



Dairy for life

Fonterra Annual Meeting 2020

Notice of Annual Meeting
of Shareholders and Explanatory Notes

10.30am on Thursday, 5 November 2020
Copthorne Hotel & Resort Solway Park Wairarapa
High Street
Masterton

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Fonterra Co-operative Group Limited

Annual Meeting for 2020

Fonterra's Annual Meeting will be held at the Copthorne Hotel & Resort Solway Park Wairarapa, High Street, Masterton, at **10.30am on Thursday, 5 November 2020.**

COVID-19 Implications

Fonterra intends to hold this Annual Meeting in person at the Copthorne Hotel & Resort Solway Park Wairarapa, High Street, Masterton. However, due to the current uncertainty relating to the COVID-19 pandemic, Fonterra may elect to hold this Annual Meeting as a hybrid meeting (being both in person and online), or as an online only meeting, depending on the COVID-19 Alert Level restrictions that are in place for Thursday, 5 November 2020.

Fonterra will provide Shareholders with as much notice as is reasonably practicable, by way of an announcement to the NZX and an email to Shareholders, if the meeting is to be held as a hybrid or online only meeting.

This Notice of Meeting has been prepared on the basis of an in person meeting. If Fonterra elects to change the Annual Meeting to a hybrid or online only meeting, detail as to virtual participation and voting will be provided at the time of advising of the change.

Annual Meeting Documents

Each Shareholder has been sent:

- This Notice of Meeting booklet, which includes:
 - Letter from the Chairman
 - Notice of Meeting (including the text of the matters to be voted on by Shareholders) (Part One)
 - Explanatory Notes regarding each of the matters to be voted on by Shareholders (Part Two)
- A Fonterra Board of Directors Election Voting Paper
- A Shareholders' Council Voting Paper (for Shareholders in Wards 4 and 6 only)
- A combined Annual Meeting Voting Paper/Proxy Form. Use this Voting Paper:
 - If you are attending the Annual Meeting to vote in person.
 - If you are unable to attend the Annual Meeting, and you do not wish to vote online or by post, you can appoint a proxy to attend and vote on your behalf by completing the Proxy Form and returning it to the address specified on the freepost envelope included in the Voting Pack or otherwise set out on the form, so that the Returning Officer receives it no later than **10.30am on Tuesday, 3 November 2020.**
 - If you are a company or other body corporate, you can appoint a representative to attend and vote on your behalf by completing the Proxy Form.

Further instructions are on the back of the Proxy form.

You can vote on the matters to be considered at the Annual Meeting **online** or by **post**. The instructions on how to vote in this manner can be found on the Voting Papers.

electionz.com Limited has been authorised by the Board to receive, at the address specified on the freepost envelope included in the Voting Pack or otherwise set out on the Voting Paper, and count, all **online** and **postal votes**.

For the Annual Meeting you can also vote by proxy, or by attending the meeting in person.

All online, postal and proxy votes must be received by the Returning Officer by **10.30am on Tuesday, 3 November 2020**.

A Shareholder's voting entitlement is based on their milksolids production. Shareholders will receive one vote for every 1,000 kilograms of milksolids supplied to Fonterra during the season ended **31 May 2020**.

If a Shareholder did not supply last season but now owns an existing farm that supplied last season, the voting entitlement will be based on that farm's supply last season or on the Board's estimate of milksolids production for this season. In the case of a dry farm conversion and farm amalgamations/ divisions, voting entitlement is based on one vote for every estimated 1,000 kilograms of milksolids to be supplied during the season ended 31 May 2021. Milk supplied on Contract Supply and milk which is not backed by shares or counting vouchers is excluded from milksolids production when calculating voting entitlements.

In accordance with the Companies Act, the Board has fixed **5.00pm on 8 October 2020** as the date for determining voting entitlements of Shareholders for this meeting.

Accordingly, those persons who are, at **5.00pm on 8 October 2020**, registered as Shareholders will be entitled to vote at the Annual Meeting in respect of the shares registered in their name on that date backed by production.

A Shareholder's voting entitlement for a farm is shown on the Voting Paper enclosed for that farm with this pack. If a Shareholder appoints a proxy, the proxy will exercise that Shareholder's voting entitlement as described above.

Votes Required and Quorum

The ordinary resolutions will be passed if they are approved by a simple majority of the votes of those Shareholders entitled to vote and voting on the resolutions.

The special resolution will be passed if approved by a majority of 75% or more of the votes of those Shareholders entitled to vote and voting on the resolution.

The quorum for the meeting is present if not fewer than 50 Shareholders have cast postal votes (including by electronic means) or are present in person or by a representative, who between them hold or represent the holder or holders of not less than two per cent of the voting rights entitled to be exercised on the resolutions to be considered at the meeting.

There are no voting restrictions on the resolutions to be considered at the meeting.

Results of Voting

The results of voting at the Annual Meeting will be posted on Farm Source at www.nzfarmsource.co.nz and our My Co-op app as soon as vote counting is complete and the Chairman has declared the results.

Meeting Attendees

The Annual Meeting is held for the benefit of Shareholders and their authorised proxies and representatives. Fonterra management will also be in attendance, as well as invited members of the media.

2020 Fonterra Elections and Annual Meeting

Dear farmers,

Our 2020 Annual Meeting will be held at the Copthorne Hotel & Resort Solway Park Wairarapa in Masterton on Thursday 5 November.

We have moved away from holding the Annual Meeting at our manufacturing facilities, to minimise the disruption to our operations team and to reduce costs.

At this year's meeting Miles and I will review the Co-operative's financial performance and the outlook for 2021 and beyond.

Shareholders are also being asked to vote on seven ordinary business resolutions to:

1. approve the remuneration of Directors;
2. approve the remuneration of Councillors;
3. approve the remuneration of the Directors' Remuneration Committee Members;
4. approve the appointment of the Auditor;
5. approve the Shareholders' Council programme and budget;
6. ratify the appointment of an Independent Director, Ms Holly Kramer; and
7. ratify the appointment of an Independent Director, Mr Bruce Hassall.

Each of these ordinary resolutions require more than 50 per cent support from voting farmers to be passed.

There is also a special resolution to approve amendments to the Constitution related to the legislative changes to the Dairy Industry Restructuring Act (DIRA):

1. Approval of open entry related amendments to the Constitution.

The special resolution requires at least 75 per cent support from voting farmers to be passed.

There is also a Shareholder proposal for consideration by Shareholders. Further detail on the proposal and the resolutions are included within this booklet.

If you can't attend the meeting in person, you can cast your vote online, by post, or by way of proxy. Further instructions on how to vote by all of these methods can be found on the voting papers in your voting pack.

I look forward to seeing as many of you as possible in Masterton.



John Monaghan
Chairman

Fonterra Co-operative Group Limited

Annual Meeting Agenda

Below is the proposed programme for the Annual Meeting. Shareholders should note that the order may change at the discretion of the Chairman. Shareholders should allow sufficient time to register their attendance upon arrival prior to the start of the meeting.

10.00am - Registration / Morning Tea
10.30am - Welcome Welcome / Introduction – John Monaghan, Chairman of the Board
10.45am – Annual Meeting Proceedings Chairman’s Review Chief Executive Officer’s Presentation
Approval of Remuneration of Directors, Shareholders’ Councillors and Directors’ Remuneration Committee Members Directors’ Remuneration Committee Review – Glenn Holmes, Member of the Directors’ Remuneration Committee Resolution 1: That no increase of remuneration of Directors be approved Resolution 2: That no increase of remuneration of Shareholders’ Councillors be approved Resolution 3: That no increase of remuneration of Members of Directors’ Remuneration Committee be approved
Appointment of Auditor Resolution 4: Appointment of KPMG as auditor and authorisation of the Directors to fix the auditor’s remuneration
Ratification of Appointment of Directors Resolution 5: Ratification of appointment of Holly Kramer Resolution 6: Ratification of appointment of Bruce Hassall
Approval of Amendments to the Constitution Resolution 7: Approval of open entry related amendments to the Constitution
Shareholders’ Council Report Chairman’s Review – James Barron
Approval of Shareholders’ Council Programme and Budget Resolution 8: Approval of the Shareholders’ Council programme and budget
Shareholder Proposal Resolutions 9, 10 and 11: Mr Paterson’s Proposal
Voting Paper Collection
Announcement of Resolution Results
General Business
1.00 / 1.30pm - Closing / Lunch (approximately)

Notice of Annual Meeting of Shareholders of Fonterra Co-operative Group Limited

Notice is given that the Annual Meeting of the Shareholders of Fonterra Co-operative Group Limited (“Company”) will be held on **Thursday, 5 November at the Copthorne Hotel & Resort Solway Park Wairarapa, High Street, Masterton.**

John Monaghan

Chairman, on behalf of the Board

Notice of Meeting dated 12 October 2020

Business

Welcome/Introduction

Annual Meeting Proceedings

Chairman’s Review

Chief Executive Officer’s Presentation

Remuneration of Directors, Shareholders’ Councillors and Directors’ Remuneration Committee Members

Directors’ Remuneration Committee Review

Resolution 1: That no increase of remuneration of Directors be approved

To consider the remuneration of Directors recommended by the Directors’ Remuneration Committee and, if thought fit, to resolve:

“That no increase of remuneration of Directors be approved, as recommended by the Directors’ Remuneration Committee.”

Resolution 2: That no increase of remuneration of Shareholders’ Councillors be approved

To consider the remuneration of Shareholders’ Councillors recommended by the Directors’ Remuneration Committee and, if thought fit, to resolve:

“That no increase of remuneration of Shareholders’ Councillors be approved, as recommended by the Directors’ Remuneration Committee.”

Resolution 3: That no increase of remuneration of Members of the Directors’ Remuneration Committee be approved

To consider the remuneration of Members of the Directors’ Remuneration Committee recommended by the Board and, if thought fit, to resolve:

“That no increase of remuneration of Members of the Directors’ Remuneration Committee be approved, as recommended by the Board.”

Appointment of Auditor

Resolution 4: Appointment of KPMG as auditor and authorisation of the Directors to fix the auditor’s remuneration

To consider the appointment of KPMG as auditor of the Company and authorisation of the Directors to fix the auditor’s remuneration and, if thought fit, to resolve:

“To appoint KPMG as auditor of the Company until the conclusion of the Company’s next Annual Meeting and authorise the Directors to fix the auditor’s remuneration.”

Ratification of Appointment of Directors

Resolution 5: Ratification of appointment of Ms Holly Kramer

To consider and, if thought fit, to resolve:

“To ratify the appointment by the Board of Ms Holly Kramer as a Director of the Company, under clause 12.4 of the Constitution.”

Resolution 6: Ratification of appointment of Mr Bruce Hassall

To consider and, if thought fit, to resolve:

“To ratify the appointment by the Board of Mr Bruce Hassall as a Director of the Company, under clause 12.4 of the Constitution.”

Approval of Amendments to the Constitution

Resolution 7: Approval of open entry related amendments to the Constitution

To consider and, if thought fit, to resolve as a special resolution:

“To approve the proposed amendments to the Constitution, as set out in the section headed ‘Resolution 7’ of Part Two of the Notice of Meeting.”

Shareholders' Council Report

Chairman's Review

Approval of Shareholders' Council Programme and Budget

Resolution 8: Approval of Shareholders' Council programme and budget

To receive and discuss the Shareholders' Council report (including the Milk Commissioner's report) for 2019/20 (contained in the Shareholders' Council's 2020 Annual Report to Shareholders) and the Shareholders' Council's programme and budget for 2020/21 and, if thought fit, to resolve:

"To approve the Shareholders' Council's programme and budget for the financial year ending 31 July 2021."

Shareholder Proposal

Resolutions 9, 10 and 11: Mr Paterson's Proposal

"To consider and support the following resolutions to restrict the Fonterra Shareholders' Council to performing only its Constitutional duties in the manner detailed below, and that funding for these limited activities be via a cents/per kgMS levy to be determined by a farmer vote every year.

Resolution 9: *That the Shareholders' Council must engage an external expert to produce reports that satisfy clause 16.1(e) and 16.1(g)(iii) of the Constitution:*

(e) *subject to any applicable legislative or regulatory requirement and to the Market Rules, receiving and commenting on reports from the Board on the Company's consolidated and key business unit operations at least four times each Season, such reports to include a commentary on actual achievements compared with the Board's statement of intentions for the performance and operations of the Company for that Season, and the Company's key performance indicators;*

(g) *preparing the Shareholders' Council's programme and budget for each Season and, at each annual meeting of the Company:*

(iii) *reporting on the view of the Shareholders' Council as to the Company's direction, performance and operations including a commentary on actual achievements compared with the Board's statement of intentions for the performance and operations of the Company for the most recently completed Season.*

Resolution 10: *That the Council's annual budget be reduced in-line with its constitutional purpose to a total of \$2,271,000 based on the following activities:*

	FY20 Budget	New Budget
Operating Costs (Communications, Councillor Honoraria, Council staff, meetings, Milk Commissioner, Milk Price Panel appointees, legal, insurance, I.T)	\$2,010,000	\$1,450,000 (achieved by reducing the number of committees, meetings and utilising technology to reduce travel expenses)
Connection (My Connect conference, UYCP, Purpose Review, Councillor development, Shareholder engagement).	\$590,000	\$0 (These programmes will now be fully-funded and run by Management using existing resources).
Governance Development Programme	\$146,000	\$146,000 (This is a 50% contribution to the cost of the programme which is shared with the Board. The programme is governed by the Governance Development Committee)
Guardianship (Elections - Returning Officer, ISP, candidate meetings)	\$475,000	\$475,000
Performance (External analyst and advice)	\$50,000	\$200,000 (This cost increase reflects the out-sourcing of quarterly performance updates and creation of any special reports)
Total	\$3,271,000	\$2,271,000

Resolution 11: *That the funding model for the Shareholders' Council to be in the form of a Milk Price levy, voted on by farmers every year and starting at 0.0015 cents per kgMS for the 2021 Financial Year."*

Explanatory Notes to Notice of Annual Meeting

Welcome

The Chairman will welcome Shareholders.

Annual Meeting Proceedings

Remuneration of Directors, Shareholders' Councillors and Directors' Remuneration Committee Members

Resolution 1: That no increase of remuneration of Directors be approved

In accordance with clause 34.1 of the Company's Constitution, the Directors' Remuneration Committee ("Committee") met in July 2020 to consider, and recommend to Shareholders, the form and amount of the Directors' remuneration. The Committee comprises six elected Shareholders and is chaired by Mr David Gasquoine.

Between 2014 and 2016 the Committee recommended that Directors' remuneration remain unchanged, which was appropriate given the very challenging economic conditions experienced by Shareholders.

In 2017 the Committee noted that market data showed that remuneration levels for Directors had increased significantly since the Fonterra Directors' remuneration was last increased in 2013. The Committee recommended increases to the remuneration level for Directors to ensure that Fonterra continued to attract and retain the very best Director candidates, one of the key objectives of the Governance and Representation Review recommendations.

The Committee also recommended that a discretionary pool of \$75,000 be available for remunerating Directors for additional workload, to be allocated at the discretion of the Appointments and Remuneration Committee and the Chairman of the Board.

In 2018 and 2019 the Committee considered workload expectations and market trends and recommended no change to Director remuneration. In 2019 the Committee noted that the discretionary pool of fees put in place in 2017 had been used for the first time to remunerate a Director \$25,000 for additional workload.

In 2020 the Committee reviewed remuneration practices in New Zealand and Australia. The Committee noted that Director remuneration had not been increased since 2017.

The Committee considered whether current remuneration levels were appropriate, given the substantial Director workload, to ensure highly skilled directors were attracted and retained on the Board.

The Committee discussed the impact of the COVID-19 pandemic on Fonterra and globally, and noted that while the general market trend was for a small annual increase in directors' remuneration, some companies had recently reduced remuneration levels due to the financial implications of the pandemic.

The Committee noted that the \$75,000 discretionary pool of fees had been utilised for the second time to remunerate a Director \$25,000 for additional workload. The Committee determined that the discretionary pool gave the Board a tool to adequately remunerate Directors for additional workload including multiple Committee memberships, and recommended removal of the limit of \$25,000 per Director.

The Committee noted that while small incremental increases in remuneration were preferable, there was significant economic uncertainty as a result of the COVID-19 pandemic. As such the Committee determined to recommend no change to Director remuneration in 2020, other than to remove the discretionary pool's \$25,000 limit per Director.

The Committee's recommendation to Shareholders in relation to the remuneration of Directors is:

That the remuneration for the Directors be approved at the following amounts from the date of this Annual Meeting:

- Chairman **\$430,000 p.a.** (no change)
- Director **\$175,000 p.a.** (no change)

In addition, at the discretion of the Board, the Chair of each permanent Board Committee may be paid an additional \$35,000 p.a., unless that person is the Chairman of the Board or already in receipt of a Committee Chair allowance (no change).

- Discretionary Pool

Up to **\$75,000** per annum (in aggregate), be provided for fees for Directors to be remunerated for additional duties, workload and responsibilities; such fees to be allocated at the discretion of the Appointments and Remuneration Committee of the Board and the Chairman of the Board and the tabling of details of such fee payments to the Directors' Remuneration Committee annually (removal of the \$25,000 limit per Director).

The Committee has also approved the expense reimbursement policy for both Directors and Shareholders' Councillors, whereby actual and reasonable expenses associated with their positions are reimbursed. It has also approved, and regularly monitors, the reimbursement of reasonable travel expenses for Directors' spouses/partners.

Resolution 2: That no increase of remuneration of Shareholders' Councillors be approved

In accordance with By-law 3.1 of the Shareholders' Council By-laws, the Directors' Remuneration Committee met in July 2020 to consider, and recommend to Shareholders, the form and amount of the remuneration to be paid to Shareholders' Councillors.

The Committee considers the Councillor's representative role to be an important one for the Co-operative, and that the level of the honoraria needs to be sufficient to attract and recognise Shareholders of a high calibre serving in that capacity. The Committee noted the review of the Shareholders' Council which was underway.

Between 2014 and 2016 the Committee recommended that Shareholders' Councillor honoraria remain unchanged, which was appropriate given the very challenging economic conditions experienced by Shareholders.

In 2017 the Committee recommended increases to the Shareholders' Councillor honoraria. The Committee noted that the number of Council wards had been reduced to 25 from the date of the 2017 Annual Meeting.

In 2018 and 2019 the Committee recommended that the Shareholders' Councillor honoraria remained unchanged. The Committee noted that the role of Deputy Chair had been disestablished in 2019.

The Committee discussed the significant economic uncertainty as a result of the COVID-19 pandemic. Given this and the present review of the Shareholders' Council, the Committee considers that the Shareholders' Council honoraria remains appropriate and determined to recommend no change to Shareholders' Councillor remuneration.

The Committee reviews with the Chair of the Shareholders' Council the allocations made from the discretionary pool in the prior year, and is comfortable that the pool was utilised in a reasonable manner consistent with the intent of the recommendation.

The Committee's recommendation to Shareholders in relation to the remuneration of Shareholders' Councillors is:

That the honoraria for the Shareholders' Councillors and the Chairman of the Council be approved at the following amounts from the date of this Annual Meeting:

- Chair **\$100,000 p.a.** (no change)
- Councillors **\$35,000 p.a.** (no change)
- Discretionary Pool

Up to **\$100,000** per annum (in aggregate), be provided for additional honoraria of Project Leaders and Subcommittee Chairpersons of the Shareholders' Council (in each case not to exceed \$17,500 per annum per person); and for ordinary Councillors representing the Council at its request on external Committees; such provisions to be allocated in whole or part at the discretion of the Chairman of the Shareholders' Council and the tabling of details of such honoraria payments to the Directors' Remuneration Committee annually (no change to the amount of the current pool arrangement).

Resolution 3: That no increase of remuneration of Members of the Directors' Remuneration Committee be approved

The Board met to consider, and recommend to Shareholders, the form and amount of the remuneration to be paid to Members of the Directors' Remuneration Committee. The Directors' Remuneration Committee comprises six elected Shareholders.

The Board noted that the Directors' Remuneration Committee members' honoraria had been increased in 2017 and were not changed in 2018 and 2019.

The Board recommends no change be made in 2020.

The Board's recommendation to Shareholders in relation to the remuneration of Members of the Directors' Remuneration Committee is that the remuneration be set at the following amounts from the date of this Annual Meeting:

- Chairman **\$2,000 p.a.** (no change)
- Member **\$1,000 p.a.** (no change)

Furthermore, Members of the Directors' Remuneration Committee are entitled to be paid for reasonable expenses incurred in connection with the business of the Committee, in line with the policy for remuneration of Directors and Shareholders' Councillors.

Appointment of Auditor

Resolution 4: Appointment of KPMG as auditor and authorisation of the Directors to fix the auditor's remuneration

The Companies Act 1993 requires the Company to appoint an auditor. Section 207S of the Companies Act 1993 provides that the fees and expenses of an auditor appointed at an Annual Meeting can be fixed in the manner determined at that meeting.

KPMG has audited the Company's financial statements for the year ended 31 July 2020.

The Directors recommend that KPMG be appointed as auditor for the coming year. The Directors recommend that Shareholders authorise the Board to fix the auditor's remuneration.

Ratification of Appointment of Directors

Resolution 5: Ratification of appointment of Ms Holly Kramer

The Company's Constitution requires that the Shareholders of the Company ratify the appointment of each Director appointed by the Board in accordance with clause 12.4 of the Constitution. This is to take place at the first Annual Meeting of the Company following that Director's appointment and, where the appointment is for a term exceeding three years, shall be ratified by Shareholders every three years.

Ms Holly Kramer was appointed by the Board in accordance with clause 12.4 of the Constitution and her appointment is required to be ratified by Shareholders at the 2020 Annual Meeting.

The Fonterra Board has determined that Ms Holly Kramer qualifies as an Independent Director.

Ms Kramer's remuneration and benefits, as with all of the Independent Directors, are determined by the Board in accordance with section 161 of the Companies Act and are not subject to Resolution 1. However, the Fonterra Board remunerates Independent Directors at the same level as Elected Directors.

Details of her qualifications and experience are set out below.

Holly Kramer

Holly Kramer was appointed to the Fonterra Co-operative Group Board in May 2020.

She has more than 25 years of extensive governance, management and product/marketing experience. Holly was Chief Executive Officer of major Australian retailer Best & Less. She has also held senior executive roles at Telstra Corporation, Ford Motor Company (in the US and Australia) and Pacific Brands.

Holly is currently a Director on the Boards of Woolworths, Abacus Property Group and the GO (Goodes-O'Loughlin) Foundation. She is Chair of the unlisted mortgage broking fintech, Lendi. She is also the Pro-Chancellor of Western Sydney University. Holly's previous governance roles include the Boards of Australia Post, Nine Entertainment Corporation, AMP Limited, and Telstra Clear (NZ).

Resolution 6: Ratification of appointment of Mr Bruce Hassall

The Company's Constitution requires that the Shareholders of the Company ratify the appointment of each Director appointed by the Board in accordance with clause 12.4 of the Constitution. This is to take place at the first Annual Meeting of the Company following that Director's appointment and, where the appointment is for a term exceeding three years, shall be ratified by Shareholders every three years.

Mr Bruce Hassall was appointed by the Board in accordance with clause 12.4 of the Constitution and his appointment is required to be ratified by Shareholders at the 2020 Annual Meeting.

The Fonterra Board has determined that Mr Bruce Hassall qualifies as an Independent Director.

Mr Hassall's remuneration and benefits, as with all of the Independent Directors, are determined by the Board in accordance with section 161 of the Companies Act and are not subject to Resolution 1. However, the Fonterra Board remunerates Independent Directors at the same level as Elected Directors.

Details of his qualifications and experience are set out below.

Bruce Hassall

Bruce Hassall was appointed to the Fonterra Co-operative Group Board in November 2017.

He is a Chartered Accountant and has had a 35-year career at PwC, including holding the position of Chief Executive Officer of the New Zealand practice from 2009 to 2016. Bruce is Chairman of The Farmers Trading Company Limited, Prolife Foods Limited and Fletcher Building Limited and serves as a director on the Board of Bank of New Zealand.

He was previously a member of the University of Auckland Business School Advisory Board and was a founding Board Member of the New Zealand China Council. Bruce has extensive experience in financial reporting, information system processes, risk management, business acquisitions, capital raising and IPOs across both listed and private companies.

Approval of Amendments to the Constitution

Resolution 7: Approval of open entry related amendments to the Constitution

Resolution 7 is a special resolution required by section 106(1)(a) of the Companies Act 1993.

In July 2020, the Company committed to farmers that once open entry is removed from the Dairy Industry Restructuring Act 2001 (“DIRA”), it will continue to accept applications to supply from all farms that are, at the time of the application, supplying the Company, until the remainder of the pro-competition provisions in the DIRA fall away. The Company also stated that it would propose that this commitment was included in the Company’s Constitution at the 2020 Annual Meeting and asked farmers to support its addition.

The Dairy Industry Restructuring Amendment Act 2020 amends DIRA, amongst other things, to remove the requirement on the Company to accept applications to become shareholding farmers made by a new entrant, effective from 1 June 2023.

The proposed amendment to clause 2.3 of the Constitution gives effect to the Company’s July 2020 commitment, and is set out below.

Consequential clause reference amendments will also be made to clauses 2.7, 8.2, 8.3 and 9.1(e), by replacing references to clause “2.3(b)” in those clauses with “2.3(a)(ii)”.

2.3 Board may accept application:

- (a) Subject to clause 2.3(b), the Board may in its absolute discretion decide:
- (ai) whether or not to accept an application by a person to become a Shareholder made in accordance with clause 2.2 or any application procedure which the Board may from time to time determine; and
 - (bii) whether or not to accept the supply of Milk from any person, on such terms and conditions as the Board thinks fit, without requiring that person to become a Shareholder in respect of that supply.
- (b) In respect of applications for the supply of Milk to the Company that are made on or after 1 June 2023, the Board will (subject to clause 2.4) accept an application by a person to supply Milk to the Company from any Farm from which, at the time of the application, Milk is supplied to the Company, provided that the Board is satisfied that the applicant and the relevant Farm comply with the Terms and Conditions. This clause 2.3(b) will cease to apply on the first date that subpart 5 of Part 2 of the Dairy Industry Restructuring Act 2001 is repealed or otherwise ceases to apply to the Company.

The proposed amendment differs from the July 2020 commitment by specifying that it ceases to apply when subpart 5 of Part 2 of DIRA is repealed or ceases to apply to the Company, rather than when the pro-competition provisions in DIRA fall away. Subpart 5 of Part 2 of the DIRA sets out the open entry/exit and associated “pro-competition” provisions. It is separate to subpart 5A, which sets out the milk price regime. This means that the proposed amendment will cease to apply if subpart 5 of DIRA is repealed, even if the milk price regime in subpart 5A continues in force.

This proposed amendment also clarifies that both the applicant and the farm need to comply with the Company’s standard terms and conditions of supply in order for the proposed amendment to apply.

As the amendments to the Constitution of the Company that are contemplated by Resolution 7 do not impose or remove a restriction on the activities of the Company, Shareholders will not have the benefit of the minority buy-out rights set out in section 110 of the Companies Act 1993.

A solicitor’s opinion regarding the Constitution of the Company, as required under rule 1.11.1 of the FSM Rules applicable to the Fonterra Shareholders’ Market, has been provided to NZX.

As the proposed amendments will alter Part A of Fonterra’s Constitution, the approval of a majority of 50 per cent or more of Shareholders’ Councillors is required under clause 18.1 of the Constitution. This approval was received on 18 September 2020.

If Resolution 7 is passed by the requisite majority of 75 per cent or more of votes cast by Shareholders entitled to vote and voting on the resolution, the Constitution will be amended as set out above.

If Resolution 7 is not passed then the recommended changes will not take effect. However, this will not otherwise impact the commitment the Company made in July 2020.

Approval of Shareholders' Council Programme and Budget

Resolution 8: Approval of Shareholders' Council programme and budget

Under this item of business the Chairman of the Shareholders' Council will, in accordance with the requirements of the Company's Constitution:

- report on Council's view of the Company's direction, performance and operations for the financial year ending 31 July 2020 (FY20);
- report on the activities undertaken by Council in FY20;
- present Council's programme and budget for the current financial year;
- present the Milk Commissioner's Report;
- comment on other Company and dairy industry matters.

Shareholders are then asked to approve the programme and budget of the Shareholders' Council for the current financial year, ending 31 July 2021 (FY21).

In preparing the below budget for FY21 Council has sought to take into account possible outcomes of the Review of Council, based on the Steering Group's Issues and Options discussion paper sent to farmers in late August 2020. The final report and recommendations of the Steering Group are expected to be received after this Notice of Meeting is sent to Shareholders.

	FY20 Budget	FY20 Actual	FY21 Budget
	\$000	\$000	\$000
Council operating costs:			
Communications – including Annual Report design and print	20	11	13
Councillor Honoraria (refer Resolution 2 for amounts), and Council staff salaries and associated costs	1,660	1,645	1,650
Council meetings – including accommodation and travel for Council meetings, Board/ Board Committee meetings, and meetings with external stakeholders, and Diligent meeting papers software costs	200	234	200
Councillor engagement with farmers in Wards – including travel, accommodation and catering	100	15	68

Councillor training and development – including course/facilitator and travel costs, and new Councillor introduction programme	30	10	70
Insurance and IT costs – including Councillor liability insurance and staff information technology costs	20	20	24
Review of Council – Steering Group costs including fees paid to independent Chair, Steering Group travel and meeting costs, Report design, and costs of farmer consultation meetings	0	54	75
External analyst support – including financial and survey design and analysis	50	53	100
Total Council operating costs	2,080	2,042	2,200
Other costs contributed to or met by Council:			
<i>Connection</i>			
Contribution to costs of MyConnect conference	210	50	160
Understanding Your Co-operative Programme	250	74	170
Governance Development Programme	146	22	100
<i>Guardianship</i>			
Fonterra Director Elections:			
• Returning Officer costs	235	204	170
• Director candidate meetings	55	38	45
• Independent Selection Panel and secretariat, independent agent and candidate interview expenses	185	152	185
Professional Services - Milk Commissioner costs, fees paid to Council's appointees to the Milk Price Panel, legal costs	110	112	125
Total other costs contributed to or met by Council	1,191	652	955
Combined Total	3,271	2,694	3,155

Budget

Council seeks Shareholder approval for a budget of \$2.2 million for Council operating costs for FY21 and \$955,000 for other costs contributed to or met by Council, giving a combined total of \$3.155 million, as summarised above.

In November 2019 Fonterra Shareholders approved a budget of \$3.271 million for FY20 of which \$2.694 million (82%) was utilised.

Material variations between FY20 budgeted and actual expenditure, and FY20 actual spend and FY21 budgeted spend are summarised as follows:

- **Council meetings:** Costs exceeded budget, even with one online meeting due to COVID-19 restrictions. During FY21 full Council will meet less frequently, however Committees will need to meet occasionally in person. These meetings will be scheduled as possible around Ward engagements to manage costs.
- **Councillor engagement with farmers in Wards:** As an extension to individual Councillor engagements in Wards and in response to farmer requests, Leadership Team meetings in Wards were planned for FY20 but were impacted by COVID-19 restrictions. Recognising farmer feedback during the Review of Council, more regional and Ward engagements are planned for FY21.
- **Councillor training and development:** Councillor training and development is imperative to Council effectively fulfilling its functions. In FY19 and FY20 Council did not allocate budget to training given the Fonterra wide focus on reducing expenditure. The FY21 budget will enable all 25 Councillors to undertake targeted relevant training and development, and reflects spend prior to FY19.
- **Review of Council:** The FY20 Budget did not include costs for the Review as the Steering Group had not been formed and would determine the Review process. Costs were managed through the Terms of Reference which required prior approval.
- **External analyst support:** Recognising farmer feedback during the Review of Council, allowance has been made for additional support including for financial analysis and surveys.
- **MyConnect conference:** The 2020 conference was cancelled due to COVID-19 restrictions. FY20 actual costs are Council's share of non-refundable deposits, which can be credited to 2021 event costs. Allowance has been made for the same contribution to the 2021 conference as in recent years (\$210,000), less the deposits already paid.
- **Understanding Your Co-operative Programme:** One Programme was held in December 2019. The other planned FY20 event and a series of shorter regional Know Your Co-op programmes were cancelled due to COVID-19 restrictions. Two UYCP events are planned for FY21.

- **Governance Development Programme:** COVID-19 restrictions required the second workshop to be deferred to October. As a result, a significant proportion of the 2020 intake's Programme costs will fall into FY21. After finalising the FY20 budget the Governance Development Committee decided to increase participant contributions which resulted in a lower cost to the Co-op. This Programme is a joint Council and Board initiative, with costs shared equally between Council and the Board.
- **Director election:** The budgeted FY21 reduction in Returning Officer costs reflects the costs that relate to Councillor and Directors' Remuneration Committee elections (and the Fonterra Farmer Custodian Trust election in 2019), which are met by Fonterra head office which manages those elections.

Work Programme

Council's work programme for FY21 includes the following key workstreams:

Connection

- Foster members' engagement with their Co-op through Ward and regional meetings
- Understand members' interests, needs and perspectives through survey and meetings
- Represent members' interests, needs and perspectives to the Board
- Provide regular feedback on how members' interests, needs and perspectives have been represented
- Report on how members' interests, needs and perspectives align with Board strategy and Co-op performance
- Provide Councillors with relevant learning and development programmes
- Foster Councillor succession
- Deliver the Understanding Your Co-operative Programme

Guardianship

- Progress any changes (including Constitutional, Council By-laws, Board-Council-Management Working Interface document (as applicable)) arising from the Review of Council
- Review and refresh (as necessary) the Co-operative philosophy and principles, and promote greater member understanding
- Manage the Director election in consultation with the Board, and appoint the Returning Officer and Council's independent appointee to the Independent Selection Panel
- Represent members' interests in relation to changes to the terms and conditions of supply and the operation of the Fonterra Shareholders' Fund and the Fonterra Shareholders Market

- Jointly with the Board, formally review the 2016 Governance and Representation Review changes

Accountability

- Meet with the Board each quarter to understand performance, strategy and future prospects and how well members' interests, needs and perspectives are being met
- Represent members' interests in relation to Milk Price Manual changes and governance

Council will report to members at least quarterly, including through its Annual Report and at the 2021 Annual Meeting.

Shareholder Proposal

Under clause 15.1 of the Constitution, a Shareholder may give written notice to the Board of a matter which the Shareholder proposes to raise for discussion or resolution at the next meeting of Shareholders at which the Shareholder is entitled to vote. Under the provisions of section 9 of the first schedule to the Companies Act, the Shareholder may include a statement of not more than 1000 words in support of the proposal, together with the name and address of the proposing shareholder.

Resolutions 9, 10 and 11: Mr Paterson's Proposal

The Company has received the following proposal from Mr Tony Paterson for shareholder consideration and resolution at the Annual Meeting.

"To consider and support the following resolutions to restrict the Fonterra Shareholders' Council to performing only its Constitutional duties in the manner detailed below, and that funding for these limited activities be via a cents/per kgMS levy to be determined by a farmer vote every year.

Resolution 9: *That the Shareholders' Council must engage an external expert to produce reports that satisfy clause 16.1(e) and 16.1(g)(iii) of the Constitution:*

(e) subject to any applicable legislative or regulatory requirement and to the Market Rules, receiving and commenting on reports from the Board on the Company's consolidated and key business unit operations at least four times each Season, such reports to include a commentary on actual achievements compared with the Board's statement of intentions for the performance and operations of the Company for that Season, and the Company's key performance indicators;

(g) preparing the Shareholders' Council's programme and budget for each Season and, at each annual meeting of the Company:

(iii) reporting on the view of the Shareholders' Council as to the Company's direction, performance and operations including a commentary on actual achievements compared with the Board's statement of intentions for the performance and operations of the Company for the most recently completed Season.

Resolution 10: *That the Council's annual budget be reduced in-line with its constitutional purpose to a total of \$2,271,000 based on the following activities:*

	FY20 Budget	New Budget
Operating Costs <i>(Communications, Councillor Honoraria, Council staff, meetings, Milk Commissioner, Milk Price Panel appointees, legal, insurance, I.T)</i>	\$2,010,000	\$1,450,000 <i>(achieved by reducing the number of committees, meetings and utilising technology to reduce travel expenses)</i>
Connection <i>(My Connect conference, UYCP, Purpose Review, Councillor development, Shareholder engagement).</i>	\$590,000	\$0 <i>(These programmes will now be fully-funded and run by Management using existing resources)</i>
Governance Development Programme	\$146,000	\$146,000 <i>(This is a 50% contribution to the cost of the programme which is shared with the Board. The programme is governed by the Governance Development Committee)</i>
Guardianship <i>(Elections - Returning Officer, ISP, candidate meetings)</i>	\$475,000	\$475,000
Performance <i>(External analyst and advice)</i>	\$50,000	\$200,000 <i>(This cost increase reflects the out-sourcing of quarterly performance updates and creation of any special reports)</i>
Total	\$3,271,000	\$2,271,000

Resolution 11: *That the funding model for the Shareholders' Council to be in the form of a Milk Price levy, voted on by farmers every year and starting at 0.0015 cents per kgMS for the 2021 Financial Year."*

The Board believes that Mr Paterson's proposal raises matters which are best considered by Shareholders. For this reason, the Board will not be making a recommendation to Shareholders regarding the resolutions contained within Mr Paterson's proposal.

The Shareholders' Council has advised it does not support the proposal.

This Shareholder proposal is three ordinary resolutions requiring the support of a simple majority of the votes of those Shareholders entitled to vote and voting on the resolutions.

Under Fonterra's Constitution, the resolutions will not be binding on the Board or Shareholders' Council.

The proposing Shareholder, Mr Tony Paterson, was entitled to provide a statement in support of the proposal. The following was supplied:

Outcome:

For the Fonterra Shareholders' Council to be restricted to performing its Constitutional duties only, and that its funding be provided by way of a cents per kgMS levy to be determined by a farmer vote every three years.

Sponsors:

Tony Paterson

Background:

We are incredibly disappointed with the outcome of the Shareholders' Council Review. It is a lost opportunity to return our representative body to the effective, respected organisation it has been in the past.

Overwhelmingly, farmer feedback is that the Shareholders' Council has not performed. It is ludicrous that the review Steer-Co's response to this is to suggest giving the Council even greater responsibility.

Ultimately, everything we need from our Shareholders' Council is already possible within Clause 16.1 of the Constitution today. In short, our proposal is that the Shareholders' Council stick to its Constitutional functions, provide farmers with independent and expert financial analysis, and look for significant cost-savings by transferring some activity to the management team.

There has been a lot of noise about the Shareholders' Council being a 'cornerstone shareholder' and 'holding the board to account'. None of that is included within our Constitution. Over time, Council has anointed itself with those titles and expanded its scope - to the detriment of its overall performance.

A review or self-assessment of the skills and attributes of our Councillors was critically left out of the scope of this latest review.

Our Shareholders' Councillors are good people. They are committed, passionate members of our ownership base who are well placed to represent farmer interests to the Board and communicate their independent view of the Co-op's direction farmer-to-farmer.

Councillors are also well-placed to advocate on behalf of their fellow farmers when it comes to national or Co-operative issues that impact their on-farm practices, such as freshwater policy, DIRA, or the emissions trading scheme.

Aside from the skills and experience gained through their farming businesses, Councillors may also be highly skilled in other areas as a result of tertiary education or professional careers in other sectors.

However, unlike our Directors, Councillors are not assessed or elected against any set criteria of skills and attributes. Therefore, it cannot guarantee that within its membership, Council will have the ability to critically assess the performance of the Board or Management team when it comes to complex issues such as investment/divestment strategy or overall financial performance.

Council is setting itself up for failure by anointing itself the 'cornerstone shareholders' and charging itself to 'hold the board to account' - roles that it is neither empowered nor qualified to undertake.

In developing the following proposal, we have looked at the overlap between Council's Constitutional function, the capabilities of Councillors, and what farmers want from their Council.

This leaves you with narrow list of jobs for the Shareholders' Council that is more cost effective for farmers, and ultimately can be delivered by the calibre of people filling Council positions.

The Refreshed Fonterra Shareholders' Council

Role definition:

To share the collective view of Fonterra's farmer-owners with the Board and ensure the Co-operative acts in accordance with our Co-operative Principles and its Constitutional purpose.

Scope:

- a) Represent farmers' collective interests to the Fonterra Board and ensure the Co-operative acts in accordance with our Co-operative Principles and its Constitutional purpose.
- b) Manage the Director election process in consultation with the Board.
- c) Oversee the creation of an independent quarterly review of the Co-operative's performance against the Board's statement of intentions, and report that back to farmers.
- d) As required, commission a special report (whether internal or independent) on specific projects or activities of the Co-operative and report that back to farmers.
- e) Call a special meeting of Shareholders, if the Shareholders' Council has serious concerns about any Co-operative issue.
- f) Consult with the Board in relation to the operation of the Fonterra Shareholders Market and any Authorised Fund.

- g) Consult with the Board in relation to any changes to the Milk Price Manual and the Milk Price Principles.
- h) Appoint any Valuer and procuring that any such Valuer acts in accordance with the provisions of this Constitution.
- i) Appoint and coordinate with the Milk Commissioner.
- j) Publicly advocate on behalf of Fonterra farmers on matters that impact their on-farm practices or the future of the dairy industry.

Shareholder's Council Budget:

	FY20 Budget	New Budget
Operating Costs (Communications, Councillor Honoraria, Council staff, meetings, Milk Commissioner, Milk Price Panel appointees, legal, insurance, I.T)	\$2,010,000	\$1,450,000 (achieved by reducing the number of committees, meetings and utilising technology to reduce travel expenses)
Connection (My Connect conference, UYCP, Purpose Review, Councillor development, Shareholder engagement.	\$590,000	\$0 (These programmes will now be run by Management using existing resources)
Governance Development Programme	\$146,000	\$146,000 (This is a 50% contribution to the cost of the programme which is shared with the Board. The programme is governed by the Governance Development Committee)
Guardianship (Elections - Returning Officer, ISP, candidate meetings)	\$475,000	\$475,000
Performance (External analyst and advice)	\$50,000	\$200,000 (This cost increase reflects the outsourcing of quarterly performance updates and creation of any special reports)
Total	\$3,271,000	\$2,271,000

Funding:

Shareholders' Council funding be provided by way of a cents/ per kgMS levy to be determined by a farmer vote every year.

For the 2021 Financial Year, based on the budget above, the levy would be set at 0.0015 cents per kgMS.

Farmer support:

We seek your support for this proposal to simplify and improve the representative function of our Co-operative. We appreciate the need for consultation with shareholders, but believe this has been achieved through the official Steer-Co and other recent Governance and Representation reviews in 2016 and 2019.

For our resolution to be successful, we require 50% support of farmer votes cast and ask that you support all three of our resolutions that will bring about this change.

If however you do not support one or more of the resolutions we have put forward, we ask that you support those that you do agree with as each resolution has merit in its own right.

Phone or email:

Any farmer who wished to discuss this proposal is welcome to contact Tony Paterson by phone or email on the details below

Ph 0275948341 email tp.lisa@xtra.co.nz

The Board comments on Mr Paterson's Proposal as follows:

The Board respects the rights of Shareholders to propose resolutions for consideration by all Shareholders. The Board believes that Mr Paterson's proposal raises matters which are best considered by Shareholders. For this reason, the Board will not be making a recommendation to Shareholders regarding the resolutions contained within Mr Paterson's proposal.

The Shareholders' Council has reviewed Mr Paterson's Proposal.

Council respects the right of Shareholders to propose matters for discussion or resolution at meetings of Shareholders. Council has considered Mr Paterson's proposal and the statement provided in support of the proposal. Council does not support the proposal for the reasons set out below.

1. The proposal pre-empts the outcomes of a review of Council which has been conducted this year by a Steering Group having a majority of members independent of the Council and the Board. The Steering Group signalled possible changes to Council's role and functions in its Issues and Options Discussion Paper sent to Fonterra farmers in late August, which preceded a nation-wide series of consultation meetings to discuss those issues and options. The Steering Group's final report and recommendations are expected to be released soon (before the 2020 Annual Meeting). It is premature for farmers to give a view on the outcomes of the review before they are finalised and communicated to farmers, or the recommendations have been acted on and implemented.

2. The proposal is not fully consistent with the views that have been expressed by Fonterra farmers. Feedback and submissions during the review clearly evidence that the vast majority place a high value on all of Council's representation, monitoring, connection and guardianship functions. This includes farmers wanting Council to help them feel connected to their Co-op and also wanting greater visibility of Councillors in their Wards to hear their views.
3. Council has seen the Steering Group's draft final report. Councillors are confident that changes can be implemented and that these changes will address the issues identified by Fonterra farmers during the review.
4. The Steering Group's review has followed a thorough and considered process, and has drawn on feedback and submissions from Fonterra farmers, discussions with independent experts of co-operatives (in New Zealand and internationally), academic literature, discussions with Council and the Board, and the Steering Group's own analysis. Council is confident that the Steering Group's recommendations are very well informed, have a sound basis and will result in a Council that better meets expectations and gives the Co-op's members more effective representation.
5. It is not accurate to assert that the Steering Group is suggesting that the Council is given greater responsibility. As noted in its Issues and Options Discussion Paper the Steering Group's proposed changes are 'all aimed at sharpening the Council's focus and increasing its value for members'.
6. The proposal does not recognise that:
 - Council has for many years engaged external expertise to assist with its analysis of Board reports on the Company's performance and operations. Council currently reports quarterly. However quarterly reporting against the Board's Statement of Intentions (SOI's) has been prevented as the SOIs are not published until after the end of the financial year. From FY21 Council will be able to report against the SOIs on a quarterly basis during the financial year and Council will engage external analyst support to do this. Council's budget set out in this Notice of Meeting reflects this.
 - In order to effectively represent Fonterra farmers' collective interests to the Board, Councillors must be enabled to connect and engage with the farmers they represent, however no budget has been allocated to do that.
 - Councillors are elected against a 'key qualities and capabilities list' which is included in the Candidate Handbook when nominations are sought and in the Candidate Profile booklets sent with voting papers.
 - Bodies that operate effectively under a levy based funding model must manage funding volatility arising from production variations by holding adequate reserves to cover poor seasons. Council has no ability or desire to retain farmers' funds in this manner. Council's budget for the year ahead already requires Shareholder approval at each Annual Meeting. That budget must be adequate for it to perform all the functions it is tasked with under the Constitution. For these reasons Council believes the current funding model and process for approval by Shareholders is appropriate.



If undelivered please return to:

The Returning Officer
Fonterra Elections 2020
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Free phone 0800 666 034