



Updated September 2016

Introduction

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

Purpose

The purpose of the Committee is as follows:

- To assess, for determination or recommendation to the Board, matters relating to New Zealand milk supply terms and aspects of milk pricing.
- To assess, for determination or recommendation to the Board, matters relating to non-New Zealand milk supply when requested by the Board.
- To support strong and effective engagement between the Co-operative and its farmer shareholders.
- To assist the Board in the management of Fonterra's relationships with key external stakeholders and Fonterra's community initiatives.
- To review Fonterra's co-operative principles periodically in conjunction with the Shareholders' Council.
- To consider Shareholder complaints before they can be referred to the Milk Commissioner.
- To appoint the Returning Officer, and approve the rules, for the annual Shareholders' Council elections.

Responsibilities

The following are the functions of the Committee:

- Assist the Board in governance responsibilities relating to the New Zealand milk supply:
 - Review and approve standard terms and conditions for the supply of milk by supplying shareholders and non-shareholder suppliers;
 - Review and approve standard terms and conditions for the supply of specialty milks and milk components;
 - Review and approve parameters for the variation by management of standard terms and conditions for the supply of milk.
- Assist the Board in governance responsibilities relating to milk payments and pricing signals for New Zealand milk supply:
 - Review and approve milk component pricing (including volume charges and fat-protein ratios);
 - Develop recommendations for submission to the Board in relation to:
 - Pricing signals for the payment of milk to shareholders with particular emphasis on retaining and maximising the comparative advantage of New Zealand's farming systems;

- Strategic plans for, and the approach for pricing, specialty and winter milk and when requested by the Board approve the pricing of specialty and winter milk;
 - Pricing of unshared milk supply;
 - Seasonal and competitive milk pricing.
- Assist the Board and management in developing and building relationships with key external stakeholders regionally, nationally and globally (for example, government, industry and community relationships) including:
 - Recommend appropriate actions to the Board or management as appropriate, including policy positions;
 - Develop and execute strategic stakeholder engagement plans (including local advisory boards (where appropriate)).
 - Assist the Board by reviewing Fonterra's co-operative principles from time to time in conjunction with the Shareholders' Council and provide advice to the Board in relation to any changes.
 - Act as the final arbiter for Fonterra in respect of complaints lodged by shareholders that Fonterra management is not able to resolve, prior to complainants referring such complaints to the Milk Commissioner. The Committee may approve settlements outside management's delegated authority.
 - Appoint the Returning Officer for the annual Shareholders' Council elections and approve the rules for the election of Shareholder Councillors.
 - To address any other matters that the Board asks the Committee to consider from time to time.

Variations to the Standard Terms of Reference

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

Membership

The Fonterra Board shall appoint at least four (4) Directors to the Committee.

The Fonterra Board shall ask Shareholders' Council to nominate up to four (4) of its members to attend Committee meetings as non-voting attendees.

The Committee may co-opt up to two independent advisors in relation to its consideration of matters relating to milk payments and pricing signals. The Committee may approve the payment of remuneration and expenses of the independent advisors. Co-option shall be approved by the Directors appointed to the Committee, in their sole discretion and on such terms as they deem fit.

Meeting Procedure & Protocols

Management attendance

The Chief Operating Officer Farm Source and Director Farmer Services (or successor equivalent) shall be expected to attend all meetings.

Quorum

A quorum for a meeting of the Committee is three (3) directors.

Protocols

The Chairman shall be responsible for ensuring the Committee meetings allow for robust and constructive conversations with all decisions and/or recommendations being ratified and supported by members once made.

The Committee shall provide guidance to management in areas requiring the Committee's focus. To do so, the Committee may form non-decision making focus groups (which include one or more Committee Directors) to provide support and feedback to management in specific areas which require a level of engagement not

practicable during the Committee's normal meetings. Shareholders' Council can identify such issues direct with the Chairman as required.