), FCA), John Anthony Monaghan, Stuart John Natrass (B AG SC Hons (Lincoln)), Henry van der Heyden (BE (Hons)), Jim William van der Poel, Ralph Graham Waters (CP ENG, FIE AUST, M Bus) and John Speer Wilson (B AG SC (Massey)).

ACTIVITIES OF THE ISSUER

For the purposes of the Securities Regulations, Fonterra (as the issuer) is the only member of the borrowing group in relation to the Bonds. No Subsidiary guarantees the obligations of Fonterra in respect of the Bonds. Fonterra has been operating in its current form since 16 October 2001.

Fonterra's principal activities (as distinct from those of its Subsidiaries) are to collect milk from supplier shareholders and sell it to Subsidiaries, and oversee and support the operations of the Fonterra Group. Fonterra also pays the supplier shareholders for the milk supplied, and also pays the profit (known as "Value Return") made by the Fonterra Group to shareholders. The Subsidiaries treat and distribute milk and cream and manufacture, market and sell milk products. The Fonterra Group processes around 90% of New Zealand's milk supply.

Fonterra's core business is the collection of milk and the manufacture and sale of commodity and specialty dairy ingredients that are mostly sold in the globally-traded dairy market, which it largely carries out through its Subsidiaries. This market represents around 7% of world milk production, with the Fonterra Group representing around a 35% share of this globally traded market.¹ The balance of market demand for dairy is typically satisfied through local domestic supply within countries. The Fonterra Group carries out its business through strategic business units that are defined by its core ingredients business and businesses operating in geographical areas: Commodities and Ingredients; Australia/New Zealand ("ANZ"); Asia/Africa and Middle East ("AME"); and Latin America.

The Fonterra Commodities and Ingredients business comprises New Zealand Milk Supply, New Zealand Manufacturing, Sales and Operations Planning, Fonterra GlobalTrade, Global Supply Chain, Fonterra Ingredients and Specialty Ingredients. Fonterra GlobalTrade is one of the world's largest sellers of bulk dairy commodities (milk proteins, powders, cream and butter products and cheese) with sales primarily into Asia, the Middle East, Africa, Latin America and Oceania. Fonterra Ingredients sells dairy ingredients into North America, Europe and North Asia. The Fonterra ANZ business represents operations in New

Zealand (other than those covered under the Commodities and Ingredients business) and in Australia covers the full value chain. The Fonterra AME business covers operations in Asia, Africa and the Middle East, mainly focused on consumer brands and food service. The Latin America business is focused largely on consumer investments, a joint venture with Nestlé in the Dairy Partners of America Alliance and certain equity accounted investments in South America.

The Fonterra Group's brands include ANCHOR, ANLENE, ANMUM, MAINLAND, SOPROLE, CHESDALE, TIP TOP, PETERS, BROWNES, BEGA and FRESH 'N FRUITY .

TRUSTEE

The Trustee for the Bonds is The New Zealand Guardian Trust Company Limited, whose registered office is at Level 7, Vero Centre, 48 Shortland Street, Auckland.

REGISTRAR

The Registrar of the Bonds is Computershare Investor Services Limited, whose registered office is at Level 2, 159 Hurstmere Road, Takapuna, North Shore City.

SUBSTITUTED OBLIGOR

The Trustee may, without the consent of Holders, agree to any wholly-owned Subsidiary of Fonterra ("Substituted Obligor") taking the place of Fonterra under the Trust Documents in substitution for Fonterra or a previous Substituted Obligor. Such substitution may only occur if a number of requirements are met, as set out in the Master Trust Deed. Those requirements include that:

- (a) the Substituted Obligor becomes bound by all the terms and conditions of the Trust Documents;
- (b) such amendments are made to the other documents in respect of the Offer as the Trustee may reasonably deem appropriate;
- (c) two Authorised Officers of the Substituted Obligor certify that the Substituted Obligor will be solvent immediately after such substitution;
- (d) any public rating assigned to the Bonds is maintained or increased;

¹ Fonterra analysis based on OECD Milk Production data and the World Trade Atlas trade data.

- (e) any other reasonable requirements the Trustee may reasonably consider are in the interests of the Holders, which may include that Fonterra guarantees payment of the Bonds and/or remains bound by all or certain provisions of the Trust Documents;
- (f) the Substituted Obligor warrants and represents to the Holders that it has all the necessary authorisations and that the obligations assumed by it are valid, binding and enforceable; and
- (g) legal opinions are obtained confirming certain matters, such as that the Trust Documents and Bonds constitute legal, valid and binding obligations of the Substituted Obligor, the Substituted Obligor is validly incorporated, all necessary authorisations are in full force and effect and that the amounts payable to the Holders will not be reduced by taxes (other than taxes that Fonterra is not already obliged to provide Holders a gross-up for under the terms of the Trust Documents).

3. HOW MUCH DO I PAY?

ISSUE PRICE AND MINIMUM INVESTMENT

The issue price of the Bonds is \$1.00 per Bond. Applications to subscribe for Bonds must be for a minimum aggregate Principal Amount of \$5,000 (and in multiples of \$1,000 thereafter) and payment of the total Subscription Moneys in full must accompany the Application Form. There is no maximum amount of Bonds you may apply for, but Applications for less than \$5,000 will not be accepted.

Applications must be made on the Application Form contained at the back of this Investment Statement.

PAYMENTS

Applicants who are members of the Austraclear System, or who are able to have payments made on their behalf through the Austraclear System, may settle their applications for Bonds on the Issue Date through the Austraclear System with the Registrar (CISL90).

Applicants who are not members of the Austraclear System must pay for the Bonds applied for by a personal cheque, or if the Application is for Bonds of an aggregate Principal Amount of \$500,000 or more, by bank cheque or other method acceptable to the

Joint Lead Managers. Cheques should be in New Zealand dollars drawn on a New Zealand branch of a financial institution and submitted with the completed Application Form. Cheques should be made payable to "Fonterra Bond Offer" and crossed "Not Transferable" and must not be post-dated.

WHERE TO SEND YOUR APPLICATION FORM AND PAYMENT

A completed Application Form together with your cheque should be delivered or sent, so as to be received by no later than 5:00pm New Zealand time on the Closing Date, to:

Fonterra Co-operative Group Limited
c/-Computershare Investor Services Limited

Postal Address:
Private Bag 92119
Auckland 1142

Physical Address:
159 Hurstmere Road
Takapuna
North Shore City

Applications may also be submitted to the Joint Lead Managers, the Co-Managers, any NZX primary market participant, the Organising Participant or any other channel approved by NZX in time to enable the Application to be forwarded to the Registrar at the address above and be received by the time noted above. The address details for the Joint Lead Managers, the Organising Participant and the Co-Managers are set out in the *Directory* on page 47 of this Investment Statement.

APPLICATIONS

Fonterra reserves the right to refuse all or any part of any Application without giving any reason.

Any Subscription Moneys received in respect of an Application which is not accepted by Fonterra will be returned (without interest) to the applicant as soon as reasonably practicable after Fonterra decides not to accept the Application and, in any event, within 5 Business Days of the Application being declined.

If Fonterra accepts an Application in part, the balance of the Subscription Moneys (without interest) will be refunded as soon as reasonably practicable and, in any event, within 5 Business Days of the Application being declined.

Where an applicant's payment for Bonds is dishonoured, Fonterra may cancel any Bonds issued to that applicant, and may pursue the defaulting applicant for damages suffered by Fonterra.

Applications cannot be withdrawn or revoked.

INTEREST ON SUBSCRIPTION MONEYS

Fonterra will pay, no later than 14 days after the Issue Date, interest to each Holder on the Subscription Moneys in respect of Bonds allotted to that Holder at the Interest Rate for each day in the period from (and including) the date on which the Subscription Moneys were credited in cleared funds to Fonterra's bank account to (but not including) the Issue Date.

The payment to Holders of interest on Subscription Moneys will be made by direct credit to the bank account or broker cash management account specified by each Holder in the Application Form or as specified by subsequent notice to the Registrar. If no account is specified, payments will be made by posting a cheque to the address of the relevant Holder appearing in the Register at the Holder's risk.

NO COOLING OFF PERIOD

There is no cooling off period during which an investor can cancel his or her investment in the Bonds.

4. WHAT ARE THE CHARGES?

Applicants pay no fees or charges to the Issuer to invest in the Bonds other than the Subscription Moneys. Brokerage fees and charges are however likely to be payable on any subsequent transfer of any Bonds effected through a broker or other financial intermediary.

5. WHAT RETURNS WILL I GET?

OVERVIEW

The information set out in this section should be read in conjunction with the information set out under the heading *What are my risks?* on page 24. Certain events could reduce or eliminate the returns intended to be derived from holding the Bonds.

INTEREST RATE

Fonterra will pay interest on each Bond at a fixed rate (being the Interest Rate). Fonterra,

in consultation with the Joint Lead Managers, will determine the Interest Rate for the Bonds on the Interest Rate Set Date (being 9 March 2009 (subject to alteration as described under the heading *Can the investment be altered?* on page 32)). The Interest Rate will be announced to the NZX. The Interest Rate will not change after the Bonds have been issued.

Fonterra will pay fixed rate interest quarterly in equal amounts in arrears on the Bonds. The Interest Rate is an annual percentage rate. The gross Interest Rate for the Bonds will be set at the higher of:

- 7.75%; and
- the aggregate of the applicable Six-Year Swap Rate (on the Interest Rate Set Date) plus a margin of 3.40%.

INTEREST PAYMENTS

Interest will be paid by Fonterra on the Bonds quarterly in equal amounts in arrears on each Interest Payment Date, being 10 March, 10 June, 10 September and 10 December of each year until and including the Maturity Date (subject to alteration as described under the heading *Can the investment be altered?* on page 32), to the Holders as at the relevant Record Date. The first Interest Payment Date is 10 June 2009 (subject to alteration as described under the heading *Can the investment be altered?* on page 32). If an Interest Payment Date or the Maturity Date falls on a day that is not a Business Day, the due date for any payment to be made on that date will be the next following Business Day unless that following Business Day falls in the next calendar month, in which case the due date for that payment will be the first Business Day preceding that Interest Payment Date or the Maturity Date. No adjustment of interest or further payment will be made in these circumstances.

Payments (whether of interest or Principal Amount) to Holders will be made by direct credit to the bank account or broker cash management account specified in the Application Form or as specified by subsequent notice to the Registrar. If no account is specified, payments will be made by posting a cheque to the address of the relevant Holder appearing in the Register at the Holder's risk.

STATUS

The Bonds offered under this Investment Statement are debt securities and constitute unsecured, unsubordinated, fixed rate debt

obligations of Fonterra. The Bonds will rank equally and without any preference among themselves and equally with all other unsecured and unsubordinated indebtedness of Fonterra, except indebtedness preferred by law.

MATURITY DATE

The Principal Amount of the Bonds will be repaid by Fonterra on the Maturity Date (10 March 2015 (subject to alteration as described under the heading *Can the investment be altered?* on page 32)).

REDEMPTION BY HOLDERS

Holders have no right to require Fonterra to redeem their Bonds unless an Event of Default occurs. This means the Holders have no ability to cash in their investment before the Maturity Date, except following an Event of Default or by selling their Bonds in the secondary market (if one develops).

EVENTS OF DEFAULT

Upon the occurrence of any of the Events of Default set out in the Trust Documents, the Trustee may, and immediately upon being directed to do so by an Extraordinary Resolution of Holders must, declare the Bonds to be immediately due and payable. However, none of the events listed in the definition of Event of Default in the Trust Documents will constitute an Event of Default, and the Bonds will not become immediately due and payable, unless the Event of Default is continuing unremedied and the Trustee has given notice to Fonterra declaring the Bonds to be immediately due and payable.

The Events of Default are listed in the Trust Documents. In summary, the Events of Default include the following events:

- a failure to make any payment of interest on, or repayment of the Principal Amount in respect of, the Bonds within 10 Business Days of the due date;
- a failure to make any payment of any other amount payable under the Trust Documents within 20 Business Days of its due date;
- any breach by Fonterra of any other material obligations under the Trust Documents that, if capable of remedy, is not remedied within 20 Business Days of Fonterra becoming aware of that breach;
- any breach of a representation or warranty in a material respect which has a material adverse effect on Fonterra;
- if Fonterra becomes insolvent, is placed

into liquidation, a recommendation is made to appoint a statutory manager in respect of Fonterra or any analogous procedure occurs in respect of it;

- if any indebtedness in excess in aggregate of 1.00% of Total Assets at the relevant time of Fonterra is not paid when due or within any applicable grace periods by Fonterra;
- a distress, attachment or other execution for a sum exceeding 1.00% of Total Assets at the relevant time is levied or enforced upon, or commenced against, any asset of Fonterra and is not discharged or stayed within 20 Business Days; and
- any material provision of the Trust Documents ceases to have effect or becomes void, voidable, illegal, invalid or unenforceable.

Investors should refer to the Trust Documents for a fuller description of the acts and omissions that constitute an Event of Default.

If the Bonds are declared due and payable prior to their Maturity Date pursuant to clause 13.1 of the Master Trust Deed, interest will be payable at the Interest Rate from the most recent Interest Payment Date to and excluding the date of repayment.

If the Bonds are repaid prior to their Maturity Date, the returns the Holders will receive will be different from the returns they would have received if the Bonds are repaid on their Maturity Date.

KEY FACTORS THAT DETERMINE RETURNS

The key factors that determine the returns on a Holder's investment are:

- the Interest Rate;
- Fonterra's financial condition and credit ratings;
- any applicable taxes;
- the date on which redemption occurs;
- fluctuations in the price of the Bonds if sold on the secondary market, as described under the heading *Transferring Bonds* below; and
- the other risk factors described under the heading *What are my risks?* on pages 24 to 32.

TAXATION RETURNS

Your returns will be affected by taxes. Please refer to the section *New Zealand taxation* on pages 36 to 37.

TRANSFERRING BONDS

If Holders transfer any Bonds, the price obtained for them may differ from the amount paid to purchase them. This is because changes in market interest rates can affect the market value of the Bonds (see *What are my risks?* on pages 24 to 32).

Bonds may only be transferred in multiples of \$1,000 in Principal Amount and no transfer will be registered if the transfer would result in the transferor or the transferee holding Bonds with an aggregate Principal Amount of less than \$5,000 or integral multiples other than \$1,000. You should contact your broker or financial adviser if you wish to sell or transfer Bonds.

Applicants should not attempt to sell Bonds until they know whether, and how many, Bonds have been issued to them. Neither Fonterra, the Joint Lead Managers, the Co-Managers, the Trustee nor any of their respective directors or employees or any other person accepts any liability or responsibility should any applicant for Bonds attempt to sell or otherwise deal with any Bonds before receiving a statement recording the number of Bonds (if any) issued to them.

PERSON LEGALLY LIABLE TO PAY RETURNS

If you sell your Bonds, the purchaser will be legally liable to pay the purchase price of those Bonds to you.

Fonterra is legally liable for payment of all other returns on the Bonds. The interest payable on and the Principal Amount payable in respect of the Bonds are promised to, and are enforceable, by the Holders. No other person promises or guarantees the return of the Principal Amount or interest or any other returns in respect of the Bonds.

6. WHAT ARE MY RISKS?

The principal risks for you are that you do not recover the sum which you paid for the Bonds and/or you do not receive the returns on your investment described above in the section *What returns will I get?* This could happen for a number of reasons including:

- the price at which the Bonds trade may be lower than the price you paid

for them;

- there may be no ready market for the Bonds;
- Fonterra may become insolvent or be placed in receivership, voluntary administration, statutory management or liquidation or cease to have sufficient assets to pay returns to Holders;
- the operational and financial performance of Fonterra may be worse than expected;
- Fonterra may not be able to redeem the Bonds on the Maturity Date;
- the Bonds may be redeemed before the Maturity Date (as a result of the occurrence of an Event of Default); and
- in the event of a change in company tax rates, individual income tax rates, or the way such rates affect a Holder's taxable income, such changes may impact on the returns to Holders.

Some risk factors are specific to Fonterra's business activities and some are of a more general nature. The risks set out in this section may individually, or in combination, affect the future operating performance of Fonterra and the returns on the Bonds described above in the section *What returns will I get?*

Given that Fonterra carries out its business largely through its Subsidiaries, risks that could affect the Fonterra Group could also affect Fonterra and so relevant risks relating to both Fonterra and the Fonterra Group are outlined below.

CONSEQUENCES OF INSOLVENCY

A Holder could receive none of, or less than, the returns described under the heading *What returns will I get?* if Fonterra became insolvent for any reason. However, provided a Holder has fully paid for the Bonds it holds, it will not be liable to pay any money to any person as a direct consequence of holding Bonds if Fonterra becomes insolvent. As the Bonds are unsecured, unsubordinated debt obligations, in a liquidation, receivership or statutory management of Fonterra, the Holder's rights to payment of any moneys payable pursuant to the Bonds will rank after the claims of:

- persons to whom preferential payments must be made (including

- creditors of Fonterra preferred by law); and
- secured creditors.

Claims of the Holders will thereafter rank equally among themselves and with the claims of all other unsecured, unsubordinated creditors of Fonterra.

TRANSFER RISK

If a Holder sells their Bonds before they are redeemed, the price at which they are able to sell their Bonds may be less than the price paid for them. This is because changes in market interest rates and other factors can affect the market value of the Bonds. For example, if market interest rates go up, the market value of the Bonds may go down and vice versa. The loss or gain is also, in part, a function of the effect of a change in underlying market interest rates on the value of your investment.

The price at which Holders will be able to sell their Bonds may also be affected by a deterioration, whether real or perceived, in Fonterra's creditworthiness, a lack of persons wishing to buy Bonds, or the lack of an established market or demand for the Bonds.

MARKET, LIQUIDITY AND YIELD CONSIDERATIONS

It is intended that the Bonds will be listed on the NZDX; however, while the Directors of Fonterra are of the view that a secondary trading market for the Bonds will develop over time there can be no assurance of the liquidity of such a market. Consequently, Holders may not be able to sell their Bonds readily or at prices that will enable them to realise a yield comparable to that of similar instruments, if any, with a developed secondary market.

Depending on market conditions and other factors, Holders seeking to sell relatively small or relatively large amounts of Bonds may not be able to do so at prices comparable to those that may be available to other Holders. The secondary market for the Bonds also will be affected by a number of other factors independent of the creditworthiness of Fonterra. These factors may include the time remaining to the maturity of the Bonds, the outstanding amounts of the Bonds, the amount of such Bonds being sold in the secondary market from time to time, any legal

restrictions limiting demand for the Bonds, availability of comparable securities and the level, direction and volatility of market interest rates generally. Such factors will also affect the market value of the Bonds.

No investor should purchase Bonds unless the investor understands and is able to bear the risk that the Bonds may not be readily saleable, that the value of the Bonds will fluctuate over time, and that such fluctuations may be significant and could result in significant losses to the investor. This is particularly the case for Holders whose circumstances may not permit them to hold the Bonds until maturity.

GLOBAL BUSINESS RISKS

Fonterra, through the Fonterra Group, sells over 90% of the milksolids it processes to markets outside New Zealand and must retain its global competitiveness.

Changes in commodity prices may impact adversely on Fonterra's future performance. Commodity prices can be volatile, with substantial increases and decreases occurring over a relatively short period. Price volatility in Fonterra Group's principal products can result in substantial shifts in the levels of returns received and can impact Fonterra's balance sheet. (Please see section below entitled *Current global environment*.) Changes in particular markets' demands for dairy commodities may over time create positive or negative arbitrage between those markets' domestic and international dairy commodity prices.

International trade in dairy products is heavily influenced by foreign government actions including tariffs, quotas, other non-tariff barriers, subsidies and food-related regulation. The interaction of these factors is complex and can result in substantial shifts in the competitiveness of Fonterra and the Fonterra Group and the levels of returns from overseas markets. Fonterra, through the Fonterra Group, sells significant volumes of product across borders, which exposes Fonterra and the Fonterra Group to the risk of breaching foreign customs and import duty regulations. This risk may potentially result in extended legal action, financial penalties, prosecution, temporary trade embargoes and even permanent loss of market access. In addition,

the relativity between the domestic market and international market prices may result in dumping allegations being made against Fonterra and the Fonterra Group.

A significant amount of the Fonterra Group's revenue is earned from sales to non-OECD and developing markets that are economically and politically less stable than developed economies. A foreign country may become politically unstable resulting in the loss of an investment, or default in payment by a significant debtor. Global business risks include war, nationalisation of assets, economic instability or downturn, deflation, currency volatility, price control, political interference and political uncertainty. Certain political, commercial or economic events in one country may also disrupt delivery of Fonterra product to other intended markets.

The international market for dairy products is also affected by general economic conditions in the major world economies such as Europe, the United States of America, China and Japan. For example, a recession or recovery in these economies would be expected to affect world commodity prices, including those for dairy products. As well, the international market for dairy products can be affected by consumption trends such as if consumers were to move their preferences to substitute dairy proteins and fats with vegetable solids.

The retail market structure in New Zealand and overseas is changing. In particular, there is a growing concentration of supermarket retail housebrands in New Zealand and Australia. This carries the risk of squeezing margins and also the risk of losing market share if a supply contract is lost. Throughout the international market there are also continual changes in product markets, distribution channels, consumer preferences and tastes (including as a result of emerging health trends) – all of which could impact adversely on Fonterra's future performance. In light of all these considerations, Fonterra ensures that the Fonterra Group continually reviews its marketing strategies and investment portfolio in overseas jurisdictions.

EXCHANGE RATE RISK

Fluctuations in the value of the New Zealand dollar relative to other currencies impact on

the value in New Zealand dollars of:

- sales of product to, and the relative value of costs incurred in, countries operating with those currencies;
- investments in businesses, joint assets or assets owned within those countries; and
- foreign currency liabilities.

Fonterra uses a range of strategies in order to attempt to reduce the impact of foreign currency fluctuations and has a financial risk management ("FRM") policy applicable to the Fonterra Group that is regularly reviewed.

Although the Fonterra Group's main foreign currency exposure will generally be measured in US dollars, the effect of the FRM policy takes account of all significant foreign currency exposures. Similarly, balance sheet exposures will be hedged according to the guidelines of the FRM policy.

The Fonterra Group is vulnerable to foreign currency changes, although this is partially mitigated by a hedging program, as well as other factors, including any variation in commodity prices, changes in product mix, operating efficiencies, and changes in exposure due to higher or lower sales volumes.

REGULATORY RISK

The majority of milk supplied to Fonterra is sourced from New Zealand. The formation of Fonterra was authorised by the Dairy Industry Restructuring Act 2001 ("DIRA"), which established a regulatory framework for the New Zealand dairy industry ("Regulatory Framework"). The Regulatory Framework has two key possible effects on Fonterra:

- Fonterra faces competition in acquiring milk from farmers as the Regulatory Framework provides for new entry (both large and small scale) into the New Zealand dairy markets.
- 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.

Supply of raw milk to independent processors in New Zealand

Fonterra is required by regulations to supply

raw milk to independent processors who seek it, including competitors, currently up to an aggregated maximum of 600 million litres per year (around 4% of Fonterra's total annual milk supply). This current aggregate may, by Order in Council under the DIRA, be increased up to a maximum of 5%, of raw milk supplied to Fonterra. Unless Fonterra and the purchaser of the raw milk agree otherwise, the price of the milk must be calculated according to the formula set out in the Dairy Industry Restructuring (Raw Milk) Regulations 2001. Of the 600 million litres to be supplied in the 2008/2009 season, Fonterra must supply Goodman Fielder New Zealand Limited (a domestic based consumer dairy company competing with Fonterra's New Zealand consumer businesses) with up to 250 million litres and any other independent processor up to 50 million litres. This requirement makes new entry into the New Zealand dairy markets easier as other processors can commence or continue business without establishing their own network of milk suppliers. The supply of raw milk to Goodman Fielder New Zealand Limited, and other processors and related pricing arrangements, have the effect of facilitating competition in New Zealand between that company and Fonterra's largest New Zealand operating consumer company, Fonterra Brands (New Zealand) Limited.

The New Zealand Government reviewed the regulations in 2007/08 and found that the formula for setting the default price results in independent processors accessing Fonterra milk under the regulations at a lower price than Fonterra pays its own suppliers and that there was no mechanism to manage excess demand for raw milk above the 600 million litre limit.

The Government has announced that new regulations will be introduced that limit the volume of raw milk to 600 million litres (approximately 4% of Fonterra's supply) for the next season (2009/10) and beyond. In addition, legislation will be drafted to introduce an auction for the available raw milk from the start of the 2010/11 dairy season. The Government has indicated that it believes an auction is a fair way of setting the price for the raw milk supplied under the regulations. The full design details of the proposed auction and the impact on the quantities of milk supplied to Goodman Fielder New Zealand

Limited and other processors are yet to be finalised and announced.

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 if the shareholders meet certain conditions, 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 to gain access to milk supply as they will be able to take milk from suppliers without having to ask those suppliers to cease supplying Fonterra entirely.

Open entry

Fonterra must accept all new suppliers who make an application during the application period, and whose transportation costs are no more than any existing Fonterra supplier in the region, subject to minimum delivery and quantity requirements and certain capacity constraints on Fonterra. Therefore, Fonterra does not have the discretion to refuse to accept suppliers, except in the limited circumstances referred to above, and may also be required to provide additional 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 (there are limits on the number of long-term supply contracts Fonterra can enter into, see *Limits on long-term supply contracts* below). When the supplier leaves, they will receive cash, capital notes or redeemable preference shares that are equal to the value of the shares they surrender. 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 supplier a milk price that is competitive with Fonterra's price. Open exit also makes it easy for suppliers to leave dairying and use their land for other purposes. Suppliers will be paid out the current value of their capital investment in Fonterra if they leave Fonterra. Accordingly, Fonterra faces the dual risk of loss of revenue (milk supply diverted to a competitor or milk supply terminating due to cessation of dairying)

and loss of capital (departing and reducing suppliers requesting a return of their capital). In addition, Fonterra's milk processing assets could become underutilised, which may affect overall financial performance.

Milk and share prices

Fonterra must offer to each new supplier the same terms and conditions of milk supply as it offers to a current supplier in the same circumstances (or terms which are different only to reflect different circumstances). Similarly, the terms of shares issued to new suppliers must be the same for new suppliers as for current suppliers. As a result, although Fonterra is permitted to respond to competition it cannot do so in a manner which breaches these requirements.

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 at least 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.

Removal of export monopoly

The DIRA removed the NZDB exclusive rights to export dairy products on 16 October 2001. As a result, other dairy processors that wish to establish themselves in New Zealand are able to freely export dairy products and new dairy exporters have emerged since the implementation of the DIRA.

Under the DIRA the NZDB, a wholly-owned Subsidiary of Fonterra, was granted exclusive export rights during an "initial period" for specified products to a small number of designated dairy markets that are subject to foreign government controls. The value of the export rights to the designated markets can vary significantly as a result of changes to supply and demand in the relevant markets

and also as a result of changes to global commodity prices for the relevant products. The rights in relation to certain markets can have no value while rights to other markets can have significant value. The value of export rights to each market can also fluctuate significantly over time.

The initial period is different for each of the designated dairy markets under the DIRA, with the initial period expiring in all designated markets by 31 December 2010.

Upon expiry of the initial period, the relevant export rights are vested in the New Zealand Government. In 2007 the New Zealand Government amended the DIRA removing New Zealand restrictions on the export of products to two of the designated markets. The amendments also provide a new system for allocating the rights to export to the remaining designated markets based on the proportion of milksolids collected by a New Zealand dairy processor. Currently, under this system Fonterra can expect to obtain more than 90% of the export rights available, with that percentage varying in the future according to the proportion of total milksolids collected by Fonterra in New Zealand. The expiry of these rights will impact on Fonterra's returns however the impact will vary from time to time according to supply and demand in relevant markets and changes to global commodity prices for the relevant products.

FOOD SAFETY AND ENVIRONMENTAL RISK

In the overseas markets in which the Fonterra Group operates, New Zealand is perceived as a source of safe, high quality dairy products. The Fonterra Group sources around 30% of the product it sells from countries outside New Zealand. Some of the countries and areas where the Fonterra Group, and joint ventures in which it is involved, source dairy products include Australia, USA, Europe, South American countries, Middle Eastern countries and Sri Lanka and other Asian countries. There can be significant quality or food safety issues associated with dairy product being sourced from other countries and these issues could have a significant affect on the returns from the relevant Fonterra business or joint venture business, as well as the overall reputation of Fonterra and the Fonterra Group. Anything adversely impacting on the perception

of New Zealand dairy products or on the reputation of Fonterra and the Fonterra Group internationally could impact on the ability to make future sales of product at favourable prices and therefore have a significant impact on Fonterra's performance and the overall value of Fonterra or of the relevant business unit affected.

As with any food business, there is an inherent risk that Fonterra products might be contaminated in the production process or from raw milk supply adulteration, or might otherwise be affected by food safety issues or adverse publicity. The storage, use, production and transport of hazardous substances by (and on behalf of) the Fonterra Group involves risks relating to accidents or spills, contamination and harm to the environment or people. Contamination and food safety issues, accidents with and/or spills of hazardous substances harming the environment or people, or adverse publicity (even if from false, malicious or reckless allegations), may potentially involve significant cost and reputational harm. Reputational harm could also affect the ability of Fonterra and the Fonterra Group to maintain the value of its brands. The Fonterra Group operates under quality control procedures which it considers to be effective. These manage but do not remove the risk of contractor or supplier conduct having adverse consequences for the Fonterra Group due to food or environmental contamination.

Food businesses generally, including dairy, also face increased scrutiny as a result of global concerns about obesity and other health issues such as heart disease and diabetes, and increased regulator scrutiny of product label health claims. In addition, there are risks associated with wider environmental concerns, genetic modification issues, animal welfare concerns and concerns over the potential environmental impacts of shipping products over long distances ("food miles") linked with dairying in New Zealand, which may impact on the marketing of dairy products in New Zealand or internationally.

CONTRACT PRICING RISK

The Fonterra Group enters into forward contracts for the sale of a proportion of its production of commodity dairy products each year. The

proportion of products sold in this fashion, and the terms of such contracts, change from year to year. Any advantage or disadvantage of sales of commodity products under forward contracts, relative to sales of products made at spot market prices at any particular time, will change as a result of the variation in market prices for commodity dairy products.

REPUTATIONAL RISK

The occurrence of any of these risk factors has the potential to impact on the reputation of Fonterra and the Fonterra Group and as a result the value of the Fonterra Group's brands could be adversely affected.

BRANDS OWNERSHIP

Numerous brands are owned and used by Fonterra and its Subsidiaries, and in some cases third party licensees, across a number of countries. Brands carry a significant value on the Fonterra Group's balance sheet. An event adversely affecting the value of a brand in one jurisdiction could have a negative effect in another jurisdiction with a resultant adverse effect on Fonterra's financial performance both in terms of loss of profits and potentially a writedown of the balance sheet value of the brand.

RISKS ASSOCIATED WITH BEING AN AGRICULTURAL BUSINESS

The Fonterra Group is an agricultural based business and could therefore be adversely affected by factors such as changes in climate (for example, drought) or by serious outbreaks of disease in cows (such as foot and mouth disease). These factors could disrupt business and cause reputational harm, in terms of perceived safety and quality of product, and reliability of supply. Reputational harm would impact on the Fonterra Group's ability to make future sales of products at favourable prices and therefore on returns. These risks are mitigated somewhat by the geographical diversification of the Fonterra Group's milk production and New Zealand's border controls and bio-hazard risk management strategies. However, given that the majority of the Fonterra Group's raw milk is produced in New Zealand, if factors such as these occurred in New Zealand they may have an adverse effect on Fonterra's financial performance. Fonterra also faces the risk of loss of supply arising from competition for land use in

New Zealand and to competing milk processors. Supplying dairy farmers could choose to use their land for activities other than dairying, such as other agricultural uses, or for urban development. This gives rise to the risks of loss of revenue, loss of capital and underutilisation of milk processing assets as discussed under the heading *Open exit* above.

EXPANSION RISK

The pursuit of expansion by the Fonterra Group involves exposure to financial and operational risks, whether they involve the acquisition of businesses or interests in businesses (including through joint ventures and the acquisition of minority or majority shareholdings), or the introduction of new product lines. The financial performance of acquisitions and joint ventures impacts on Fonterra's financial performance. Fonterra seeks to manage the risk from expansion by thoroughly analysing prospective opportunities and adopting risk reduction programmes when implementing them. Individual propositions are only progressed if they can reasonably be expected to result in enhanced performance and profitability for the Fonterra Group.

The Fonterra Group has a number of joint venture interests including significant investments in joint ventures in Europe (the Arla Fonterra Foods Joint Venture and the DMV Fonterra Excipients Joint Venture with Campina), South America (the Dairy Partners Americas Joint Venture with Nestlé), and North America (the DairiConcepts Joint Venture with Dairy Farmers of America) as well as significant investments in a number of companies around the world.

Operating businesses through joint ventures means that the Fonterra Group does not have full control over these businesses, which exposes Fonterra to greater risk. This risk is managed through the agreements which are entered into in order to form the relevant joint venture.

INTERNATIONAL TRADE ENVIRONMENT

While the World Trade Organisation ("WTO") provides a framework of rules for international agricultural trade, there remains significant risk of countries restricting imports of dairy products or affecting global dairy returns, whether through changes in tariffs and quotas, or through their domestic regulatory regimes. A particular example of the former is the recent pressure to restrict imports of

milk protein isolates (specialised protein products) into Canada. An example of the latter is the intervention price cuts introduced as part of the EU Common Agricultural Policy reforms since 2003, which have reduced the Fonterra Group's returns from that market, or the commercial impacts of regulations for the administration of imports into the EU of New Zealand quota butter and cheese. In addition, in January 2009, the European Union announced that export subsidies would be reintroduced for a number of dairy commodities. It is expected that this will have an impact on global dairy prices which may reduce the Fonterra Group's returns.

Liberalisation of the international trade environment, for example through the Doha Development Round of WTO negotiations or through bilateral or plurilateral Free Trade Agreements, present mostly positive opportunities for the Fonterra Group. But they also carry risks that would damage the Fonterra Group's business in some areas – for example, exclusion or disadvantaging of New Zealand product compared with rival companies or countries as a result of new agreements, interpretation or changes to international trade rules, for example rules around Geographical Indicators or changes to labelling or composition requirements.

It is possible that New Zealand's obligations under the Kyoto Protocol could add costs to the Fonterra Group's activities depending on policies and programs adopted by the New Zealand Government. Fonterra could be impacted by Government regulation or taxes on emissions, the amount and timing of which is uncertain.

PRODUCTION RISKS

A major catastrophe, accident or local disaster of significant magnitude (for example, an earthquake or fire that destroys a manufacturing facility or general business infrastructure) could materially adversely affect Fonterra's financial performance and position. To an extent, some of these risks are mitigated by insurance cover and business continuity planning.

Production delays (including as a consequence of industrial action, product tampering, technology failure or disruption in energy supplies) and other supply chain difficulties of getting product to market (including industrial or other action affecting shipping

or a significant failure in automated systems or computer technology) would also impact adversely on Fonterra's financial performance.

The risk of serious injury or death (in particular in manufacturing and logistics operations, and notwithstanding health and safety procedures) could have an adverse financial impact as it has potential to impact on employer reputation, compliance costs, staff morale and productivity, and may attract media exposure and additional regulatory scrutiny.

Production may also be disrupted in the event of material non-compliance with environmental or other approvals authorising the production and associated processes.

MANAGEMENT RISKS

Fonterra is subject to numerous risks inherent in the management of the day to day business activities of the Fonterra Group. Such risks are inherent in the people, processes, systems and structures employed in the conduct of its business. For example, both domestically and overseas, the Fonterra Group may be unable to attract or retain the right staff in the right place at the right time.

Inherent risks also arise in connection with the changes associated with the implementation of the wide-reaching technological, process and cultural initiatives that the Fonterra Group is pursuing.

BIO-TECHNOLOGY RESEARCH

The Fonterra Group is undertaking long-term biotechnology research, with the future option of commercialising developments in a responsible way according to the needs and wishes of its customers and key stakeholders. The Fonterra Group's current research activities in New Zealand have been approved by the relevant regulatory authorities, are laboratory based, and are at an early stage of knowledge discovery. Currently, there is no prospect of applications for field trials by the Fonterra Group of any genetically modified organism in New Zealand in the near future. None would be sought unless it was regarded as being in the interests of our stakeholders, including customers. The Fonterra Group's current policy is not to source milk products from genetically modified cows.

LITIGATION RISK

The Fonterra Group has a number of claims and legal actions arising from the normal

course of its business activities, which it is currently defending. However, the Directors, having reviewed legal and accounting advice and having made their own enquiries of management, expect that either the outcome will not be adverse for Fonterra, or that any adverse outcome will not have a material adverse effect on Fonterra's financial position.

RECENT ISSUES IN CHINA

In August 2008, Fonterra became aware that certain milk products manufactured in China had been contaminated. This included products sold by Shijiazhuang San Lu Group ("San Lu"), a company in which a Fonterra Subsidiary has a 43% interest. This contamination has been widely reported in the global media and involves a significant number of Chinese milk producing companies, including some of the largest milk producing companies in China. Indications are that a contaminant was illegally introduced into the milk supply chains of these milk producing companies, including those of San Lu. Extensive product recalls have been instigated in relation to the contaminated products. A small amount of milk product manufactured by San Lu and imported into Taiwan by a Subsidiary of Fonterra was also affected, and recalled.

As a result of these issues associated with the contamination, the Fonterra Group's accounts for the 14-month period ended 31 July 2008 recognise an impairment charge of \$139 million against the carrying value of the investment in San Lu, reflecting the cost of product recall and the anticipated loss of value in the brands and goodwill of San Lu. Following this impairment charge, which was not material to the Fonterra Group's overall financial position, Fonterra's best estimate of the book value of the investment in San Lu at the time was \$62 million. In December 2008, a court in Shijiazhuang, China issued a bankruptcy order against San Lu. Fonterra now considers the value of the investment in San Lu to be zero. As the investment in San Lu is held by a Subsidiary of Fonterra and not Fonterra itself, the impairment charge is only reflected in the Fonterra Group's consolidated financial statements.

At the date of this Investment Statement, there is nothing to suggest that these issues will have any further impact on Fonterra's financial position and balance sheet that is material.

GENERAL RISKS

Other special factors and risks that could materially affect the trading prospects, financial performance or position of Fonterra and the Fonterra Group include:

- a downturn in general economic and business conditions (domestic and global);
- New Zealand's international image being significantly tarnished with Fonterra and the Fonterra Group being adversely affected by association, resulting in loss of international customers and/or markets;
- increased pressure on energy resources in New Zealand;
- increased competition (domestic and global), including the risk that competitors actively pursue and capture a material segment of the Fonterra Group's customer base or supplier base;
- decreases in customer demand;
- changes in timing and amount of forecast capital expenditure;
- changes to industry relevant regulation;
- changes to business alliances;
- changes to prices paid for milk to suppliers;
- changes in tax rates or tax regimes, particularly outside New Zealand;
- changes to New Zealand and international prices for dairy products; and
- climatic conditions.

Many of these factors are beyond the control of Fonterra and the Fonterra Group.

CURRENT GLOBAL ENVIRONMENT

Adverse effects being experienced in the global economy arising out of events in the credit markets and financial services industry have impacted the global trading environment and also resulted in a global liquidity crisis.

The current market has resulted in international dairy stocks building up as a consequence of higher global production and a general reduction in demand following the previous significant increases in base commodity prices. Demand has been further reduced by the global financial crisis and economic slowdown.

As with other businesses, a continuation of the credit and liquidity crisis could impact the purchasing patterns of some of the Fonterra Group's customers.

Fonterra uses debt to partially fund the

operations of the Fonterra Group. The debt is provided by a combination of bank loans and debt issued in the global capital markets. On an on-going basis, Fonterra is required to refinance credit lines and debt coming to maturity. This refinancing of debt is effectively managed by spreading the maturities of existing debt to ensure that refinancing requirements are limited at any point in time, maintaining sufficient undrawn, committed funding facilities and supported by building strong relationships with banks and other lenders.

The scope and extent of the current global liquidity crisis cannot be predicted and, as a result, it is not possible to assess with any certainty any additional impact that the crisis may have on the funding, operations and activities of the Fonterra Group. While largely unpredictable, a sustained continuation and/or escalation of the current global liquidity crisis could adversely impact the business and operations of Fonterra and the Fonterra Group.

7. CAN THE INVESTMENT BE ALTERED?

TERMS OF THIS OFFER

Fonterra, in conjunction with the Joint Lead Managers, may change the dates applicable to the Offer and the Bonds referred to in this Investment Statement prior to the Issue Date. If Fonterra changes the Closing Date for the Offer, the Issue Date will be altered accordingly and the Interest Rate Set Date will be the Business Day prior to the Issue Date as altered. The Maturity Date will be the sixth anniversary of the Issue Date as altered. The Interest Payment Dates will fall on every 3 month anniversary of the Issue Date as altered up to and including the Maturity Date.

The terms of this Offer and the terms and conditions on which investors may apply for Bonds may also be altered by an amendment to the Trust Documents.

EARLY REPAYMENT OF THE BONDS

Upon the occurrence of an Event of Default under the Trust Documents, the Trustee may, and immediately upon being directed to do so by an Extraordinary Resolution of Holders must, declare the Bonds to be immediately due and payable.

If the Bonds are repaid prior to their Maturity Date, the returns the Holders will receive will be different from the returns they would

have received if the Bonds are repaid on their Maturity Date.

TRUST DOCUMENTS

The terms and conditions of the Trust Documents may be altered with the approval of Holders by an Extraordinary Resolution passed at a meeting of Holders (whether convened by Fonterra or Holders) and, in limited circumstances, with the approval only of the Trustee and Fonterra as more particularly described below.

An Extraordinary Resolution is a resolution passed at a meeting of Holders duly convened and held in accordance with the rules and procedures for meetings of Holders set out in the schedule to the Master Trust Deed at which at least 75% of the persons voting at the meeting vote in favour of the resolution or, if a poll is duly demanded, then at least 75% of the votes cast on such a poll, are in favour of the resolution. An Extraordinary Resolution is binding on all Holders, whether or not they are present at such meeting. Any Bonds for the time being held by Fonterra or any of its Subsidiaries will not whilst so held confer any right to vote.

In addition, the Trustee and Fonterra may, without the consent of Holders, agree to alter the Trust Documents in the limited circumstances specified in the Master Trust Deed. These circumstances include:

- amendments of a minor, administrative, formal or technical nature;
- amendments that are to correct a manifest error;
- amendments that are to comply with the requirements or a modification of the requirements of any applicable law;
- amendments that are necessary for the purpose of obtaining or maintaining a quotation of the Bonds on any stock exchange;
- amendments that reflect an exemption granted to Fonterra, or an exemption that is applicable to Fonterra in relation to any obligation imposed upon Fonterra by or pursuant to the Securities Act 1978, the Co-operative Companies Act 1996, the Companies Act 1993 or the Financial Reporting Act 1993 which is materially the same as or analogous to any obligation of Fonterra under the Trust Documents or the Bonds; and
- amendments in respect of any of the provisions of the Trust Documents relating to reporting to the Trustee, the Trustee's fees, expenses and indemnities

or the exercise of the Trustee's powers.

The above circumstances are also subject to the general requirement that Fonterra and the Trustee must each be of the opinion that the amendment will not be materially prejudicial to the interests of Holders generally.

In addition, the Trustee may temporarily vary the provisions of the Trust Documents for such period and on such terms as:

- may be deemed appropriate provided that the Trustee is satisfied that the interests of the affected Holders generally will not be materially and adversely prejudiced; or
- may be agreed by the Trustee to reflect an exemption of the nature referred to above as an amendment that can be made without Holder approval.

Any amendment to the Trust Documents will be binding on all Holders and will only be effective if it is in writing and signed by Fonterra and the Trustee.

SUBSTITUTED OBLIGOR

The ability of Fonterra to substitute and alternative obligor under the Bonds is described in the section *Who is involved in providing it for me?* on page 19.

8. HOW DO I CASH IN MY INVESTMENT?

MATURITY DATE

The Principal Amount of the Bonds will be repaid by Fonterra on the Maturity Date (10 March 2015).

NO RIGHT OF REDEMPTION

Holders have no right to require redemption of the Bonds, except in the case of an Event of Default. This means that Holders have no ability to cash in their investment before the Maturity Date, except following an Event of Default or by selling their Bonds in the secondary market (if one develops).

TRANSFER OF BONDS

Holders are entitled to sell or transfer their Bonds at any time subject to the terms of the Trust Documents and applicable securities laws and regulations.

Bonds may be transferred using a transfer document in any commonly used form or by means of the FASTER system operated by NZX.

Applicants should not attempt to sell Bonds until they know whether, and how many, Bonds have been issued to them. None of Fonterra, the Joint Lead Managers, the Co-Managers, the Trustee or any of their respective directors or employees or any other person accepts any liability or responsibility should any applicant for Bonds attempt to sell or otherwise deal with any Bonds before receiving a statement recording the number of Bonds (if any) issued to them.

Transactions in respect of any listed Bonds on the NZDX Market can be made by contacting a NZX Firm and supplying the appropriate FASTER identification number, along with the Holder number for the Bonds in the case of a sale of Bonds.

Bonds may only be transferred in multiples of \$1,000 in Principal Amount and no transfer will be registered if the transfer would result in the transferor or the transferee holding Bonds with an aggregate Principal Amount of less than \$5,000 or integral multiples other than \$1,000.

There is currently no market for the Bonds, although it is expected that there will be a secondary market for the Bonds. However, Fonterra gives no assurances as to the existence or characteristics of such secondary market.

Brokerage at applicable rates is likely to be payable by a Holder on any transfer of their Bonds effected through a NZX Firm, broker or other financial intermediary.

9. WHO DO I CONTACT WITH ENQUIRIES ABOUT MY INVESTMENT?

Any enquiries can be directed to:

The Registrar for the Bonds:

Computershare Investor Services Limited
159 Hurstmere Road
Takapuna
North Shore City

Private Bag 92119
Auckland 1142

Telephone: (09) 488 8777
Facsimile: (09) 488 8787
Email: enquiry@computershare.co.nz

Fonterra:

General Manager Treasury
Fonterra Co-operative Group Limited
9 Princes Street
Auckland

Private Bag 92 032
Auckland 1142

Telephone: (09) 374 9846

10. IS THERE ANYONE TO WHOM I CAN COMPLAIN IF I HAVE PROBLEMS WITH THE INVESTMENT?

Complaints about the Bonds can be directed to Fonterra:

General Manager Treasury
Fonterra Co-operative Group Limited
9 Princes Street
Auckland

Private Bag 92 032
Auckland 1142

Telephone: (09) 374 9846
Facsimile: (09) 374 9451

Complaints can also be directed to the Registrar of the Bonds:

Computershare Investor Services Limited
159 Hurstmere Road
Takapuna
North Shore City

Telephone: (09) 488 8777
Facsimile: (09) 488 8787
Email: enquiry@computershare.co.nz

or the Trustee for the Bonds:

General Manager Corporate Trusts
The New Zealand Guardian Trust Company Limited
Level 7, Vero Centre
48 Shortland Street
Auckland

Telephone: (09) 377 7300
Facsimile: (09) 377 7477

There is no Ombudsman to whom complaints can be made.

11. WHAT OTHER INFORMATION CAN I OBTAIN ABOUT THIS INVESTMENT?

Further information about Fonterra and the Bonds is contained or referred to in the Prospectus, the Trust Documents and the consolidated financial statements of the Fonterra Group. Copies of the Prospectus, the Trust Documents, consolidated financial statements and other documents relating to the Fonterra Group may be inspected without fee during normal business hours at Fonterra's address specified above under the heading *Who do I contact with enquiries about my investment?*.

These documents, together with all documents that are required to be registered with the Prospectus, may be accessed on the Companies Office website at www.companies.govt.nz.

Holders will be sent a copy of the annual report of Fonterra (together with the audited consolidated financial statements of the Fonterra Group for the relevant period) and a half yearly report of Fonterra which will contain the Fonterra Group's consolidated financial statements for the relevant period.

The provision of these reports may be by electronic means.

You are also entitled to obtain copies (which may be provided electronically) of the following at no cost if you make a request in writing to Fonterra at the address specified above under *Who do I contact with enquiries about my investment?*:

- the most recent annual report of Fonterra (together with the audited consolidated financial statements of the Fonterra Group for the relevant period) or the half yearly report of Fonterra which will contain the Fonterra Group's consolidated financial statements for the relevant period and all documents that are required to be incorporated in, attached to, or accompany any of those financial statements when delivered to the Registrar of Companies in accordance with the Financial Reporting Act 1993;
- this Investment Statement;
- the Trust Documents; and
- the Prospectus in respect of the Bonds.

Holders can also obtain the above information, together with further information about Fonterra and copies of NZX announcements, from Fonterra's website (www.fonterra.com).

New Zealand Taxation

INTRODUCTION

The returns on the Bonds will be affected by taxes. If a law requires Fonterra (which for the purposes of this section of this Investment Statement includes the Registrar acting on Fonterra's behalf) or the Trustee to deduct an amount in respect of taxes from a payment to a Holder, then Fonterra or the Trustee will deduct the amount for the taxes and pay it to the relevant authority. Where Fonterra or the Trustee deducts approved issuer levy (as discussed below) from a payment to a Holder, the amount deducted will be paid to the relevant authority.

Neither Fonterra nor the Trustee is obliged to gross-up, indemnify or otherwise compensate or pay any additional amounts to the Holder as a consequence of or otherwise in connection with such deductions.

The information set out below relates solely to New Zealand taxation and does not constitute taxation advice to any Holder. The information is believed by Fonterra to be correct as at the date of this Investment Statement. Taxation laws are subject to change, and such changes may materially affect your tax position with respect to an investment in the Bonds. You should seek qualified, independent financial and taxation advice before deciding to invest. In particular, you should consult your tax adviser in relation to your specific circumstances.

All Holders must give written notice to the Registrar (or, where applicable, to the custodian/nominee registered as the Holder in respect of Bonds held on behalf of the beneficial owner) of their country of residence for taxation purposes and, if not New Zealand tax resident, whether the Holder is engaged in business in New Zealand through a fixed establishment in New Zealand. This requirement for written notice is satisfied for initial Holders where the relevant parts of the Application Form are completed by applicants.

NEW ZEALAND INCOME TAX IMPLICATIONS FOR NEW ZEALAND TAX RESIDENT HOLDERS

Resident withholding tax ("RWT")

RWT will be deducted from the gross amount of interest paid or credited to Holders in accordance with the provisions of the Income

Tax Act 2007. As at the date of this Investment Statement, RWT of 19.5% will be deducted if the Holder's IRD number is supplied to the Registrar, unless the Holder elects for RWT to be deducted at a rate of 33% or 39% (the 19.5% rate is generally not available to corporate Holders). Where the Holder's IRD number is not supplied to Fonterra, RWT will be deducted at a rate of 39% from all interest paid or credited to the Holder. The 39% rate referred to in this paragraph may at the election of Fonterra or the Registrar reduce to 38% for the 2009-10 income year.

Given the personal tax rate changes from 1 October 2008 (and revised rates coming into effect on 1 April 2009, 1 April 2010 and 1 April 2011), RWT rates may no longer align with individual Holders' personal tax rates. Inland Revenue officials have advised that RWT rates are not likely to be amended to align with the new personal tax rates until at least 1 April 2010. Depending on the Holder's level of annual income, electing an RWT rate lower than the Holder's personal tax rate may result in a requirement to file a tax return (or the provision of an income statement by Inland Revenue), to account for the tax shortfall. Conversely, if a Holder elects an RWT rate higher than the Holder's personal tax rate, a tax return may need to be filed in order to obtain the relevant tax refund. Investors are urged to seek tax advice in this respect by reference to their particular circumstances.

RWT will not be deducted where the New Zealand tax resident Holder provides a copy of a current RWT exemption certificate to the Registrar.

Application of financial arrangements rules

RWT is not a final tax. A Holder's tax liability is ultimately calculated in accordance with the "financial arrangements rules" in the Income Tax Act 2007. Income calculated under the financial arrangements rules will be taxable at the Holder's relevant tax rate (with a credit for RWT deducted).

The financial arrangement rules may require that interest income be recognised on an accrual basis or be spread over the life of the Bonds other than on a simple cash received basis, which may mean that taxable income from the Bonds for an income year does not

match the interest received from the Bonds in that income year. For many individual (as opposed to corporate) Holders this should not be the case, as they should constitute “cash basis persons” for the purposes of the financial arrangement rules.

The financial arrangements rules also may cause Holders to derive income on the sale of Bonds. For example, if a gain is made on the sale of Bonds by a Holder, the “base price adjustment” performed under the financial arrangements rules will bring the gain to account for New Zealand tax purposes and will cause that gain to be included in taxable income.

Holders should obtain independent qualified financial and taxation advice in relation to how the financial arrangement rules apply to their individual circumstances, including whether they constitute “cash basis persons” for the purposes of the financial arrangement rules.

Holders should ascertain whether New Zealand’s provisional tax rules apply to their individual situations.

NEW ZEALAND TAX IMPLICATIONS FOR NON-NEW ZEALAND TAX RESIDENT HOLDERS (“NON-RESIDENT HOLDERS”)

Non-resident Holders who are engaged in business in New Zealand through a fixed establishment in New Zealand (“NZ Branch Holders”) and who hold the Bonds through that fixed establishment will generally be subject to RWT and the financial arrangements rules in the same way as New Zealand tax resident Holders.

NZ Branch Holders who do not hold the Bonds through their New Zealand fixed establishment will generally be subject to RWT

in the same way as New Zealand tax resident holders but will not be subject to the financial arrangements rules. They may however still be subject to New Zealand tax on any gains on sale of the Bonds.

The application of a relevant double tax agreement may affect the consequences described above.

Non-resident Holders who are not engaged in business through a fixed establishment in New Zealand will not be subject to RWT or the financial arrangements rules. Fonterra has registered, or will register, the Bonds with Inland Revenue for the purposes of the approved issuer levy (“AIL”) regime. Unless otherwise agreed, Fonterra will, where it is lawfully able, deduct AIL (currently 2% of amounts treated as interest) from payments made or credited to Non-resident Holders who do not engage in business in New Zealand through a fixed establishment in New Zealand. These Holders may request by written notice to the Registrar that AIL not be deducted from interest paid or credited in respect of their Bonds, and that non-resident withholding tax (“NRWT”) be deducted instead, at the rate required by law (as reduced by any applicable double tax agreement, where the Holder provides satisfactory evidence to the Registrar of entitlement to such reduced rate). If a Non-resident Holder derives interest under the Bonds jointly with one or more New Zealand tax resident, NRWT must be deducted from the interest paid or credited to the Holder at the applicable RWT rate, as reduced by any applicable double tax agreement (with evidence as discussed above).

Interim Financial Statements

Fonterra expects to release the Fonterra Group consolidated interim financial statements for the six-month period from 1 August 2008 to 31 January 2009 on or about 24 March 2009, which is shortly after the end of the Offer period.

Due to the seasonal nature of many aspects of the Fonterra Group's business, it is normal for the consolidated interim financial statements of the Fonterra Group to show significant variances from the position as disclosed in the Fonterra Group audited consolidated financial statements for the immediately preceding financial period. (In the case of the upcoming interim financial statements, this refers to variances from the consolidated financial statements for the 14-month period ended 31 July 2008.)

The Fonterra Group's business generally follows the milk supply curve. Milk supply in New Zealand peaks in October and does not begin to fall significantly until February. In June and July, the milk supply in New Zealand is at its lowest point. Therefore, inventory is expected to be at its highest point in January or February each year, and at its lowest point in July or August each year. Payments due to suppliers in January are higher than in July each year as a result of the higher levels of milk supplied in the months leading up to January. Receivables are also expected to be higher in January than in July each year.

As noted in the section *Current global environment* on page 32, the current market has resulted in international dairy stocks building up as a consequence of higher global production and a general reduction in demand following the previous significant increases in base commodity prices. Demand has been further reduced by the global financial crisis and economic slowdown. As a result, Fonterra Group's inventory at 31 January 2009 is expected to be higher than the normal seasonal peak. This imbalance is expected to correct as pricing signals are passed through the chain from supplier to consumer.

As noted in the section *Exchange rate risk* on page 26, the Fonterra Group has significant net foreign exchange exposure against the US dollar. There has been significant devaluation in the NZ\$/US\$ exchange rate since 31 July 2008. The value of the unrealised hedging losses on foreign exchange hedging contracts (used to mitigate foreign exchange exposure on forecast sales) at 31 January 2009 is likely to be higher than at 31 July 2008. These are recognised on the balance sheet as derivative financial instruments (assets and liabilities) and the cash flow hedge reserve.

Accordingly, it is likely that the consolidated interim financial statements of the Fonterra Group for the six-month period to 31 January 2009, when released, will show variances of the nature described above, compared to the consolidated financial statements at 31 July 2008.

Glossary

In this Investment Statement, unless the context otherwise requires:

Application means an application for Bonds pursuant to this Offer;

Application Form means the application form attached to this Investment Statement;

Austraclear System means the securities clearing and settlement facility operated by the Reserve Bank of New Zealand and known as the Austraclear New Zealand System;

Bonds means the fixed rate notes to be issued by Fonterra pursuant to the Prospectus and Investment Statement;

Business Day means any day on which banks are open for the transaction of general banking business in Auckland and Wellington;

Closing Date means 6 March 2009, or such other date determined by Fonterra as set out under the heading *Can the investment be altered?* on page 32 of this Investment Statement;

Co-Managers ABN AMRO Craigs Limited and First NZ Capital Securities Limited;

Directors means the directors of Fonterra, and *Director* means any one of them;

DIRA means the Dairy Industry Restructuring Act 2001;

Event of Default has the meaning given to it in the Trust Documents;

Fonterra or *the Issuer* or *the Company* means Fonterra Co-operative Group Limited;

Fonterra Group means Fonterra and its Subsidiaries;

Holder means a person entered in the Register as a holder of Bonds;

Inland Revenue or *IRD* means the Inland Revenue Department of New Zealand;

Interest Payment Date means, in relation to a Bond, 10 March, 10 June, 10 September and 10 December, or such other dates determined by Fonterra as set out under the heading *Can the investment be altered?* on page 32 of this Investment Statement and recorded as such in the Register in respect of the Bonds, in each year up to and including the Maturity Date;

Interest Rate means, in relation to a Bond offered under this Investment Statement, the rate of interest per annum payable on the face value of the Bond as set by Fonterra in consultation with the Joint Lead Managers on the Interest Rate Set Date;

Interest Rate Set Date means 9 March 2009, or such other date determined by Fonterra as set out under the heading *Can the investment be altered?* on page 32 of this Investment Statement;

Investment Statement means the investment statement for the Bonds;

Issue Date means 10 March 2009, or such other date determined by Fonterra as set out under the heading *Can the investment be altered?* on page 32 of this Investment Statement and recorded as such in the Register in respect of the Bonds;

Joint Lead Managers means ANZ, part of ANZ National Bank Limited and BNZ Capital, a division of Bank of New Zealand;

Master Trust Deed means the master trust deed between Fonterra and the Trustee dated 18 November 2002;

Maturity Date means 10 March 2015, or such other date determined by Fonterra as set out under the heading *Can the investment be altered?* on page 32 of this Investment Statement and recorded as such in the Register in respect of the Bonds;

NZDB means the New Zealand Dairy Board;

NZDX or *NZDX Market* means the New Zealand Debt Exchange, a market operated by NZX;

NZX means NZX Limited;

Glossary

NZX Firm means a sharebroking firm authorised to trade shares on NZX;

Offer means the offer of the Bonds under this Investment Statement and the Prospectus;

Organising Participant means BNZ Capital, a division of Bank of New Zealand;

Principal Amount means \$1.00 per Bond;

Prospectus means the registered prospectus for the Bonds;

Record Date means, in relation to any applicable interest payment, 5.00 pm on the day which is 10 days prior to the due date for payment (or, if that day is not a Business Day, the immediately preceding Business Day);

Register means any register of Bonds maintained by the Registrar;

Registrar means Computershare Investor Services Limited;

Six-Year Swap Rate means the rate determined by the Joint Lead Managers from the straight line interpolation (rounded, if necessary, to the nearest two decimal places) between the mid rates displayed at or about 11am on the Interest Rate Set Date on the Reuters page FISSWAP (or its successor page) for an interest rate swap with a term approximately equal to five years and an interest rate swap with a term approximately equal to seven years (adjusted as necessary for quarterly payments);

Subscription Moneys means, in respect of a Holder, the moneys payable by that Holder in respect of subscription for the Bonds held by that Holder;

Subsidiary means, in relation to Fonterra:

- (a) a subsidiary within the meaning of section 5 of the Companies Act 1993 (or any other person which would be a subsidiary of that person if that person and the other person were both registered under the Companies Act 1993); or
 - (b) a "subsidiary" in accordance with generally accepted accounting practice in New Zealand as defined by section 3 of the Financial Reporting Act 1993, of Fonterra,
- and *Subsidiaries* has a corresponding meaning;

Supplemental Trust Deed means the supplemental trust deed (No. 10) between Fonterra and the Trustee dated 29 2009;

Trust Documents means the Master Trust Deed and the Supplemental Trust Deed; and

Trustee means The New Zealand Guardian Trust Company Limited.



Fonterra
Dairy for life

249

FONTERRA LTD
12 PUKETE ROAD
HAMILTON
TSL 0098613

262

278

201

231

Application Instructions

1. COMPLETE DETAILS

- Insert your title, full name(s), address and telephone numbers.
- Applications must in the name(s) of natural persons, companies or other legal entities.
- Applications by a minor, trust, fund, estate, business, firm or partnership, club or other unincorporated body cannot be accepted unless they are made in the individual name(s) of the person(s) who is (are) the legal guardian(s), trustee(s), proprietor(s), partner(s), or office bearer(s) (as appropriate).
- Insert your IRD Number if you have one.
- Tick the relevant box for Resident Withholding Tax (if applicable). Complete country of tax residence and, if that is not New Zealand, tick the box if you carry on business in New Zealand through a fixed establishment (branch) in New Zealand.
- An Application for Bonds must be for a minimum aggregate Principal Amount of \$5,000 and in multiples of \$1,000 thereafter.
- Insert the New Zealand dollar bank account into which you wish interest payments to be deposited.

2. SIGNING

- Read the Application Form carefully and sign (and date) the form.
- The form must be signed by the applicant(s) personally, or by two directors of the company (or one director if there is only one director), or (in either case) by an attorney.
- If the Application Form is signed by an attorney, an original or certified copy of the relevant Power of Attorney must be lodged with the Application Form (originals will be returned). The attorney must complete the certificate of non-revocation below.
- If the Application Form is signed by an agent, the agent must complete the certificate of non-revocation below.
- Joint applicants must each sign the Application Form.

3. PAYMENT

- Payment of the total Subscription Moneys in full must accompany the Application Form.
- Payment must be made in New Zealand dollars for immediate value, with a cheque drawn on a New Zealand bank.
- Where an Application is for Bonds with a Principal Amount of \$500,000 or more, payment must be made by bank cheque or any other method of payment acceptable to Fonterra.
- Cheques must be made out in favour of "Fonterra Bond Offer", and crossed "Not Transferable".

4. OFFER OPENING AND CLOSING

- Offer opens 9 February 2009 (or any earlier time announced by Fonterra).
- Offer closes 6 March 2009 (or any other time announced by Fonterra).

5. DELIVERY

- Applications cannot be revoked or withdrawn.
- Application Forms together with cheques may be mailed or delivered to the Registrar so as to be received by no later than 5.00pm New Zealand time on the Closing Date at:

Computershare Investor Services Limited

Postal address:	OR	Physical address:
Private Bag 92119		Level 2
Auckland		159 Hurtsmere Road
		Takapuna
		North Shore City

- Applications may also be submitted to any Joint Lead Manager, Co-Manager, NZX primary market participant, the Organising Participant or any other channel approved by NZX in time to enable the Application to be forwarded to the Registrar at the address above and to be received by the time noted above.
- Applicants should remember that the Offer period may be changed at the sole discretion of Fonterra.
- Fonterra may accept or reject any Application without giving any reason. Fonterra will refuse to accept Applications which are for less than the minimum amount.

Application Form

FONTERRA CO-OPERATIVE GROUP LIMITED ("Fonterra or Issuer")

Broker's stamp

This Application Form is issued with the Investment Statement prepared as at 30 January 2009, issued by Fonterra.

Please complete this Application Form and return it together with your cheque to the Registrar (Computershare Investor Services Limited) or to the Joint Lead Managers, the Co-Managers, any NZX primary market participant, the Organising Participant or any other channel approved by NZX in time for it to be forwarded to the Registrar before 5.00pm on the Closing Date (currently 6 March 2009).

Adviser's code

1. APPLICANT(S) TO COMPLETE, BLOCK LETTERS PLEASE

Please enter name(s) in full (including all first names)

Title	Legal first name(s)	Legal family name
	Corporate Name	

IRD Number:

Tax, please deduct from all interest paid to me* (tick one)

19.5% Resident Withholding Tax 33% Resident Withholding Tax 39% Resident Withholding Tax Exempt

(*If exempt from Resident Withholding Tax please attach a copy of Certificate of Exemption)

Country of tax residence: _____

Although not a New Zealand tax resident, I am engaged in business in New Zealand through a fixed establishment (branch) in New Zealand

Postal address (including post code):	Home ph: ()
	Work ph: ()
	Fax ph: ()
	Email:

2. APPLICATION – IMPORTANT

- Cheques must be made payable to "Fonterra Bond Offer" and crossed "Not Transferable".
- Fonterra may accept or reject all or part of this Application without giving any reason.
- The minimum investment amount per Application is \$5,000 and in multiples of \$1,000 thereafter.

Principal Amount of Bonds applied for:	Method of payment – tick one:
\$	Cheque attached for: \$ <input type="checkbox"/>
	Payment through the Austraclear System (institutional investors only) <input type="checkbox"/>
	Austraclear NZ Mnemonic (for settlement) (if applicable) (To be settled with the Registrar (CISL90)): <input type="text"/>

3. PAYMENT INSTRUCTION OPTIONS (please complete only one option)

Option 1: Payment to my nominated New Zealand bank. My nominated bank account is:

Account name(s):			
Bank	Branch	Account Number	Suffix

The account nominated above will be used for all payments of interest and the Principal Amount when they become payable.

Option 2: Payment to my Cash Management Account with my broker:

Name of broker where Cash Management Account held:	
Cash Management Client Account Number:	

4. COMPUTERSHARE INVESTOR SERVICES LIMITED SHAREHOLDER NUMBER OR CSN

If you currently have a Computershare Shareholder Number or CSN please insert it here:

5. INFORMATION

The information in this Application Form is provided to enable the Issuer, its related companies and the Registrar to process your Application, and administer your investment. By signing this Application Form you authorise the Issuer to disclose information to its related companies, and for the Issuer, its related companies and the Registrar to disclose information in situations where the Issuer or any of its related companies, or the Registrar are required or permitted to do so by any applicable law or by a governmental, judicial or regulatory entity or authority in any jurisdiction. If you are an individual, under the Privacy Act 1993, you have the right to access and correct any of your personal information.

6. INDEMNITY

The Investment Statement only constitutes an offer of Bonds to the public in New Zealand and to investors in other jurisdictions where the Bonds may be lawfully offered. No action has been or will be taken by the Issuer which would permit an offer of Bonds to the public, or possession or distribution of any offering material, in any country or jurisdiction where action for that purpose is required (other than New Zealand). Bonds may

only be offered for sale or sold in conformity with all applicable laws and regulations in any jurisdiction in which they are offered, sold or delivered. No Holder, or any other person, may purchase, offer, sell, distribute or deliver Bonds, or have in its possession, publish, deliver or distribute to any person, any offering material or any documents in connection with the Bonds, in any jurisdiction other than in compliance with all applicable laws and regulations.

By applying for Bonds, each applicant indemnifies the Issuer, each Joint Lead Manager, each Co-Manager, and the Trustee and each of their respective directors, officers and employees for any loss or liability sustained or incurred by the Issuer, that Joint Lead Manager, that Co-Manager or the Trustee, as the case may be, as a result of the breach by that applicant of the above selling restrictions.

7. SIGNATURE(S) OF APPLICANT(S)

I/We hereby apply for the Bonds as set out above. I/We agree to accept the investments as applied for or any lesser amount that may be issued to me/us. I/We agree to be bound by the terms of the Bonds, the Trust Documents and by the provisions of the Investment Statement dated 30 January 2009.

I/We certify that, where information is provided by me/us in this form about another person, I am/we are authorised by such person to disclose the information to you and give authorisation.

In the case of joint Applications, the joint applicants agree that, unless otherwise expressly indicated in this Application Form, the Bonds will be held jointly as joint tenants. I/We have taken this Application Form from the Investment Statement, which I/we have read.

Please read all of this Application Form before signing.

Signature of Applicant: _____ Date: _____ (DD/MM/YYYY)

Signature of Applicant: _____ Date: _____ (DD/MM/YYYY)

Signature of Applicant: _____ Date: _____ (DD/MM/YYYY)

CERTIFICATE OF NON-REVOCATION OF POWER OF ATTORNEY

Complete this section if you are an individual acting on behalf of someone for whom you hold Power of Attorney.

I, _____ (Full name of attorney)
of _____ (Place and country of residence of attorney)
_____ (Occupation of attorney)

CERTIFY 1. That by deed dated _____ (DD/MM/YYYY)
_____ (Full name of donor of power of attorney)
of _____ (Place and country of residence of donor)

appointed me his/her/its power of attorney.

2. That I have not received notice of any event revoking the power of attorney.

3. (If the donor is a body corporate) That to the best of my knowledge and belief no such notice has been received by
_____ (Full name of body corporate holding power of attorney)
or by any employee or agent of that body corporate.

Signed At: _____

Signature of Attorney: _____ Dated: _____ (DD/MM/YYYY)

Complete this section if you are a body corporate acting on behalf of someone for whom you hold Power of Attorney.

I, _____ (Full name of attorney)
of _____ (Place and country of residence of attorney)
_____ (Occupation of attorney)

CERTIFY 1. That by deed dated: _____ (DD/MM/YYYY)
_____ (Full name of donor of power of attorney)
of _____ (Place and country of registered office or principal place of business of donor)

appointed as attorney _____ (Full name of body corporate holding power of attorney)

a body corporate having its registered office (or principal place of business) at

_____ (Address of registered office or principal place of business)

2. That I have not received notice of any event revoking the power of attorney.

3. (If the donor is a body corporate) That to the best of my knowledge and belief no such notice has been received by
_____ (Full name of body corporate holding power of attorney)
or by any employee or agent of that body corporate.

Signed At: _____

Signature of Attorney: _____ Dated: _____ (DD/MM/YYYY)

CERTIFICATE OF NON-REVOCATION OF AGENT Complete this section if you are acting as agent for someone

I, _____ (Name of Agent)
of _____ (Address of Agent)
_____ (Occupation of Agent)

CERTIFY 1. That, by the Agency Agreement dated: _____ (DD/MM/YYYY)
_____ (Name of Donor)

appointed me his/her/its Agent on the terms and conditions set out in the Agency Agreement.

2. That I have executed the Application for Bonds printed on this Application Form under the appointment and pursuant to the powers thereby conferred on me.

3. That I have not received any notice of any event revoking the appointment by death (or winding up) of the Donor or otherwise.

Signed at: _____

Signature of Agent: _____ Dated (DD/MM/YYYY):

Application Form (Spare copy)

FONTERRA CO-OPERATIVE GROUP LIMITED ("Fonterra or Issuer")

Broker's stamp

This Application Form is issued with the Investment Statement prepared as at 30 January 2009, issued by Fonterra.

Please complete this Application Form and return it together with your cheque to the Registrar (Computershare Investor Services Limited) or to the Joint Lead Managers, the Co-Managers, any NZX primary market participant, the Organising Participant or any other channel approved by NZX in time for it to be forwarded to the Registrar before 5.00pm on the Closing Date (currently 6 March 2009).

Adviser's code

1. APPLICANT(S) TO COMPLETE, BLOCK LETTERS PLEASE

Please enter name(s) in full (including all first names)

Title	Legal first name(s)	Legal family name
	Corporate Name	

IRD Number:

Tax, please deduct from all interest paid to me* (tick one)

19.5% Resident Withholding Tax 33% Resident Withholding Tax 39% Resident Withholding Tax Exempt

(*If exempt from Resident Withholding Tax please attach a copy of Certificate of Exemption)

Country of tax residence: _____

Although not a New Zealand tax resident, I am engaged in business in New Zealand through a fixed establishment (branch) in New Zealand

Postal address (including post code):	Home ph: ()
	Work ph: ()
	Fax ph: ()
	Email:

2. APPLICATION – IMPORTANT

- Cheques must be made payable to "Fonterra Bond Offer" and crossed "Not Transferable".
- Fonterra may accept or reject all or part of this Application without giving any reason.
- The minimum investment amount per Application is \$5,000 and in multiples of \$1,000 thereafter.

Principal Amount of Bonds applied for:	Method of payment – tick one:
\$	Cheque attached for: \$ <input type="checkbox"/>
	Payment through the Austraclear System (institutional investors only) <input type="checkbox"/>
	Austraclear NZ Mnemonic (for settlement) (if applicable) (To be settled with the Registrar (CISL90)): <input type="text"/>

3. PAYMENT INSTRUCTION OPTIONS (please complete only one option)

Option 1: Payment to my nominated New Zealand bank. My nominated bank account is:

Account name(s):			
Bank	Branch	Account Number	Suffix

The account nominated above will be used for all payments of interest and the Principal Amount when they become payable.

Option 2: Payment to my Cash Management Account with my broker:

Name of broker where Cash Management Account held:	
Cash Management Client Account Number:	

4. COMPUTERSHARE INVESTOR SERVICES LIMITED SHAREHOLDER NUMBER OR CSN

If you currently have a Computershare Shareholder Number or CSN please insert it here:

5. INFORMATION

The information in this Application Form is provided to enable the Issuer, its related companies and the Registrar to process your Application, and administer your investment. By signing this Application Form you authorise the Issuer to disclose information to its related companies, and for the Issuer, its related companies and the Registrar to disclose information in situations where the Issuer or any of its related companies, or the Registrar are required or permitted to do so by any applicable law or by a governmental, judicial or regulatory entity or authority in any jurisdiction. If you are an individual, under the Privacy Act 1993, you have the right to access and correct any of your personal information.

6. INDEMNITY

The Investment Statement only constitutes an offer of Bonds to the public in New Zealand and to investors in other jurisdictions where the Bonds may be lawfully offered. No action has been or will be taken by the Issuer which would permit an offer of Bonds to the public, or possession or distribution of any offering material, in any country or jurisdiction where action for that purpose is required (other than New Zealand). Bonds may

only be offered for sale or sold in conformity with all applicable laws and regulations in any jurisdiction in which they are offered, sold or delivered. No Holder, or any other person, may purchase, offer, sell, distribute or deliver Bonds, or have in its possession, publish, deliver or distribute to any person, any offering material or any documents in connection with the Bonds, in any jurisdiction other than in compliance with all applicable laws and regulations.

By applying for Bonds, each applicant indemnifies the Issuer, each Joint Lead Manager, each Co-Manager, and the Trustee and each of their respective directors, officers and employees for any loss or liability sustained or incurred by the Issuer, that Joint Lead Manager, that Co-Manager or the Trustee, as the case may be, as a result of the breach by that applicant of the above selling restrictions.

7. SIGNATURE(S) OF APPLICANT(S)

I/We hereby apply for the Bonds as set out above. I/We agree to accept the investments as applied for or any lesser amount that may be issued to me/us. I/We agree to be bound by the terms of the Bonds, the Trust Documents and by the provisions of the Investment Statement dated 30 January 2009.

I/We certify that, where information is provided by me/us in this form about another person, I am/we are authorised by such person to disclose the information to you and give authorisation.

In the case of joint Applications, the joint applicants agree that, unless otherwise expressly indicated in this Application Form, the Bonds will be held jointly as joint tenants. I/We have taken this Application Form from the Investment Statement, which I/we have read.

Please read all of this Application Form before signing.

Signature of Applicant: _____ Date: _____ (DD/MM/YYYY)

Signature of Applicant: _____ Date: _____ (DD/MM/YYYY)

Signature of Applicant: _____ Date: _____ (DD/MM/YYYY)

CERTIFICATE OF NON-REVOCATION OF POWER OF ATTORNEY

Complete this section if you are an individual acting on behalf of someone for whom you hold Power of Attorney.

I, _____ (Full name of attorney)
of _____ (Place and country of residence of attorney)
_____ (Occupation of attorney)

CERTIFY 1. That by deed dated _____ (DD/MM/YYYY)
_____ (Full name of donor of power of attorney)
of _____ (Place and country of residence of donor)

appointed me his/her/its power of attorney.

2. That I have not received notice of any event revoking the power of attorney.

3. (If the donor is a body corporate) That to the best of my knowledge and belief no such notice has been received by
_____ (Full name of body corporate holding power of attorney)
or by any employee or agent of that body corporate.

Signed At: _____

Signature of Attorney: _____ Dated: _____ (DD/MM/YYYY)

Complete this section if you are a body corporate acting on behalf of someone for whom you hold Power of Attorney.

I, _____ (Full name of attorney)
of _____ (Place and country of residence of attorney)
_____ (Occupation of attorney)

CERTIFY 1. That by deed dated: _____ (DD/MM/YYYY)
_____ (Full name of donor of power of attorney)
of _____ (Place and country of registered office or principal place of business of donor)

appointed as attorney _____ (Full name of body corporate holding power of attorney)

a body corporate having its registered office (or principal place of business) at

_____ (Address of registered office or principal place of business)

2. That I have not received notice of any event revoking the power of attorney.

3. (If the donor is a body corporate) That to the best of my knowledge and belief no such notice has been received by
_____ (Full name of body corporate holding power of attorney)
or by any employee or agent of that body corporate.

Signed At: _____

Signature of Attorney: _____ Dated: _____ (DD/MM/YYYY)

CERTIFICATE OF NON-REVOCATION OF AGENT Complete this section if you are acting as agent for someone

I, _____ (Name of Agent)
of _____ (Address of Agent)
_____ (Occupation of Agent)

CERTIFY 1. That, by the Agency Agreement dated: _____ (DD/MM/YYYY)
_____ (Name of Donor)

appointed me his/her/its Agent on the terms and conditions set out in the Agency Agreement.

2. That I have executed the Application for Bonds printed on this Application Form under the appointment and pursuant to the powers thereby conferred on me.

3. That I have not received any notice of any event revoking the appointment by death (or winding up) of the Donor or otherwise.

Signed at: _____

Signature of Agent: _____ Dated (DD/MM/YYYY):

Directory

ISSUER

Fonterra Co-operative Group Limited

9 Princes Street
Auckland
Private Bag 92032
Auckland 1142

TRUSTEE

The New Zealand Guardian Trust Company Limited

Level 7, Vero Centre
48 Shortland Street
Auckland
PO Box 1934
Auckland 1140

JOINT LEAD MANAGER

ANZ, part of ANZ National Bank Limited

Level 7
1 Victoria Street
Wellington
PO Box 540
Wellington 6011
Phone: 0800 269 476

CO-MANAGERS

ABN AMRO Craigs Limited

ABN AMRO Craigs House
158 Cameron Road
PO Box 13155
Tauranga 3141
Phone: 0508 226 226

JOINT LEAD MANAGER AND ORGANISING PARTICIPANT

BNZ Capital, a division of Bank of New Zealand

Level 6, BNZ Tower
125 Queen Street
Auckland
Phone: 09 976 5439

First NZ Capital Securities Limited

Level 10, Fujitsu Tower
282 - 292 Lambton Quay
PO Box 3394
Wellington
Phone: 0800 005 678

LEGAL ADVISERS TO THE ISSUER

Mayne Wetherell

Level 23, IAG House
151 Queen Street
Auckland
PO Box 3797
Auckland 1140

AUDITORS

PricewaterhouseCoopers

188 Quay Street
Auckland
Private Bag 92162
Auckland 1142

LEGAL ADVISERS TO THE TRUSTEE

Bell Gully

Level 22, Vero Centre
48 Shortland Street
Auckland
PO Box 4199
Auckland 1010

REGISTRAR

Computershare Investor Services Limited

159 Hurstmere Road
Takapuna
North Shore City
Private Bag 92119
Auckland 1142



Dairy for life