



**Dairy for life**

15 February 2008

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From the office of the Chairman  
Henry van der Heyden

Dear Shareholders and Suppliers,

We've had a lot of good feedback on the proposed changes to our capital structure and it is very clear that we will need to spend much more time in consultation and discussion before any final deciding vote in 2010.

Consequently your Board has decided that it will not proceed with the preliminary vote in May to change Fonterra's structure into two entities. While we still believe there would be benefits in road testing the two company structure, it is not essential at this time.

The Board has spent two years looking at a large number of options and we remain firm in our view that the preferred option is the best solution to address redemption risk, shareholder choice and capital for growth, but we appreciate that you have to share and be committed to that view if we are to go anywhere.

We can see that there are misunderstandings and some misinformation about the Board's preferred capital structure proposal, particularly on the critical question of how it will impact on your payout. Most of you are asking for more time to understand the long-term implications for us as farmers and for our co-operative. It's a complex subject with far reaching implications so it is completely understandable why you want more time.

It is also clear that there is some confusion about the milk price mechanism being caught up in the debate on capital structure. While the milk price is important in the context of the capital structure debate it is something that, as we have already indicated, needs to be addressed regardless of any change to our capital structure.

To introduce a new milk price mechanism requires a small constitutional change, which can be put to an annual meeting and does not justify a special meeting in May with all the associated expense.

While the May vote won't go ahead, it is vital that we continue the consultation process and continue to discuss the issues that are concerning you and your Board.

Your Board remains convinced that there is a huge opportunity today in the changing global dairy markets for Fonterra that, if taken, will get the best returns for you and secure the long-term future of our co-operative. But if we are to make the best of this opportunity, we first have to address redemption risk and capital for growth. So we need you to stay engaged in the discussions, to make progress in this important debate.

While we go through this consultation process, you can be assured that we are open to any option that genuinely addresses redemption risk and capital for growth. You are telling us that shareholder choice is of less importance.

I would urge you to attend the March 6<sup>th</sup> to 12<sup>th</sup> meetings and a full schedule with times and venues is attached to this letter. At the meetings we will be outlining how the co-operative share would be transacted under the preferred option. If you join this information with what we outlined on November 15, you will then have all the detail so that we can start the consultation process in earnest. At the March meetings we will also discuss milk price mechanism.

Look forward to seeing you there.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Henry van der Heyden', written in a cursive style.

Henry van der Heyden