

# Governance and ethical business – Sustainability Report 2020

## Introduction

This document is a supplement to the Fonterra Sustainability Report 2020 published to provide additional disclosure on our approach to governance and ethical business as required by the GRI Standards.

## Assurance

Independent assurance of our Sustainability Report including this appendix has been completed by Bureau Veritas. Please refer to the assurance statement in the main report.

## Scope and Methodology

The report covers the activities of Fonterra Co-operative Group Limited and joint ventures under Fonterra's management control.

## Reporting Period

The reporting period is for the 2020 Financial Year (FY20), 1 August 2019 – 31 July 2020.

## Governance

The Board, Shareholders' Council and Management of Fonterra consider that strong governance plays a critical role in the success of our Co-operative and are committed to achieving the highest standard of corporate governance, representation and leadership. Details of our principles and approach are included in our Annual Report 2020, starting at page 164.

## Accountability for sustainability

Accountability for sustainability rests with the Fonterra Board, our CEO, our COO and the Fonterra Management Team (FMT).i. Regular performance updates are provided at this governance level.ii. Accountability for individual elements of sustainability performance cascades through the organisation and from FY20 has been integrated into our Group Short-Term Incentive scheme for permanent employees. The related Key Performance Indicators cover our environmental, economic and social performance.iii

Our Board of Directors has 11 members - seven elected from our Shareholder base and four appointed by the Board. The Board Charter is available at [www.fonterra.com](http://www.fonterra.com). Its responsibilities include: Overseeing Fonterra's accountability, decision-making and compliance procedures, ensuring that Fonterra's goals are clearly established and that strategies are in place for achieving them, overseeing progress towards objectives including engagement with those managers responsible for championing imperatives around social and environmental sustainability, establishing Fonterra's risk profile and ensuring that Fonterra has appropriate risk management and regulatory compliance policies in place and that they are monitored on a regular basis.

The Board has formed a Sustainability Advisory Panel, made up of six external experts who provide independent guidance on the Co-operative's strategy from a sustainability perspective.

Sustainability requirements are integrated into Fonterra's set of group policies, guided by best practice such as ISO26000, the international standard for organisational social responsibility<sup>iv</sup>. All group policies are subject to regular review and each policy is owned by an individual member of the FMT.

The Chief Operating Officer reports directly to the Chief Executive Officer and sits on Fonterra's Management Team. Reporting to the COO is the Director of Sustainability, who manages the centralised Global Sustainability team that is accountable for embedding sustainability. The Global Sustainability team is responsible for helping the business integrate sustainability into strategic planning, business planning and reporting, with progress, monitored and reported to the Fonterra Management Team through the Chief Operating Officer.

Operational delivery of strategy, and accountability for performance against targets, is integrated into the organisation, with geographical business units responsible for performance in-country, and Group teams responsible for progressing performance on specific topics at the global level. For example, the Farm Source - Sustainable Dairying teams in New Zealand and Australia support our farmers to make improvements across a wide range of topics, and the Global Quality and Safety team support global improvements on both Food Safety and Quality and Health, Safety and Wellbeing.

## Awareness and training

Fonterra has an Ethics Portal that is available for all staff to support awareness and understanding of ethical business topics. This includes the definitions, expectations and processes for declaring a potential conflict of interest and, if a potential conflict exists, to put in place steps to manage conflicts appropriately.

Annually, all people leaders and management staff are required to refresh their knowledge of our policy commitments and expectations, including "The Way We Work" – our code of business conduct, ethical behaviour and avoidance of disreputable activities such as bribery and corruption<sup>v</sup>. The process includes completion of online learning, an evaluation, and a declaration of understanding and compliance. This year almost 3,400 Fonterra staff have successfully completed this online training<sup>vi</sup>.

## The way we work hotline<sup>vii</sup>

Our Code of Business Conduct and global policies set clear expectations for how our people need to act and behave. We expect a high degree of professionalism from our employees, farmer shareholders, stakeholders, suppliers and customers.

We fund an independently administered whistle-blowing hotline (The Way We Work Hotline), facilitated by Deloitte, available to all employees globally to raise concerns related to serious wrongdoing or other behaviour they wish to report. We also provide an Employee Support Programme (EAP) where employees can seek advice and counselling (see next section).

This year, 29 disclosures were made to The Way We Work Hotline: 25 disclosures were made by New Zealand-based employees and 4 were made by employees based in other countries. Nearly all the disclosures were made on an anonymous basis, or with restrictions put on the people with whom the disclosure could be discussed.

At the end of the year, 7 cases remained open and 22 cases had been closed. Of the closed cases, 20 were unsubstantiated and 2 were substantiated. The breakdown of disclosures is as follows:

- **Bullying/Harassment:** 11 disclosures were made. Of those, at the end of the reporting period, five were unsubstantiated, four inter-related disclosures had a completed investigation (but the findings had not been communicated), and two were the subject of an ongoing investigation. Where disclosures are substantiated or partially substantiated, the matter is addressed directly with the relevant employee. In addition, a small number of bullying and harassment issues are raised with local human resource teams. These are investigated and reviewed in a similar manner.
- **Corruption/fraud:** Five disclosures were made (one relating to fraud, three to a conflict of interest and one to an abuse of influence). Of those, one conflict of interest disclosure was substantiated. The other cases were unsubstantiated. In the substantiated case (involving declaration of a personal relationship), the issue was addressed with the relevant employee and their manager.
- **Discrimination:** One disclosure was made, which was unsubstantiated. In addition, a small number of discrimination issues are raised with local human resource teams. These are investigated and reviewed in a similar manner.

- **Health, Safety and Environment:** Seven disclosures made. One was substantiated. This related to non-work related COVID protocols and was addressed directly with the relevant employee. Five were unsubstantiated and one investigation remained open at the end of the reporting period. In relation to one unsubstantiated disclosure the employee was invited to contribute to a post-incident debrief. In relation to another unsubstantiated disclosure, the employee agreed to having the issues managed as part of the health and safety investigation into the incident.
- **Policy/Procedure:** Two disclosures were made. They were not substantiated. In relation to one of the disclosures (regarding an allegedly inappropriate disclosure of personal information), actions were taken to ensure that managers were aware of the relevant processes and the persons to whom information should be disclosed. In relation to the other, further information was provided regarding our COVID-19 safety processes.
- **Other:** There were three other disclosures made that did not fit into the above categories. They related to matters such as use of corporate travel and the workplace environment, and were not substantiated.<sup>viii</sup>

## Employee Assistance Programme

Our Employee Assistance Programme is a free and confidential service provided to employees experiencing personal or work-related difficulties. It provides independent, professional support to address issues such as anxiety, grief and work-related stress. Targeted support is also available to assist employees dealing with workplace change and restructuring<sup>ix</sup>.

## Responsible political behaviour

Fonterra does not allow corporate contributions of any kind to a candidate or political party in connection with political elections<sup>x</sup>. No political contributions were made in the past year<sup>xixixiii</sup>. We do not offer money or anything of material value to government officials, parties or candidates for the purposes of influencing the acts or decisions of officials.

## Our approach to tax

Fonterra has a clear set of [principles](#) which guide how we manage our tax obligations in New Zealand and around the world. We pay our fair share of tax in all jurisdictions, and do not use tax havens to avoid our tax responsibilities. We are transparent and work with tax authorities to ensure we continue to act responsibly<sup>xiv</sup>.

In New Zealand cooperatives and corporates are treated differently in tax law. Rather than being taxed directly, Fonterra passes our income on to our farmer shareholders, who pay the tax at their level.<sup>xv</sup>

## Anti-corruption

Each year our Internal Audit team assess all Fonterra businesses for the risk of potential fraud. This risk assessment helps determine the priorities for audits across our global business. During FY20, over 75%<sup>xvi</sup> of the internal audits completed across our global business included an assessment of the risks related to corruption. Particular areas of focus include segregation of duties, delegated authorities and sensitive inventory management. Within the coverage of these audits, seven<sup>xvii</sup> manufacturing sites where we have management control were subject to an anti-corruption check.

In addition to the potential corruption/fraud cases identified through our whistle-blowing hotline (see above), three further cases were identified during FY20.

- In New Zealand, an individual abused their position to sell product to a colluding customer with unauthorized discount. The employee resigned before we could complete the investigation, but we are pursuing damages through the justice system.
- An executive in one of our entities in Latin America was terminated after a kick-back scheme was discovered. The case is in court and we have terminated our relationship with the vendor involved.
- An executive in one of our entities in China was accused of unethical behaviour and a conflict of interest with respect to some of our vendors. While the investigation did not fully substantiate the claims, the individual has subsequently left the company.<sup>xviii</sup>

## Legal Compliance

Our Group Legal and Compliance Policy requires all Fonterra's business units to clearly assign roles and responsibilities for compliance with all applicable laws and regulations applying to our operations. We are committed to embedding compliance with all applicable laws, regulations and Fonterra Group Policies into our operations and creating a culture of compliance, including appropriate monitoring, assurance, reporting and continuous improvement<sup>xix</sup>.

We have not identified any incidents of non-compliance with laws and regulations in the social and economic area in the past year. There were also no fines or non-financial sanctions related to anti-competitive behaviour, anti-trust, and monopoly practices over this period.

For our operating sites, environmental compliance is reported in our Sustainability Report on page 54 and health and safety compliance is reported on page 25.

Compliance related to our products and nutrition is reported in our Sustainability Report on page 20.

Fonterra is currently a defendant in climate change litigation commenced by Mr Mike Smith, a Māori climate change representative, in the Auckland High Court. Fonterra is a co-defendant along with 6 other major New Zealand corporates. The claims in the proceedings are that the defendants undertake or enable emitting activities that release greenhouse gases into the atmosphere – the consequences of which will result in global warming. Fonterra and the other defendants are vigorously defending these proceedings and have already successfully struck out 2 of the plaintiff's 3 claims made.<sup>xx</sup>

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- <sup>i</sup> [Fonterra Social Responsibility Policy 4.0, 7.0](#)
  - <sup>ii</sup> [Eg\\_FMT Sustainability Report Aug 2019 V1\\_5](#)
  - <sup>iii</sup> [Fonterra Annual Report 2019](#) – pg70-71
  - <sup>iv</sup> [Fonterra Social Responsibility Policy 3.7](#)
  - <sup>v</sup> [Group Policy E-learning Storyboard](#)
  - <sup>vi</sup> APC Completion Stats – Louise Dampney
  - <sup>vii</sup> TWWW – Christie Hall
  - <sup>viii</sup> TWWW FY20 Q4 and Full Year Report
  - <sup>ix</sup> [Global Employee Assistance Programme](#)
  - <sup>x</sup> [The Way We Work \(Code of Business Conduct\)](#) – p22
  - <sup>xi</sup> Responsible political behaviour – Andrew Cordner
  - <sup>xii</sup> Responsible political behaviour – Bridget Service
  - <sup>xiii</sup> Responsible political behaviour – Simon Tucker
  - <sup>xiv</sup> <link to version on Fonterra.com> Tax\_Principles.pdf
  - <sup>xv</sup> Approval – Approach to tax – Grant Duncan
  - <sup>xvi</sup> FY20 Audits – Corruption Stats.xlsx J36
  - <sup>xvii</sup> <probably FY20 Audits – Corruption Stats.xlsx but there yet>
  - <sup>xviii</sup> Approval\_Anti-corruption - Michele Corso
  - <sup>xix</sup> [Group Legal Policy](#)
  - <sup>xx</sup> Email from Andrew Cordner for Abbot Questionnaire (Gary got)