

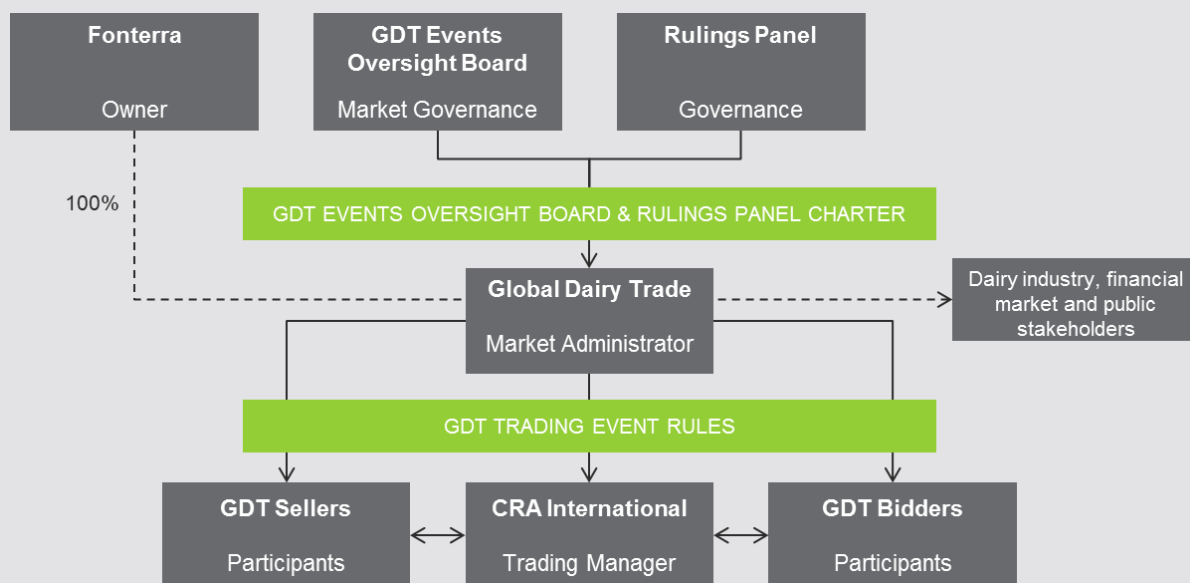
INTRODUCTION

1. This paper outlines key aspects of the GDT Events trading system, including the role of GDT as Market Administrator
2. It outlines the key parties involved in GDT Events, describes the anti-trust environment within which GDT Events occur, and summarises the platform's operations.

OVERVIEW OF KEY PARTIES AND RELATIONSHIPS

3. As illustrated in the diagram below, GDT works with a wide range of parties and interested stakeholders to fulfil its role in discovering and publishing market-based reference prices for internationally-traded dairy commodities.

Figure 1: Structure of GDT Stakeholder Relationships



4. The GDT Trading Event Rules is the key document governing the relationship between the parties:
 - a. Part A – defines the basis on which parties may be accepted as a bidder or a seller;
 - b. Part B – defines the governance practices of the Trading Platform and the role of the GDT Events Oversight Board, the Rulings Panel, the Market Administrator and the Trading Manager;
 - c. Part C – sets out the operation of the Trading Events.
5. **GDT Sellers** and **GDT Bidders** are participants on the trading platform and each has signed the Participation Agreement agreeing to be governed by the GDT Trading Event Rules.
6. The **GDT Events Oversight Board** is an independent oversight body that ensures the trading platform is operated and developed in accordance with the Guiding Principles, and that monitors GDT's compliance with relevant governance principles. The Oversight Board is governed by the Charter for the GDT Events Oversight Board and Rulings Panel.

7. A **Rulings Panel** can be convened to determine complaints from participants of the platform, or from GDT itself. If a complaint is raised, the Oversight Board Chairperson will convene a rulings panel and appoint two independent persons to form a rulings panel of three to hear and determine the complaint. This forum is only for alleged breaches of the GDT Trading Event Rules by participants and is not available to dispute any act or omission of GDT or any issues arising between participants under a supply agreement.
8. **GDT** is the market administrator of the trading platform. GDT is a wholly-owned subsidiary of Fonterra Co-operative Group Limited, New Zealand's largest company and the world's largest exporter of dairy products. The GDT Director reports to the Fonterra CFO for business management and financial reporting purposes. Fonterra is also a seller on the GDT platform and this role is managed separately by the Fonterra ingredients sales organisation which abide by the same rules as other sellers on the platform.
9. The **Trading Manager**, CRA International Inc., is an independent party contracted to GDT, who operates each trading event in accordance with Part C of the GDT Trading Event Rules. The use of an independent trading manager means that each trading event is run independently from all participants, thus maintaining the integrity of the platform.

ANTI-TRUST COMPLIANCE

10. Competition laws, also known as anti-trust laws, are laws in a number of countries designed to ensure competitors do not collude or compete in an unfair way that would disadvantage customers. These typically include prohibitions around businesses coordinating with one another when they should be competing (typically known as "cartel" conduct) or abusing a dominant position in a market to stop others competing ("misusing market power").
11. The GDT Trading Event Rules are constructed to reflect legal advice in regards to all parties' compliance with competition laws.
12. Competition laws are relevant to GDT for three main reasons:
 - a. **The trading platform is used by a number of competing Sellers and Buyers**

This poses a risk that the platform could be alleged to facilitate coordination between competitors and may be "cartel" conduct. That would be a risk not only for the Sellers/Buyers involved, but also for GDT if it could be said to be the conduit for that conduct.
 - b. **The trading platform could be said to be an important channel to market for Sellers**

The platform is regarded as the leading global auction platform for dairy trade and price discovery. As such, in certain circumstances, access to the platform could be important for Sellers to compete in the global dairy commodity markets or for Buyers to access product. It is important to ensure the criteria for joining GDT are justifiable and determined independently by GDT.
 - c. **GDT is owned by Fonterra**

GDT performs the role of market administrator for the platform through managing the platform infrastructure and liaising with the Sellers and Buyers about questions and complaints. That role requires GDT to deal with competitors of Fonterra, and provides GDT with some commercially sensitive information about those competitors (for example, prices and quantities). As a subsidiary of Fonterra, if GDT were to engage in improper discussions with Fonterra's competitors, or share sensitive information with Fonterra, that conduct may be judged as anti-competitive.
13. As GDT Events is a cross-border trading platform for dairy commodities, the competition laws of a number of jurisdictions are potentially applicable to GDT. The jurisdictions that are of particular importance to GDT include:
 - a. NZ, as this is where Fonterra (i.e. the largest Seller on GDT) is located;
 - b. USA, EU, and Australia, as these are large jurisdictions and have arguably the most active and rigorous competition law enforcement regimes in the world, and these jurisdictions are home to all but one of the other Sellers on GDT; and
 - c. China, as this is GDT's largest Buyer market.
14. GDT has obtained advice from external competition law specialists in NZ, USA, EU, Australia and China in connection with the design and implementation of the structures and processes for the platform.

Protections implemented

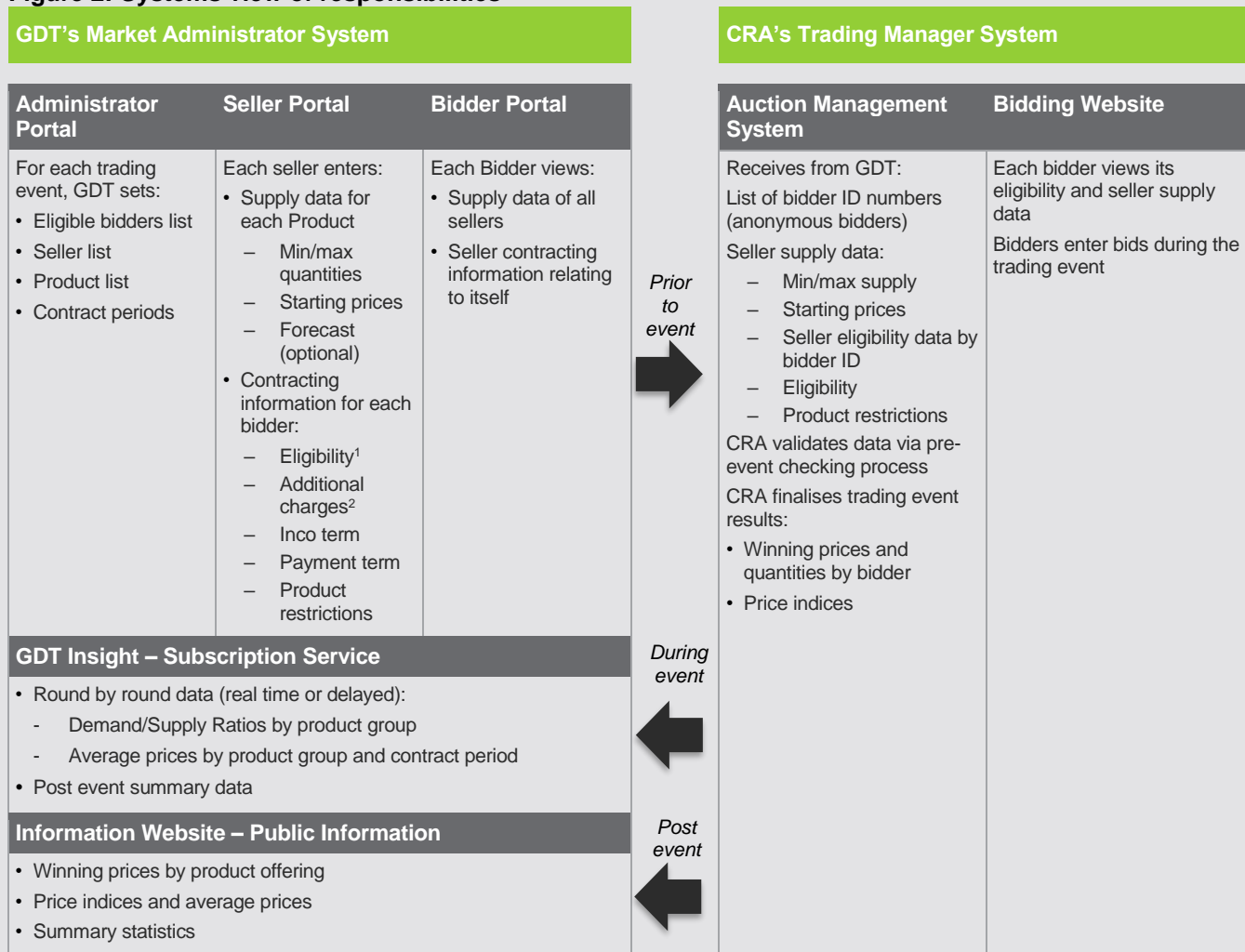
15. A number of protections have been built into the structure and processes of the platform and GDT itself in light of competition law advice received as well as to minimise any perception risks arising from ownership by Fonterra. These include:
 - a. The running of the auction is outsourced to an independent trading manager (CRA International);
 - b. The GDT Trading Event Rules, along with operational and technical controls, have implemented legal advice as to the timing and extent of the disclosure of information from Participants to CRA, GDT, other Participants and the public. In particular restrictions are applied with respect to seller forecasts, offer volumes and starting prices;
 - c. Certain information is transferred from Participants through GDT's systems to CRA with controls in place to restrict GDT's ability to access the data until that information is released to bidders prior to commencement of a Trading Event;
 - d. GDT is a separately incorporated company from Fonterra, located at a separate building, and uses a separate IT system and security infrastructure;
 - e. GDT's staff are subject to internal information restrictions to prevent inappropriate information disclosure between competitors, in particular to Fonterra. Staff are required to sign a Confidentiality Deed, undergo annual compliance training, and an annual compliance audit by KPMG takes place;
 - f. GDT has an internal Compliance Committee, with participation by legal counsel, to monitor its own compliance with the GDT Trading Event Rules and internal policies, and to ensure it remains vigilant to potential competition law issues;
 - g. The Oversight Board ensures GDT Trading Event Rule changes are implemented in an agreed and objective manner.
16. GDT's view is that the competition law risks are appropriately managed and any relevant changes to competition law are actively monitored.

PLATFORM OPERATIONS

Division of responsibilities

17. Each trading event is run through the coordination of participants and key service providers.
18. There is a clear division of responsibilities between GDT as the Market Administrator and CRA as the Trading Manager. GDT and CRA are responsible for operating and maintaining their respective systems as illustrated in Figure 2 over page.
19. GDT is the central coordinator, monitoring that event information flows efficiently and in compliance with the GDT Trading Event Rules.
20. GDT is responsible for setting the operational parameters of trading events, such as the date and starting time, and managing the Seller and Bidder Portals. In regard to the Seller Portal, user access controls are in place to restrict GDT's ability to edit or view data entered by Sellers before it is made available to all bidders.
21. During the Trading Event, GDT has view access only to the Bidding Website and does not communicate with CRA unless there is an emergency.
22. Subscribers to GDT Insight, the data subscription service, are able to view round by round trading event data as the event unfolds or with a delay of 10 minutes.
23. On completion of the Trading Event, GDT is responsible for publishing the results on the Information Website and making post event summary data available in GDT Insight.
24. GDT is also responsible for providing pre-and post-event data relating to Fonterra products to NZX.
25. CRA is a contracted service provider exclusively responsible for running the trading events and the Bidding Website (which differs from the Bidder Portal operated by GDT).
26. CRA is responsible for processing and validating sellers' pre-event data before making it available for bidders and GDT to view five days prior to the Trading Event.
27. CRA confirms the final winning prices and quantities from the Trading Event.

Figure 2: Systems view of responsibilities

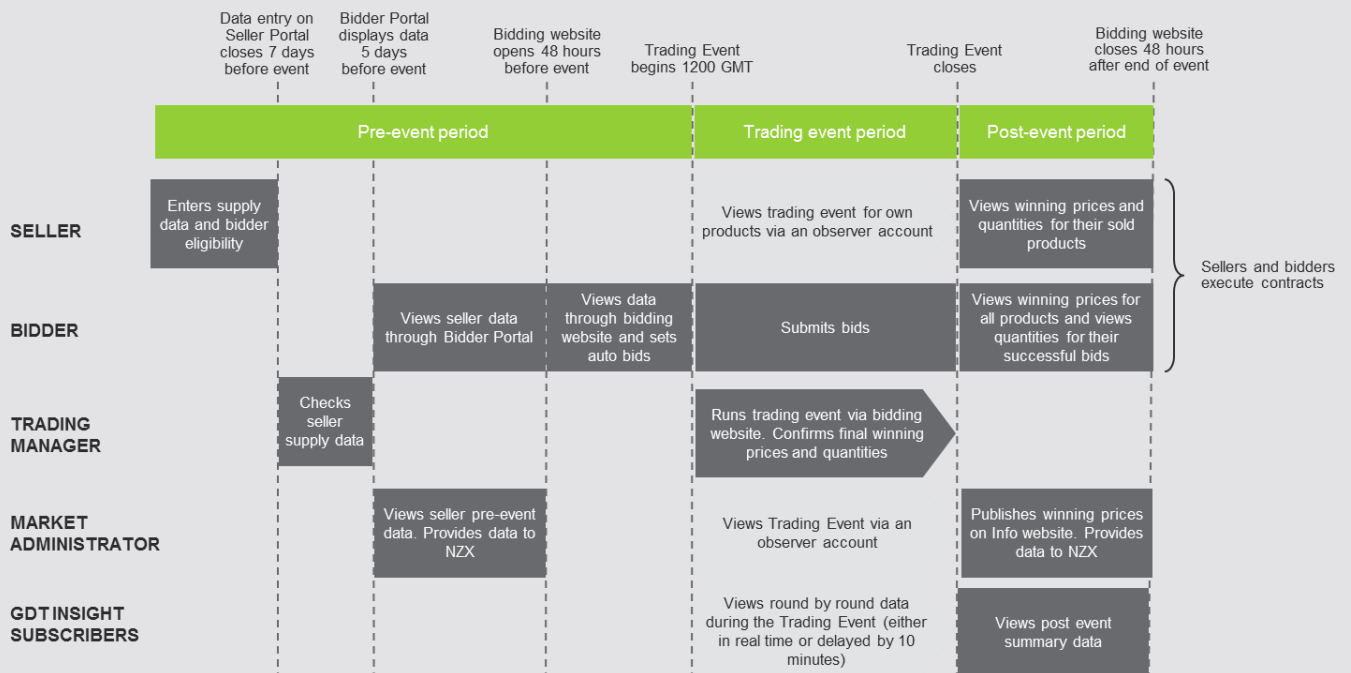


¹ Also referred to as Contract Period Bid Limits ² Example: freight and insurance charges, additional testing charges

Timing of information flows for each Trading Event

28. The key information flows and parties involved are illustrated in Figure 3.
29. Seven days prior to each trading event, sellers enter pre-event supply data into the Seller Portal. This data is transferred to CRA with GDT staff members restricted from viewing this data.
30. CRA process the data and complete a series of validations to ensure logical errors are excluded from the Bidding Website. This data is then made available to GDT and Bidders via the Bidder Portal five days prior to the start of the trading event (every bidder sees all sellers' data).
31. NZX receive Fonterra-only pre-event data, **and** make this available via their Dairy Futures website in order to provide transparency to the financial market.
32. Once Bidders can access the "pre-event" data via the Bidder Portal, they can confirm their eligibility and plan their purchasing strategies. Forty-eight hours prior to the Trading Event, Bidders can access the Bidding Website. Auto bids may be set up from this time.
33. The Trading Event itself is conducted via the Bidding Website by the Trading Manager, CRA.
34. GDT receive the results of the Trading Event, make summary data available in GDT Insight, publish the publically available data on the Information Website, update each bidder's results on the Bidder Portal and provide Sellers' results via reports on the Seller Portal. Fonterra's winning prices are also provided to NZX for their publication to the financial market.

Figure 3: Key information flows for each Trading Event



TECHNOLOGY, SECURITY AND DISASTER RECOVERY

35. GDT applies industry standard security measures in the design, acquisition, build and operation of all its technology. GDT operates its own Information Security Committee, overseen by an independent security officer, which provides ongoing governance over GDT security. Regular external security reviews are commissioned to ensure all standards are as expected.
36. GDT also maintains a Business Continuity Plan which outlines protocols for dealing with any severe interruption to normal business. These protocols are tested and reviewed at least annually where GDT staff and key business partners are drilled on potential disaster scenarios. The GDT trading system operates from multiple data centres to provide resilient failover for disaster recovery situations.