

Shareholders' Council Update

GOVERNANCE AND REPRESENTATION REVIEW UPDATE

Dear farmer,

The Governance and Representation Review Committee met this week to discuss the timeline for taking an adjusted proposal back out to farmers, and to review the progress being made on the Shareholders' Council review.

After the June Special Meeting we committed to bringing a solution back to farmers before the end of the year. Progress has been made on both the governance and representation aspects of the review since then and the Committee has therefore proposed the following indicative timeline for the finalisation of the review:

Key dates:

August: farmer focus groups and feedback on Shareholders' Council review

24 – 30 September: Combined Annual Result and Governance and Representation Meetings

Mid-October: Special Meeting to vote on any revised Governance and Representation recommendation

Early December: Annual Meeting

We are very aware that it is a busy time of year on farm and that your focus right now is on your farming business. At the same time, the Committee has acknowledged the strong sentiment from the majority of our farmers who want to see the Co-operative move forward with the review.

Representation

Your feedback at the Special Meeting was that the findings from a full representation review were a critical part of your overall decision making, so our focus over the last few weeks has been on this area.

In addition to the discussions we had during the farmer meetings in the first half of the year, we have invited all our farmers to give their feedback on the Shareholders Council. A working group has interviewed our current and ex-Directors and Shareholders' Councillors to get their insights into how our Co-operative's representation function could be further improved.

This work is summarised in the discussion document attached to this email. The document is designed to give you a view of the direction of travel the review is taking. It provides focus areas and ideas that we would like farmers to consider and build upon.

Governance

The Committee is reviewing the discussion that was had with farmers over the last weeks leading up to the Special Meeting. It is considering options to adjust the proposal, to attract the necessary support required to move our co-operative forward, without compromising the essential elements. Any recommendation put back to farmers must achieve our shared goal of ensuring we attract the very best farmer candidates onto our Board.

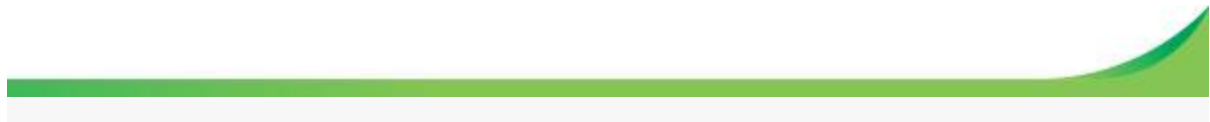
Thank you to all those who have contributed to the review so far. There is an absolute commitment for this to remain a collaborative process and the Committee has developed a number of feedback channels to make it as easy as possible for all farmers to have a say. You'll find these listed on the back page of the discussion document.

We look forward to hearing more of your feedback over the coming months.

Kind regards,

Duncan Coull
Chairman
Fonterra Shareholders' Council

John Wilson
Chairman
Fonterra Board Of Directors



SHAREHOLDERS' COUNCIL REVIEW

Discussion document

August 2016



INTRODUCTION

- During the Governance and Representation Review, we committed to take a separate look at the Shareholders' Council and to come back and consult you on possible improvements
- Council has a critical role as the representative of shareholder interests and as a cornerstone shareholder in our Co-operative. It is important we have a Council which remains effective and continues to have the confidence of shareholders
- We have looked at the role, structure and effectiveness of the Shareholders' Council
- We have also asked how Council can improve farmers' sense of ownership, control and connection to their Co-operative and the Board
- We also asked for farmers' views and these were given freely and thoughtfully. The working group used them to build the initial ideas that are outlined in this discussion document. This is a summary of specific issues we all agree need to be addressed. It also includes some general ideas for you to consider, reject or build upon. The document invites further feedback
- From here we will work to refine the proposal, seek input from a panel of independent experts, and then put forward any final recommendation for you to vote on
- The full terms of reference for the review are available in the Governance and Representation section of Farm Source online

GOVERNANCE & REPRESENTATION COMMITTEE	INDEPENDENT EXPERT PANEL (REPRESENTATION)
<ul style="list-style-type: none">• Ian Brown• John Wilson• Duncan Coull• Malcolm Bailey• Murray Linton• Nicola Shadbolt• Greg Kirkwood• David McLeod• Bill Millar• Michael Spaans	<ul style="list-style-type: none">• John Spencer• Sir Mark Solomon• Sue Lindsay <p><i>Bios for the Panel members are available in the G&R section of Farm Source online.</i></p>

THREE AREAS OF FOCUS

The Working Group, guided by farmer feedback, has decided on the three areas where improvements will have the greatest impact on the effectiveness and confidence in Council. We detail them below and then go into our initial thinking in more detail on the following pages.

1. Role clarity and accountability

- Clear understanding of the functions of Council and the relationship with the Constitution
- Clear expectations of a Councillor role. This is needed to provide clarity for existing Councillors and future candidates
- Clarity for farmers on the minimum standard of what they can expect from Council
- Management team support and systems required to reduce the administration workload of Councillors

2. Working relationship between Council, Board and Management

- Clarity on the working relationships between the Council, Board and Management
- Re-balance the demands on Councillor's time spent in meetings with Management vs. out in their Wards
- Revisit the Networker model so that their contribution supports the representative role of Councillors out in the Wards

3. Improved transparency and communication

- Improve the operating model to get the voice of the farmer into key discussions earlier and complete the feedback loop back out to farmers
- Improve farmer awareness of the activities and interactions that are underway – who is working on what, why and how
 - Details of what is discussed can remain confidential if needed, but it's important that farmers know the right conversations/challenges are taking place and when
- Improved engagement, information flow and alignment between the Council, Board, Fonterra Management team (FMT) and the Farm Source team (field team)

ROLE CLARITY AND ACCOUNTABILITY

IMPROVEMENT AREA	DESIRED OUTCOME
<p>In general, there is a need to provide more clarity of the role of the Shareholder Councillor and Council, including their role as the cornerstone shareholder.</p> <p>This will lead to a more accurate perception of individual Councillor performance, and their collective ability to effectively represent farmers' views to the Board and Management.</p> <p>Within the farmer base, there is a range of views on what the right balance is between Council's representative role and its role as the cornerstone shareholder.</p>	<p>The desired outcome is for everyone within the Co-operative to have a clear understanding of the role of the Shareholders' Council, and therefore similar expectations of Council's performance.</p> <p>Using Council's existing "listen, consult and lead" ethos, we build a better understanding of what Council does and improve the way in which these activities are communicated and demonstrated.</p> <p>Agreed measures are set to assess Council's overall performance against these expectations.</p>

WHAT IT LOOKS LIKE FOR FARMERS

- Updated Council role and purpose definition and description
- Clarity on who the Council represents and the right balance between their representative and cornerstone shareholder roles
- Clear measures and assessment of Council's performance against their purpose
- Clarity between the various roles that farmers interact with – Councillors, Area Managers, Regional Heads

Ideas for consideration

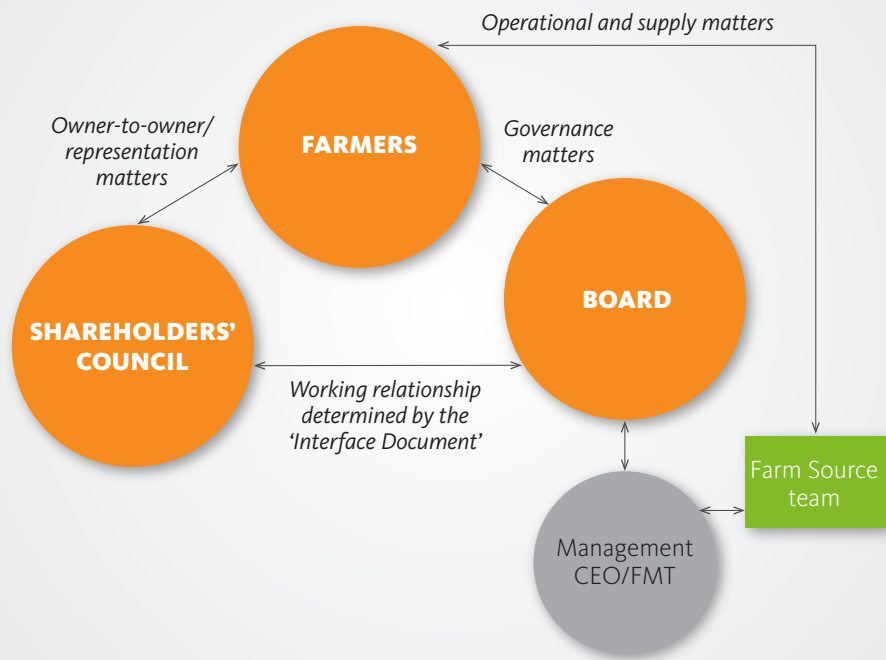
- The Shareholders' Council mission statement to be defined as: *"The Fonterra Shareholders' Council exists to ensure the Co-operative's long-term sustainability by driving Farmer connection through strong representation and effective monitoring"*
- Clarify 'who' Council represents as: *"Council's ultimate duty is to shareholders, but its activities should benefit all Fonterra farmers"*
- Conduct shareholder surveys (within the Ward) on trust, confidence, quality representation of farmers' views, and farmer perception of the effectiveness of performance monitoring and reporting
- Council will reduce its workload by keeping a sole focus on the delivery of its constitutional duties:
 - Development and guardianship of the Co-operative principles
 - Strong representation of collective shareholder interests in decision-making
 - Effective monitoring of the Board's performance against its objectives to protect and improve farmer interests
 - Enabling the responsible exercise of individual shareholder control rights (shareholder resolutions for example)
 - Opportunities for all farmers to develop knowledge and access future leadership positions



Thought starters

- What do you believe the role of the Council is and does it still have a place in the Co-operative?
- How does the Council contribute to a sense of belonging or togetherness that is essential in any Co-operative?
- What could we change to make the role of the Councillor more attractive to future leaders?
- Is the Council representative of the supply base now and for the future?
- Is the Council's oversight and direction on the evolution of the Co-operative ownership model in line with farmer's expectation?
- Is it connecting well enough with the future owners?
- Do you believe the Council should still undertake the role of the cornerstone shareholder?
- Should a Councillor and the Council have performance measures to hold them accountable? What could/should these look like?

Lines of communication within our Co-operative



WORKING RELATIONSHIP BETWEEN BOARD COUNCIL AND MANAGEMENT

IMPROVEMENT AREA	DESIRED OUTCOME
<p>Farmers have asked for better information about the formal working relationship (ruled by the interface document) between the Council and Board. This information is important to farmers as it will help to demonstrate the constructive tension that exists between the Council and Board.</p> <p>Feedback from members of both the Council and Board indicates that the interface document needs to be revisited, revived and that the working relationship could be improved.</p> <p>Specifically, we want to improve:</p> <ul style="list-style-type: none">• Awareness of the mutual respect in the relationship between the Council and Board• A more proactive agenda planning/sharing of ideas and feedback and meetings between Council and the Board• For any reason Council sees fit, it will test the Board's decisions on activities in relation to Fonterra Co-operative Principles, before they are finalised• Enable the Board to better utilise Council as a sounding-board for wider farmer sentiment	<ul style="list-style-type: none">• A broader understanding of how the Council and Board are intended to work together• Greater awareness of how and what the Board and Council are working on together• Demonstrate mutual respect for the collective responsibilities the Board and Council have to the Co-operative

WHAT IT LOOKS LIKE FOR FARMERS

- Share an updated Working Interface document with farmers so that they are aware of the guidelines for interaction between the Council and Board
- Improved coordination of the Board/Council agenda to set up for proactive, quality engagement
- Review the number of Council/Board interactions, but increase the breadth and detail of those discussions
- Better alignment of Board and Council Committees and personnel on each to ensure seamless equal input and communication
- Clarity of the agenda for discussions between Council and Board, and the outcomes of those discussions – more communications from the Council



Thought starters

- What issues do you believe that the Council (as the representative of shareholders), rather than the Board (tasked with governing the Co-operative to maximise the wealth of shareholders) should take a lead on in our Co-operative?
- Do you feel that you have enough information about when, on what and how the Council and the Board meet?
- If you understood more about when Council and Board met, the agenda for those meetings and – where confidentiality considerations allowed – the outcomes would you:
 - be motivated to talk with your Councillor more?
 - trust Council more?
 - value Council more?
- How do we publish the successes of Council (related to influencing outcomes)?
- Should the Board and Management use the Council as more of a sounding board for important issues?
- Should we get the existing Interface document on the website or share it with farmers as part of the consultation?

IMPROVED TRANSPARENCY AND COMMUNICATIONS

IMPROVEMENT AREA	DESIRED OUTCOME
<ul style="list-style-type: none"> • Farmers would like more information about Council's relationship with the Board and instances where Council performs its role of cornerstone shareholder • Farmers have asked for more formal acknowledgment that their views are being heard and effectively represented to the Board. They are also asking that Council feeds back the Board's response to those views • Farmers have also asked for Council's communications to clearly state their position on issues and consider the farmer's perspective • A better general understanding of Council's role, powers and activities undertaken on farmers' behalf could developed through more regular communications 	<ul style="list-style-type: none"> • Clearly articulate the Council's position on Co-operative issues, through timely and relevant communications to farmers • Communications that provide a different perspective or analysis than those that farmers receive from the Co-operative's Board and Management • Communication that is accessible to busy farmers and delivered through a variety of modern channels. Farmers should be able to opt in or out of different forms of communication based on their preferences • Council communications become a trusted and preferred channel of information for farmers

WHAT IT LOOKS LIKE FOR FARMERS

- Council communications to be separated from those of the Board and Management
- Council's interactions with the Board to be publicised, and the outcomes of those conversations summarised and communicated back to farmers
- Councillors to produce individual Ward updates that are focused on the representative and cornerstone shareholder role that they undertake on the Ward's behalf
- A Shareholders' Council induction pack would be developed for new members of the Co-operative. It would explain the role, powers and activity Council undertakes on farmers' behalf

Ideas for consideration

- Council could undertake its own roadshow/shed meeting series each year to engage with Shareholders on relevant topics e.g. SHC annual report
- Development of a separate Shareholders' Council mobile app as a home for all Council updates and key information
- Farmer profiles within Farm Source online that enable them to tailor the types and methods of communications from the Co-operative (Council, Board and Management)
- Council to develop a 'corporate calendar' to raise awareness of Council events and advocacy activity

Thought starters

- Should the Shareholders' Council communications be sent out independent of the Board and Management's?
- How often should Council be communicating with farmers and how would you prefer they communicate with you?
- On what topics would you like to see Council comment/provide insights to farmers?
- Would you like to see the Council more active in the media promoting its advocacy work on behalf of farmers?
- Should Council be promoting the advocacy and representation work they do for farmers via the media e.g. water regulations, regional council by-laws?
- Would you like to see a Shareholders' Council roadshow? How often?



HAVE YOUR SAY/NEXT STEPS

In late June 2016, all farmers were invited to contribute to the Shareholders' Council review, and the working group wish to thank those who have already provided feedback.

The team has also taken feedback from Networkers, current Directors and Councillors, ex-Directors, and the Shareholders' Council alumni to gain insights from their knowledge and experience as part of the review. A collection of their responses is available on Farm Source online.

Throughout August and the first half of September your Councillors will be out in the Wards taking farmer feedback in response to this document. We know it's a busy time of year on farm, so we've made it as easy as possible for you to have your say via the channels below.

Alternatively, you can always call your local Councillor and talk through your feedback and ideas.



Sub-site on nzfarmsource.co.nz dedicated to the G&R review



A series of posts on the [My Co-op App](#)



Monthly updates via [Farm Source Magazine](#)



[Independent review](#) of the recommendations that are put to farmers



Dedicated gov.rep@fonterra.com email to manage and record feedback and to respond to your questions



Governance and Representation [Facebook page](#)



[Farmer meetings](#), research and focus groups