

Market Announcement

08 JULY 2019

FONTERRA DIRECTOR ELECTION CHANGES ANNOUNCED

Today, a joint committee of the Fonterra Board and Shareholders' Council updated farmer-owners on changes to the Director election process.

The Director Election Review Committee was established in March to review what aspects, if any, of the Director election process could be improved. The Committee sought feedback from farmers via an electronic survey and considered this alongside farmer feedback received since the 2016 Governance and Representation Review changes came into effect.

The key principles identified from farmer feedback were:

- The election process should be simplified as much as possible
- Independence and transparency of the process should be protected and enhanced
- Farmers strongly value information about the skills and attributes required by the Board
- Farmers strongly value the independent assessment of the skills and attributes of individual candidates
- Farmers want a choice of candidates to be put forward by the Independent Selection Panel
- Only farmers should have the power to remove a sitting Director standing for re-election.

After thorough consideration alongside governance best practice, the Committee put forward a number of recommendations to the full Board and Shareholders' Council. It also consulted with the Independent Selection Panel and the Returning Officer.

The following changes to the Director election process have been agreed:

1. To better characterise the two different ways that farmers can stand for the Board, the Independent Nomination Process and Self-Nomination Process will be renamed to refer to 'Independently Assessed Candidates' and 'Non-Assessed Candidates' respectively.

2. To improve the independence and transparency of the newly named 'Independent Assessment Process':
 - a. All candidates recommended by the Independent Selection Panel will go directly through to the ballot without any further review or nomination by the Board and its Nominations Committee (which will be dis-established), or approval by the Shareholders' Council. The Shareholders' Council will remain responsible for running the Director Elections as required by the Constitution.
 - b. A stand-down period will be introduced for sitting Shareholders' Councillors which will prevent them from standing for the Board in the same election cycle in which they step-off the Shareholders' Council.
3. To provide farmers with a choice of candidates, the Independent Selection Panel will now put forward candidates up to a maximum of the number of vacancies to be filled plus two. There remains no limit on the number of farmers standing as Non-Assessed candidates.
 - a. Associated with this change is the decision to remove the 50% support benchmark for contested elections. In contested elections (where farmers have a choice of candidates), the candidates with the highest number of votes will now be elected to the Board (up to the number of vacancies).
 - b. For an uncontested election (when there are not more candidates than vacancies) candidates must still gain more than 50% support to be elected. If one or more candidates in an uncontested election does not achieve that threshold, a second election will not be held. The Board will retain its existing power to fill any such vacancy by appointing a 'farmer' director for the period up to the end of the next Annual Meeting (and it must appoint if a vacancy will continue for six months or more), and may not appoint an unsuccessful candidate standing in the first election.
4. To ensure that only farmers have the power to remove a sitting Director standing for re-election, Board endorsement of incumbent Directors seeking re-election has been removed. Now, incumbent Directors seeking re-election who go through the Assessed Candidates process will automatically go through to the ballot, regardless of the Independent Selection Panel's assessment of them.
5. The names of the 35 supporting Shareholders for Non-Assessed Candidates will no longer be published.

Next steps:

These changes do not require amendments to our constitution. They will be in place for this year's 2019 Director Election process, except for the changes relating to the Shareholders' Council included in 2a) and 2b). These recommendations require changes to the Shareholders' Council by-laws, which will be sought at this year's Annual Meeting (which will be held after this

year's election).

The five-year review required under the 2016 Governance and Representation (GRR) changes will still occur, no later than the 2021 Annual Meeting.

-ENDS-

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