



Updated October 2016

Introduction

The Board endorses the following objectives as being essential for the future of Fonterra, and consistent with Fonterra's co-operative ethos:

- (a) *A "One Fonterra" approach across Fonterra (with appropriate incentives, governance and management processes) to ensure that Fonterra as a whole performs consistently in the manner expected of a leading global food products organisation; and*
- (b) *Recognition of the paramount importance of Fonterra's reputation, and the need to achieve and sustain a reputation second to none for the quality and safety of its food ingredients and products.*

This Charter sets out the governance requirements for the Fonterra Board.

1. Role, Responsibilities and Obligations

- 1.1 The role of the Fonterra Board is to govern Fonterra on behalf of its farmer shareholders and to promote and protect the interests of Fonterra. In doing so, the Board has regard to the interests of its farmer shareholders and other relevant stakeholders.
- 1.2 The Board's roles and responsibilities include the following:
 - (a) Overseeing Fonterra, including its control, accountability, decision-making and compliance procedures.
 - (b) Ensuring that Fonterra's goals are clearly established, and that strategies are in place for achieving them (such strategies being expected to originate from management).
 - (c) Establishing policies for strengthening the performance of Fonterra, including by ensuring that management is proactively seeking to build the businesses of Fonterra through innovation, initiative, technology, new product development, and the development of Fonterra's business capital.
 - (d) Establishing performance criteria for Fonterra and monitoring the performance of the Chief Executive Officer and management against these.
 - (e) Appointing the CEO, setting the terms of the CEO's employment arrangements and, where necessary, terminating the CEO's appointment.
 - (f) Adopting appropriate procedures to oversee compliance with all applicable laws, regulations, codes and accounting standards.
 - (g) Establishing Fonterra's risk profile and ensuring that Fonterra has appropriate risk management and regulatory compliance policies in place and that these are monitored on a regular basis, including in relation to health and safety obligations and food safety and quality obligations and objectives.
 - (h) Safeguarding the reputation of Fonterra and the Fonterra brand.
 - (i) Approving Fonterra's strategy, business plans and policies.

- (j) Approving and monitoring the progress of major capital expenditure, capital management, and major acquisitions and divestments.
- (k) Determining the payment to be made for milk supplied by farmer shareholders.
- (l) Ensuring that adequate plans and procedures are in place for succession planning in relation to the Board and the CEO.
- (m) Overseeing progress towards meeting the objectives described in the introduction, including through appropriate engagement with senior managers across Fonterra, and in particular with those managers responsible for championing imperatives around food safety and quality.

1.3 Each Director will conduct himself or herself in accordance with his or her legal duties and other obligations, which include the following:

- (a) Directors must act honestly and in good faith in what the Director believes to be the best interests of Fonterra.
- (b) Directors must carry out their duties in a lawful manner and use reasonable endeavours to ensure that Fonterra carries out its business in accordance with applicable laws and with a high standard of commercial integrity.
- (c) Directors must act in accordance with their fiduciary duties and exercise any powers for proper purposes. They should comply with the spirit as well as the letter of the law, mindful that in addition to purely legal requirements the proper discharge of their duties as directors requires high ethical and moral standards of behaviour.
- (d) Directors must avoid conflicts of interest, and where these do arise, declare and manage them in accordance with legal requirements and the intent and content of this Charter. If a known conflict exists, the Chairman will take all reasonable steps to avoid any relevant papers being circulated to the affected Director prior to any Board discussion taking place. The affected Director should excuse themselves from discussion and should not vote on matters in which they have an interest.
- (e) Directors will not take for themselves any opportunity discovered through the use of Fonterra property, information or position, or use Fonterra property, information or position for personal gain.
- (f) Directors will not accept gifts or personal benefits of any value from external parties if that could be perceived as compromising or influencing any decision by the Director or Fonterra.
- (g) Directors will only trade in Fonterra securities (including Co-operative Shares and Fonterra Shareholders' Fund Units) in accordance with the Securities Trading Policy.
- (h) Directors will maintain and protect the confidentiality of information of or held by Fonterra, except where disclosure is allowed or required by law or a relevant regulatory body or the information is otherwise in the public domain.

1.4 The co-operative relationship requires Directors to regularly receive and understand information regarding the issues and concerns of farmer shareholders and to ensure high quality and frequent communication from Fonterra to its farmer shareholders. Directors will refer requests for advice from farmer shareholders and other stakeholders to Fonterra management for an appropriate response.

2. Board Composition

2.1 The size and composition of the Board are determined in accordance with Fonterra's Constitution.

2.2 The Board will maintain a list of attributes that all Directors must demonstrate. These include: unquestioned honesty and integrity, a proven track record of creating value for shareholders, time available to undertake a Director's responsibilities, ability to apply strategic thought to important issues, ability to question, challenge and critique, ability and knowledge to comprehend the wider

commercial and economic framework in which Fonterra operates, understanding of and commitment to the highest standards of governance, understanding of and empathy with our Co-operative, broad governance experience, global perspective, and sound judgement.

- 2.3 The Board will maintain a "skills matrix" setting out the required and desired skills for the Board. The skills matrix will be applied by the Independent Selection Panel and Nominations Committee in carrying out their functions. The Board will review the skills represented by Directors against the skills matrix, both periodically and in the event of a vacancy or anticipated vacancy, and will look to ensure that the composition and mix of those skills remains appropriate.
- 2.4 All Directors are independent of management and should be free from any business or other relationship which could materially interfere with the exercise of their independent judgment, except to the extent that a Director may be qualified under clause 12.3 of Fonterra's Constitution.
- 2.5 Directors who are qualified under clause 12.3 of Fonterra's Constitution comprise the majority of the Board. Notwithstanding that majority, the Board will ensure that sufficient Appointed Directors meet and maintain the criteria of "Independent Director" as specified in the FSM Rules (subject to any applicable waiver or variation).
- 2.6 The Nominations Committee oversees the process for identifying and recommending potential candidates for election or appointment as Directors, and makes appropriate recommendations to the Board. The Board is responsible for appointing Directors under clause 12.4 of Fonterra's Constitution. The Independent Selection Panel makes recommendations of an appropriate set of candidates to the Nominations Committee in respect of Elected Directors. Based on those recommendations and after taking into account the views of the Shareholders' Council (as communicated to the Nominations Committee), the Board is responsible for nominating candidates for election (or re-election) by Shareholders under the Director Election rules that are adopted by the Shareholders' Council pursuant to clause 12.2 of Fonterra's Constitution. If the Board does not follow the recommendation of the Nominations Committee or the Independent Selection Panel (including in circumstances where the Board has followed the recommendation of the Nominations Committee but the Nominations Committee has not followed the recommendation of the Independent Selection Panel), it shall disclose to Shareholders that fact and its reasons for not following the recommendation. If the Shareholders' Council has not resolved to approve a candidate (in accordance with clause 4.7 of the By-laws of the Shareholders' Council), but that candidate is nonetheless nominated by the Board, the Board will disclose that fact, and the reasons for the Shareholders' Council's decision, to Shareholders.
- 2.7 The Board may also exercise its power under the Constitution to appoint a Director to fill a casual vacancy. In the case of a vacancy arising because a candidate nominated by the Board was not subsequently elected by Shareholders, the Board will not use its resulting appointment right to appoint the candidate who was not elected by Shareholders. The Board will in such a case notify the Shareholders' Council to enable it to hold a second election or by-election (as appropriate) but may appoint a Director while those processes are in train.
- 2.8 Directors will advise the Chairman at the first opportunity of any intention to retire from the Board or to not stand for another term as a Director, and the Chairman will advise the Nominations Committee. Elected Directors who retire by rotation as provided for in the Constitution will provide to the Chairman notice of an intention to seek re-election (or otherwise) at least four months prior to the expected date of the Annual Meeting at which they retire by rotation. The Chairman will advise the Nominations Committee of that intention and, in the case of an intention to seek re-election, will advise the Nominations Committee (who will advise the chair of the Independent Selection Panel) whether the candidacy is endorsed by the Board.
- 2.9 There must be an appropriate balance of experience on the Board. To help achieve this, the Board has adopted the following principles in relation to the tenure of Directors:
 - (a) A Director who will have served a term of nine years should consult with the Chairman and fellow Directors before seeking re-election or re-appointment for a further term.

- (b) A Director who will have served a term of 12 years must seek formal guidance from the Board before seeking re-election or re-appointment.
 - (c) The Board may request that a Director serve for an additional period of time where the Board considers that appropriate (such as to achieve the right balance of experience, or to take advantage of particular skills or expertise).
 - (d) If a Director seeks re-election or re-appointment for a term that exceeds a 12-year term, then that should be disclosed to farmer shareholders together with the reasons for an extension of tenure prior to the election or appointment that would result in the extension.
- 2.10 The Board recognises that the processes adopted by the Shareholders' Council for the election of Directors under clause 12.2 of Fonterra's Constitution require the Board to take certain steps. The Board will comply with those processes, as amended from time to time following Shareholders' Council consultation with, and approval by, the Board.

3. Board Procedures

- 3.1 The Board will be disciplined in carrying out its role, with the emphasis on strategic issues and policy. Directors will make proper use of their authority and will demonstrate appropriate decorum when representing Fonterra, always acting within any limitations imposed by the Board on their activities.
- 3.2 The Board holds at least seven scheduled meetings per year, and also holds additional meetings as required.
- 3.3 The Board has sole authority over its agenda and exercises this through the Chairman. Any Director may, through the Chairman, request the addition of an item to the agenda. The agenda will be set by the Chairman in consultation with the CEO and the Company Secretary.
- 3.4 Written minutes of each meeting are prepared, and presented for approval at the next normal meeting of the Board. In addition, an official record of papers and presentations submitted to the Board is kept and made available to Directors at all times.
- 3.5 Directors will use all reasonable endeavours to prepare thoroughly for, and to attend, all Board meetings. Directors are expected to participate fully, frankly and constructively in Board discussions and other activities and to bring the benefit of their particular knowledge, skills and abilities to the Board. Directors unable to attend a meeting should advise the Chairman as soon as possible.
- 3.6 Directors commit to the collective, group decision-making processes of the Board. Board discussions will be open and constructive, recognising that genuinely-held differences of opinion can bring greater clarity and lead to better decisions.
- 3.7 Once decisions have been made by the Board, all Directors are expected to support the letter and spirit of those decisions outside the Board.
- 3.8 Directors will keep confidential all Board information, discussions, deliberations and decisions that are not publicly known. Directors' obligations of confidentiality continue after they have ceased to be Directors.

4. Chairman

- 4.1 All Directors elect the Chairman of the Board, who is required to be one of the elected Directors. The Chairman holds office until the Directors elect a new Chairman in his or her place.
- 4.2 The appointment of the Chairman will be formally reviewed at the first Board meeting that is held following the Annual Meeting.
- 4.3 The Chairman is responsible for leading the Board and ensuring that it is operating to the highest governance standards, including encouraging a culture of openness and debate to foster a high-performing and collegial team of Directors that operates effectively.

- 4.4 In leading the Board, the Chairman will focus on ensuring strategic issues and farmer shareholder views are regularly reviewed, clearly understood and underpin the work of the Board, facilitating the relationship between the Board and the CEO, and ensuring the provision of accurate, timely and clear information.
- 4.5 The Chairman will ensure there are processes and procedures in place to evaluate the performance of the Board and individual Directors. The Chairman will provide advice and mentoring to Directors, and is encouraged to provide frank but constructive feedback where the Chairman considers this necessary to ensure the proper performance of the Board or to address any performance or other issues involving an individual Director or as between Directors or any non-conformance with this Charter.
- 4.6 The Chairman has authority to act and speak for the Board between its meetings, including engaging with the CEO. The Chairman will report to the Board as appropriate on decisions and actions taken between meetings of the Board.

5. Relationship with Management

- 5.1 The CEO will be the primary point of accountability and link between the Board and operational management functions.
- 5.2 All Board authority conferred on management is delegated through the CEO. The CEO is accountable to the Board for the authority that is delegated and for the performance of Fonterra. The CEO works in a constructive partnership with the Board.
- 5.3 Management reports to the Board through the CEO, and the CEO reports to the Board directly at Board meetings and in written updates and through the Chairman.
- 5.4 The Board recognises that, while the CEO is not a Director, the CEO must have full access to the Board and to fully engage in Board discussions in a frank, open and constructive dialogue with directors.
- 5.5 The Board will from time to time meet without management attendance, where this is appropriate.
- 5.6 Directors are entitled to have access, at all reasonable times, to all relevant information and to management. In the normal course, this access will be directed through the CEO.

6. Incident Management

- 6.1 Engagement with the Board in relation to actual or potential incidents will be guided by the following criteria:
- (a) **Tier One – Group Crisis response:**
- Full Board engagement plan and reporting structure is to be established in the event of a Group Crisis
- (b) **Tier Two – significant emerging and/or Group-led incidents:**
- Management, via the CEO or Group Director Governance and Legal, will engage the Chairman who will consult with the Chairman of the Risk Committee on any actual or emerging incident managed below a Group Crisis level where it is deemed appropriate for Board awareness or involvement
- (c) **Tier Three – regular incident reporting:**
- Quarterly reporting is to be provided by the Incident Management Team to the Chairman and Board (via the Board Risk Committee) on recent current and emerging incidents
 - Monthly CEO report to the Board includes awareness of any current or emerging incidents which may require future action from the Board
- 6.2 On formation of a Group Crisis, the CEO or Group Director Governance and Legal will agree with the Board Chairman who will consult with the Chairman of the Risk Committee, the regular engagement

plan and/or structure to be established between Management and the Board. This will include clear directions on the provision of sufficient timely and accurate information to all Directors, and the means for identifying and communicating the requirements for Directors' availability.

- 6.3 In a Group Crisis or other incident which requires a spokesperson or spokespeople, the CEO or other nominated representative(s) of Management will take the lead for this role(s), with the Chairman playing a supportive and complementary role focused on communications directly with farmer shareholders.

7. Evaluation and Compensation

- 7.1 The Board will periodically evaluate its own performance, and its own processes and procedures to ensure that they assist the Board in effectively fulfilling its role and meetings its duties. This may be carried out with the assistance of an independent, suitably qualified external party. The Board will note its processes and procedures in each Annual Report to Shareholders.
- 7.2 The Chairman will ensure that a regular programme of peer review of individual Directors occurs. Feedback from senior management will be incorporated into these processes as appropriate.
- 7.3 Director remuneration is determined in accordance with Fonterra's Constitution.
- 7.4 Expenses related to the performance of the Directors' role will be paid or reimbursed by Fonterra. Such expenses include:
- (a) Travel expenses associated with Board or Committee meetings, or other Board business;
 - (b) Costs associated with the attendance by a director at functions where the Director is representing Fonterra;
 - (c) Travel expenses for the Director's spouse or partner, where such travel has been approved;
 - (d) Telephone, IT and related communications costs.
- 7.5 Directors are to certify the appropriateness of any expenses claimed, and where any uncertainty as to their validity exists the Chairman (or Chairman of the AFC, in the case of the Chairman's expenses) shall approve or decline the expense claim.

8. Induction and Training

- 8.1 Directors new to the Board will have the benefit of an induction programme aimed at deepening their understanding of Fonterra and the industry, businesses, environment and markets in which Fonterra operates. As part of the programme Directors will receive a folder of essential Board and company information and meet key management.
- 8.2 Directors are expected to keep themselves abreast of changes and trends in the industry, businesses and environment and markets in which Fonterra operates, and to keep abreast of general changes and trends in economic, political, social and legal environments.
- 8.3 Directors will be provided with formal and informal opportunities to assist with their ongoing development, including through rotation of the membership and chairmanship of Board committees.

9. Assessing the Board's Performance

- 9.1 The Board annually considers its performance against its role and this Charter.
- 9.2 The Board reports to farmer shareholders through the Annual Report and at the Annual Meeting.
- 9.3 The performance and operations of Fonterra against the Board's Statement of Intentions is received and reviewed by the Fonterra Shareholders' Council, and reported to farmer shareholders annually.

10. Independent Advice

- 10.1 Any Director is entitled to obtain, at Fonterra's cost, independent professional advice relating to the discharge of his or her other responsibilities as a Director. Directors are expected to consult the Chairman and the Group Director Governance and Legal prior to obtaining the advice, to ensure independence and to avoid duplication. A copy of any advice will be made available to all Directors.

11. Indemnities and Insurance

- 11.1 Fonterra indemnifies Directors under the Constitution, and provides Directors with insurance cover while acting in their capacities as Directors, to the fullest extent permitted by New Zealand legislation.

12. Company Secretary

- 12.1 The Company Secretary, who is appointed by the Board, is accountable to the Board, through the Chairman, on all governance matters. The Company Secretary plays a significant role in monitoring compliance with Board policy and procedures, and with timely completion and despatch of the Board agenda and briefing material. All Directors have access to the Company Secretary.

13. Committees

- 13.1 Board Committees will be formed when it is efficient or necessary to facilitate efficient decision-making by providing for a sub-group of Directors to focus on particular areas or issues and to develop recommendations to the full Board.
- 13.2 Committees will only speak or act for the Board when authorised to do so. Committees have no authority to commit the Board unless specifically authorised to do so by the full Board.
- 13.3 The Audit and Finance Committee fulfils the responsibilities of the Audit Committee as defined by the FSM Rules.
- 13.4 Standard administrative matters are governed by a Terms of Reference that applies to all Committees and the scope and responsibilities of a Committee may be further defined in the Charter for that Committee. The Charters for the Audit and Finance Committee, the Risk Committee, the Co-operative Relations Committee, the Nominations Committee and the People, Culture and Safety Committee will be published on Fonterra's external website.
- 13.5 The Board reviews each Committee's performance against its Charter on an annual basis. The Board also reviews the Charter for each Committee annually.
- 13.6 The Board makes appointments to Committees, having regard to the skills and expertise of the Directors, and the functions of the Committee.
- 13.7 Committees observe the same rules of conduct and procedure as the Board unless the Board determines otherwise, and the provisions of the Constitution relating to the proceedings of Directors apply, with appropriate modification, to meetings of a Committee.
- 13.8 The Board may from time to time constitute Working Groups comprising Directors together with management representatives, shareholder representatives, and/or other advisors, to prepare recommendations for the Board. These Working Groups operate under Terms of Reference, and other criteria as Committees, but have no authority to commit Fonterra or the Board to any course of action.

14. Review

- 14.1 This Charter is reviewed annually by the Board.