

# Audit and Finance Committee Charter

September 2019

## Constitution

The Board of Fonterra Co-operative Group Limited (“the Board”) has established a committee of the Board to be known as the Audit & Finance Committee (“the Committee”).

## Purpose

The purpose of the Committee is to assist the Board in fulfilling its corporate governance responsibilities relating to Fonterra’s financial management and internal control frameworks, financial reporting, audit activities, capital markets matters, funding activities, and any other matters referred to it by the Board.

## Responsibilities

The responsibilities of the Committee include:

1. Reviewing the adequacy of Fonterra’s financial management and internal control framework, and the principal financial risks of Fonterra.
  - Receive and consider reports from Internal Audit and External Audit in respect of internal controls.
  - Make regular enquiry of management, Internal Audit and External Audit about significant financial exposures, including as a result of illegal acts or fraud, and review the steps management has taken to address such exposure to Fonterra.
  - Monitor management’s response to any regulatory reports submitted to Fonterra.
  - Review and approve Fonterra’s policies relating to financial risk assessment and financial risk management.
  - Ensuring management has a financial risk management framework which effectively identifies, addresses and monitors significant financial risks, and that appropriate processes are in place to ensure compliance with the related risk appetite statement, policies and procedures together with the reporting of any non-compliance.
  - Reviewing and making recommendations to the Board regarding the financial risks within Fonterra’s risk appetite statement.
2. Oversight of financial reporting practices and processes used by management.
  - Review financial reporting issues and disclosure requirements.
  - Review any significant changes in accounting policies and practices and recommend adoption to the Board.

- Review the annual and interim financial statements, consider whether they are complete and consistent with the information known to Committee members, and recommend approval of these statements to the Board. The review should include consideration of:
    - Whether the financial statements reflect appropriate accounting policies;
    - Major judgement areas, particularly the nature and level of significant provisioning;
    - Any legal matters that could significantly impact the financial statements;
    - Complex and/or unusual transactions and disclosures.
  - Review the annual report before its release and consider whether the information is understandable and consistent with Committee members' knowledge of Fonterra and its operations.
  - Review post investment reviews of significant investments and capital expenditure.
3. Oversight of the processes for preparation of offering documents.
- Oversee the processes used by management for the preparation of offering documents in relation to new issues of securities marketed to wholesale investors.
  - Review annually the master set of risk factors and Fonterra business description used in offering documents.
  - Review relevant offer documents, and consider whether they are complete and consistent with the information known to committee members in relation to new issues of securities marketed to retail investors.
4. The external audit process.
- Recommend to the Fonterra Board of Directors candidates for appointment as Fonterra's external auditors (subject to Shareholder approval).
  - Review the reasonableness of, and approve the External Audit fees, terms of engagement and annual audit plan.
  - Manage, review and confirm the independence of External Audit, including:
    - Review of other professional services and related fees;
    - Approval of non-audit services;
    - Ensuring lead audit partner is rotated at least every five years.
  - Review External Audit reports, significant audit adjustments, and any areas of debate or dispute between External Audit and management.
  - Receive on an annual basis, from the External Auditor, a report detailing the following:
    - All critical accounting policies and practices used;
    - All alternative treatments within generally accepted accounting practice for policies and practices related to material items that have been discussed with management of the company, including ramifications of use of such alternative disclosures and treatments along with the treatment preferred by the independent auditor;
    - Other written communications between the independent auditor and the management of the company that are material to the financial statements, such as any letter or schedule of unadjusted differences;
    - Its internal quality-control processes and any material issues arising from its most recent quality-control review, any issues from reviews by government professional authorities into their audits, relationships between the external auditor and the Company, and their policy on audit partner rotation.
  - Inform the Board of any material findings or issues contained in the annually requested External Auditors report.

5. Oversee the Internal Audit process.
  - Approve the appointment or dismissal of the Chief Internal Auditor.
  - Approve the Internal Audit Charter.
  - Review and endorse the Internal Audit annual work plan and ensure any key Committee concerns are identified.
6. Monitor progress against the Internal Audit annual plan and ensure the Internal Audit function is adequately resourced and has appropriate standing within Fonterra.
7. Ensure no restrictions have been placed upon Internal Audit that impact upon the scope and performance of the work undertaken.
8. Review results of Internal Audit performance indicators.
9. Maintain open lines of communication between the Board, Internal Audit, External Audit and management.
  - Review regular reports received from Internal Audit, External Audit and management.
  - Hold confidential sessions at least annually with the Chief Internal Auditor, and the external auditors to discuss any matters that the Committee or auditors believe require discussion without the presence of management.
  - Advise the Board of any actual or potential matters of concern to the Committee, where these may require the Board's attention.
10. Other matters
  - The Committee may approve any appointment of external parties to roles as Internal Auditors, Tax Advisors, or advisors in material finance roles.

## FSM Rules Compliance

The Committee is the "Audit Committee" as defined in the FSM Rules, and as such shall:

- Ensure that processes are in place, and monitor those processes, so that the Board is properly and regularly informed and updated on corporate financial matters [see responsibility 2 above];
- Recommend the appointment and removal of the independent auditor [see responsibility 4 above];
- Meet regularly to monitor and review the independent and internal auditing practices [see responsibilities 4-9 above];
- Have direct communication with and unrestricted access to the independent and any internal auditors or accountants [see responsibility 9 above];
- Review the financial reports and advise all Directors whether they comply with the appropriate laws and regulations [see responsibility 2 above];
- Ensure that the external auditor or lead audit partner is changed at least every five years [see responsibility 4 above].

## NZX Corporate Governance Code Compliance

The NZX Corporate Governance Code (the 'Code') came into effect from 1 January 2019. The code provides some recommendations which apply to an issuer's audit committee. The recommendations are aimed at ensuring that the issuer's audit committee is appropriately empowered to provide effective oversight of significant financial matters. The recommendations of the Code are incorporated within this Charter.

## Variations to the Standard Terms of Reference

The Board Committee Standard Terms of Reference shall apply, except where modified by this Charter.

## **Membership**

### **Directors**

The Committee shall include at least one [1] appointed Director.

The Committee shall include at least one [1] member with an appropriate accounting or financial background.

### **Chairperson**

The Committee Chair must not be the Chairperson of the Board.

### **Observer**

The Chairman of the Board may attend any meeting of the Committee as an observer.

## **Meeting Procedure**

### **Attendance**

The attendance of the Chief Financial Officer and the Chief Internal Auditor is expected at all meetings.

The Chief Executive Officer shall be requested to attend the meetings that deal with the review and/or approval of the interim and full year financial statements.

Representatives of External Audit and management may be invited to attend part or all of any meeting, but the Committee may request they withdraw from any part of a meeting.

## **Authority**

### **Delegated Authority**

The Committee shall have unrestricted access to the Chief Internal Auditor, External Audit and management and the ability to consult independent experts where considered necessary to carry out its duties.

The Chief Internal Auditor and External Audit have unrestricted access to the Committee and the Committee Chair.

The Committee has various responsibilities and delegated authorities under the Fonterra Group Treasury Financial Risk Management Standard.