



Governance and ethical business - Sustainability Report 2018

Introduction

This document is a supplement to the Fonterra Sustainability Report 2018 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 2018 Financial Year (FY18), 1 August 2017 – 31 July 2018.

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 2018, starting at page 70.

Accountability for sustainability

Accountability for sustainability rests with the Fonterra Board, our CEO, and the Fonterra Management Team (FMT). Regular performance updates are provided at this governance level. Accountability for individual elements of sustainability performance cascades through the organisation and integrated into individuals' Key Performance Indicators where relevant.

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. All group policies are subject to regular review and each policy is owned by an individual member of the FMT.

A centralised Social Responsibility team sits within the global Corporate Affairs function, with a Social Responsibility Director reporting to the Managing Director, Corporate Affairs. The centralised Social Responsibility team is accountable for overarching sustainability governance and strategy, external reporting, and managing strategic and cross-functional sustainability topics.

Operational delivery of sustainability strategy, and accountability for performance against targets, is integrated into the organisation, with geographical business units responsible for performance in-country, and Group functions responsible for progressing performance on specific topics at the global level. Key teams include the Sustainable Dairying teams in New Zealand and Australia, the



Global Operations sustainability function, and the Food Safety, Quality and Regulatory (FSQR) and Health, Safety and Wellbeing teams.

Awareness and training

An online Ethics Portal helps employees be aware of potential conflicts of interest and, where these exist, put in place steps to manage conflicts appropriately. We also operate an annual process to ensure managers are familiar with requirements around ethics, compliance and corruption. This is completed through online training and evaluation, with participants required to pass an online test to ensure they have read and understood what is required by the policy. This year more than 5,000 managers successfully completed the training.

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.

Responsible political behaviour

Fonterra does not allow corporate contributions of any kind to a candidate or political party in connection with political elections. No political contributions were made in the past year. 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. 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.



Legal Compliance

Our Group Legal Policy requires all Fonterra's business units to assign clear accountabilities to ensure compliance with all laws and regulations applying to our operations. It also stipulates that business units develop and implement effective processes, including training, to ensure our employees are familiar with, and comply with, appropriate laws.

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.

In December 2017, the Supreme Court of New Zealand dismissed an appeal by Fonterra against findings in the lower courts that Fonterra had discriminated against a small group of farmers under section 106 of the Dairy Industry Restructuring Act 2001. This decision related to Fonterra's acquisition in 2012 of the former New Zealand Dairies Limited (NZDL) plant after NZDL went into receivership, which benefited both Fonterra and the farmers who'd been left out of pocket by NZDL, enabling significant retro-payments owed to the farmers to be paid and ensuring on-going milk collection from the farmers. We subsequently reached a confidential settlement with the farmer plaintiffs in this case.

Compliance related to our operating sites, including environmental non-compliance, is reported in our Sustainability Report on page 47.

Compliance related to our products and nutrition is reported in our Sustainability Report on page 32.