

Independent Selection Panel Search Brief

Independent Selection Panel – An Overview

The role of the Independent Selection Panel is to rigorously assess and evaluate potential candidates and then to shortlist and recommend the best candidates to Fonterra's Shareholders.

The Independent Selection Panel is a joint initiative between the Fonterra Board of Directors (Board) and the Fonterra Shareholders' Council (Shareholders' Council), however its membership and operations are independent of Fonterra.

The Panel process is designed to provide intending candidates with a confidential, rigorous, totally independent assessment of their skills and experience against the attributes and skills required by the Board in any year, and to provide Shareholders with independent and comprehensive information about recommended candidates.

The Independent Selection Panel assessment is open to all intending Director Candidates who opt to go through the Independent Assessment Process.

Panel membership consists of an independent member appointed by the Board, an independent member appointed by the Shareholders' Council and an independent Chair, appointed by those two members.

As well as being independent of Fonterra, it is required that each member is highly respected in the field of governance, has an understanding of Fonterra, and is appropriately qualified to assess and select Farmer Director candidates.

In summary, the functions of the Independent Selection Panel are as follows:

- a) Determination of the search brief and assessment criteria for intending Independently Assessed Candidates for election as Farmer Directors based on:
 1. the list of required attributes prepared by Fonterra that every Director must be able to demonstrate as provided for in the Board Charter; and
 2. the skill requirements identified by the gap analysis in the Fonterra Board Skills Matrix.
- b) Publication of the skills matrix and search brief to Shareholders. The brief must contain sufficient information to ensure a level playing field for all candidates;
- c) Engagement of suitably qualified independent search firm(s) to support the assessment of intending Independently Assessed Candidates;
- d) Provision of a rigorous assessment of the attributes, skills and experience of intending candidates for the Fonterra Director Election that have applied under the Independent Assessment Process;
- e) Provision of confidential assessment results to such candidates;
- f) Seeking confirmation from each candidate the Panel proposes to put forward for election, and each other candidate who is an incumbent Director, that they wish to continue his or her candidacy;
- g) Putting candidates forward for election (up to the number of vacancies to be filled, plus two). This must include any incumbent Director seeking re-election as an Independently Assessed Candidate who has confirmed their candidacy to the Panel following receipt of their confidential assessment results;
- h) Provision of a report on the process undertaken by the Panel for inclusion in the relevant voting pack.

Panel Membership

The Independent Selection Panel Members are as follows:

- Tony Carter, Independent Chair appointed by the Panel members
- Joan Withers, Independent Member appointed by the Board
- Rob Campbell, Independent Member appointed by the Shareholders' Council

Panel Biographies

Chair: Antony (Tony) Carter

Tony is presently Chairman of Fisher & Paykel Healthcare Limited (retiring from this role in August 2020), TR Group and Datacom Group Limited. He is a Director of Vector Limited and ANZ Bank New Zealand Limited.

Tony has had extensive experience in co-operatives, having previously served as a Director and Chairman of Mitre 10 New Zealand Limited and as Chief Executive of Foodstuffs (South Island) Limited from 1995 to 2001. In 2001 he was appointed as Managing Director of Foodstuffs (Auckland) Limited and Managing Director of Foodstuffs (New Zealand) Limited until he retired in December 2010. Tony was also previously a Director and Chairman of Air New Zealand and a Director of Fletcher Building Limited.

Tony attended the University of Canterbury where he studied chemical engineering, graduating with a Bachelor in Engineering with honours and a Masters in Engineering. He then went on to study at Loughborough University of Technology in the United Kingdom and graduated with a Master of Philosophy degree. Tony was appointed a Companion of the New Zealand Order of Merit in the 2020 New Year's Honours List for his services to business governance. He is a Chartered Fellow of the Institute of Directors and was awarded Chairperson of the Year in the Deloitte Top 200 Awards in 2014.

Joan Withers

Joan has been a professional Director for more than 20 years and spent over 25 years working in the media industry, previously holding CEO positions at The Radio Network and Fairfax Media.

Her current governance roles are Chair of The Warehouse Group Limited and Director of ANZ Bank New Zealand Limited and SKY Network Television Limited.

Joan has previously held Chair positions at Mercury NZ Limited, TVNZ and Auckland International Airport Limited and was on the advisory board of The Treasury.

Joan is a Trustee of the Louise Perkins Foundation and is Chair of a steering committee working to increase the percentage of South Auckland Māori and Pacific Island students taking up roles in the health sector.

She holds a Master's Degree in Business Administration from The University of Auckland. Joan is also a University of Auckland Distinguished Alumni (2015). In 2015 she was named Supreme Winner in the Women of Influence Awards and was named as Chairperson of the Year at the Deloitte Top 200 Management Awards.

Rob Campbell

Rob is a professional director and investor with over 30 years' experience in investment management and corporate governance.

His current directorships include Chair of Skycity Entertainment Group Limited, Summerset Group Holdings Limited, Tourism Holdings Limited and WEL Networks Limited, and a director of Precinct Properties New Zealand Limited.

He also advises a number of investment fund and private equity groups in New Zealand, Australia, Hong Kong and the United States of America.

Rob holds the degrees of Bachelor of Arts with First Class Honours in Economic History and Political Science, and Master of Philosophy in Economics. He was also Senior Scholar in his final year at Victoria University and a member of the University's Professorial Board.

Rob was made a Companion of the New Zealand Order of Merit in the 2020 New Year's Honours List for services to governance and business. In 2017 he was awarded the NZ Shareholders' Association Beacon Award and chairperson of the year in the Deloitte Top 200 Awards. Rob is a Chartered Fellow of the Institute of Directors.

Independent Secretariat

The Panel appoints an independent secretariat to carry out the administration functions. Sarah Miller of Black Letter Consulting will fulfil this role in 2020.

The Independent Selection Panel Process – Skills and Attributes Sought

The Board is seeking to attract the best Farmer Director candidates, to access the attributes and skills in the Farmer Shareholder base that will result in the right balance of experience and ability on the Board over time and provide the Co-operative with strong governance.

All of Fonterra's Directors must believe in and value the Co-operative

and be able to demonstrate that they have the attributes and skills needed to deliver governance at a level expected for a global dairy business.

In the 2020 election there are two Farmer-elected positions available on the Board.

The Board has identified a set of attributes that each Director of the Co-operative must be able to demonstrate.

The list of attributes that the Board requires all Directors to demonstrate is below. These are the core requirements, and all prospective candidates should consider them carefully as they will be asked to show how they are able to deliver on each attribute:

- (a) Understanding of and commitment to the highest standards of governance including an understanding of the collective group decision making processes adopted by the Fonterra Board.
- (b) Understanding of and empathy with the Co-op and its farmer owners.
- (c) Ability and knowledge to comprehend the wider commercial and economic framework in which Fonterra operates.
- (d) Broad governance experience.
- (e) Proven track record of creating shareholder value.
- (f) Global perspective.
- (g) Time available to undertake a Director's responsibilities.
- (h) Sound judgement.
- (i) Ability to apply strategic thought to important issues.
- (j) Ability and willingness to constructively question, challenge and critique and, where appropriate, offer alternative viewpoints.
- (k) Unquestioned honesty and integrity.

In addition to these required attributes, the Board requires a set of skills to deliver good governance. There is no expectation that each Director will have all of these skills but it is important that they are appropriately represented across the Board.

Skill Category	Definition
In Depth Dairy Farming Experience	Has deep "on farm" dairy experience, having run or owned dairy operations as a member of our dairy Co-operative
Dairy Industry/ Understand Value Drivers of Milk Price/ profit	Well versed in and has a strong understanding of what drives Fonterra's milk price and of the profit drivers of the Co-operative
Financial Experience	Has strong financial skills and knowledge gained through business management, or is a highly experienced auditor, or has functional expertise in a senior financial position to make them a qualified financial expert
Risk Management Experience	Has had senior level experience in, or governed organisations that have significant risk management frameworks including health and safety and reputational risk management
Global Manufacturing/ Commodity Experience	Has experience running manufacturing assets in order to maximise financial return/or experience at a senior executive or governance level in a global commodity business
Consumer Experience	Has had a senior level executive or governance role in a consumer-oriented, retail or consumer goods company with significant local, regional or global brands
Effective leadership	Demonstrated governance leadership experience. Has had executive or governance experience in strategy oversight, stakeholder management and human resource/ people management, in particular, experience in environments that value and demonstrate diversity of thinking and diversity of approach
Commercial/ Value creation track record	Has functional experience as CEO of a large operating business or has been the primary person responsible for driving significant value creation of either a private or public organisation, including developing strategy and leading implementation
Global Experience/ Understanding	Has a deep understanding of international issues, has had on the ground experience in Asia or other emerging markets, or has a proven global mindset
Technology Strategy and Governance	Has knowledge and experience in the governance, strategic use and risk management of technology including information systems
Corporate Sustainability and Responsibility Expertise	Has knowledge and a strong understanding of corporate sustainability including the management of social, environmental and economic factors and their contribution to long-term value creation
Innovation and Research and Development	Has experience in or a strong understanding of the management or governance of research and development and applied innovation

Some Directors will have strengths in some of the skills while others might be still developing them or will be able to rely on fellow Directors to provide guidance and expertise in particular areas.

It is also important that the skills required for the Fonterra Board take into account the types of opportunities and challenges that the Co-operative will face in the future, and ensure Fonterra is developing the skills that may not be needed currently but will be critical going forward.

This means that the search for skills on the Board should always be looking to extend and build on current expertise. The Fonterra Board Skills List (described on the previous page) should never show that all skills are currently being delivered – it works best when it shows the aggregate skills that are shared across the Board as well as the skills that will be needed to deliver on the strategy in coming years. This has resulted in a balanced mix of skills related to the current requirements of the Co-operative, which will continue to be enhanced to match Fonterra’s future requirements.

The Skills Matrix and list of attributes have been provided to the Independent Selection Panel to assist the Panel in assessing the best candidates for the Board. The attributes, Skills Matrix and targeted skills information will be provided to Shareholders for guidance when making voting decisions.

The Fonterra Board skills list is on page 2. This list contains the skills that the Board requires to govern Fonterra. This skills list is updated by the Board annually.

The Board has used the list of skills to produce a Skills Matrix showing the aggregate skill of the current Board and the Board’s view of the required and desired level of each skill.

The Board has determined these required and desired levels based on the right mix of skills to govern Fonterra currently, the present composition of the Board and the future strategic needs of the business.

The Skills Matrix uses blue horizontal bars to show the current aggregated skills of the Board. The whole of each blue bar represents

the current Board’s aggregated level for each skill, and the darker shading within those bars represents the skills of Directors who are retiring in the current year (but are eligible for re-election).

The lighter shading represents the skills of Directors who are not retiring in 2020.

This information has been used to define the targeted skills for the 2020 Farmer Director election and will also be provided to prospective candidates in the Directors’ Election Candidate Handbook.

Based on this Skills Matrix (see below) the Board has prioritised a list of targeted skills being sought in the 2020 Farmer Director election. These are:

- (a) Effective Leadership
- (b) In Depth Dairy Farming Experience
- (c) Financial Experience
- (d) Global Manufacturing / Commodity Experience
- (e) Global Experience / Understanding; and
- (f) Innovation and Research & Development

Prospective candidates should consider these targeted skills, but should also consider the broader set of skills as they may be able to demonstrate strengths and potential in some or all of these broader skills that would still make them worthy of consideration.

There is value in seeking diversity on a board in order to capture a wider set of experiences, outlooks and perspectives, and the Fonterra Board values this diversity of thought and takes this into account when appointing Independent Directors. While diversity will continue to be an important consideration, it will always be important to ensure that Fonterra has the right attributes, capabilities and skills across the Board.

Further information on the attributes and skills that are being sought in prospective director candidates can be found on pages 6-8 of the Director Candidate Handbook which is available from the Returning Officer, Warwick Lampp of *electionz.com* Limited (0800 666 034).

2020 Skills Matrix – Aggregated Skills of Existing Fonterra Board



▲ Required skill level

▲ Desired skill level

■ REMAINING BOARD

■ DIRECTORS RETIRING BY ROTATION

The Independent Selection Panel

The Independent Selection Panel has engaged an independent search agency to assist the Panel in its assessment and interview activities.

Independent Assessment Process

Every candidate wishing to be considered for nomination as an Independently Assessed Candidate must complete and submit a Nomination Paper, Candidate Profile and Interest Statement including the information detailed on pages 11, 16 and 17 of the Candidate Handbook. Candidates must also provide biographical information to illustrate their attributes and skills such as relevant experience and qualifications and referees. Candidates are advised to have particular regard to the skills being targeted in 2020 when supplying this information.

Process Following the Close of Nominations

The Returning Officer will supply the Independent Selection Panel with the information submitted by each candidate following the close of nominations. The Returning Officer will conduct the necessary eligibility criteria activities prior to supplying candidate information to the Panel.

The Panel, assisted by the independent search agency, will review the candidate profile statements provided, the relevant qualifications, and experience of each candidate and will contact referees provided. As part of the initial assessment process, the independent search agent will contact candidates to discuss aspects of the information submitted by candidates in their application. This will entail an initial phone conversation and a further meeting in person, or via video, over the period 17-28 August 2020. The Panel will then compile a list of candidates that the Panel intends to interview. The Panel may choose to interview a shortlist of candidates that have applied.

If, following review of a candidate's profile statement, qualifications, and experience, the Panel believes the candidate does not meet the required threshold of demonstrated attributes or does not possess an adequate level of the required skills and sufficient experience, the Panel may choose to not interview the candidate. In this case, a member of the Panel or a person appointed by them will provide clear feedback as to the attributes or skills that the candidate had not adequately demonstrated through their application.

The Interview Process

All logistics for interviews with the Panel will be arranged by the independent secretariat or independent search agent and will be scheduled from 3 – 4 September 2020 in Auckland.

The interview will be a structured interview of up to an hour with the full Panel. This interview is one of the key means by which the Panel will make its assessment decisions. The Panel requires candidates to be present for their interview. The Panel may be able to accommodate arrangements for a candidate to be interviewed by video conference if the candidate is unable to be in Auckland for their interview.

At the start of the interview, candidates will be asked to make a brief introduction describing their background and experience, and reasons for seeking election to the Fonterra Board.

The candidates will then be asked to describe how they believe they demonstrate each of the attributes required to be a Director on the Board (as listed on page 7 of the Candidate Handbook). The candidates will be asked to provide behavioural examples and experiences to support their statements.

The Panel will also ask candidates to describe which of the skills from the Board Skills List they possess, with particular emphasis on the skills identified as targeted skills in 2020 (as detailed above and on page 8 of the Candidate Handbook). Candidates are encouraged to review the definitions of each skill provided above and on page 7 of the Candidate Handbook. Candidates will be asked to provide details of the qualifications and experiences they believe have contributed to their development of these skills and knowledge, and examples of instances where the candidates have utilised and demonstrated these skills.

It is not expected that all candidates will possess all of the skills listed in the Board Skills List and candidates will be asked to identify any skills where they believe they currently have gaps and any actions the candidates plan to take to address those gaps.

The Assessment Process

At the completion of each interview the Independent Selection Panel will assess whether a candidate has demonstrated each of the required attributes. If a candidate has not demonstrated all of the required attributes it is unlikely that they will be put forward to the ballot.

The Panel will assess each candidate's skills and knowledge against each of the skills on the Board's list. If required, the Panel may seek further clarification from candidates following the interview process.

The Panel may also choose to contact a candidate's referees for further information or to verify a candidate's statements or representations regarding an attribute or skill level.

The independent search agent will conduct appropriate credential, character and reference checks to authenticate qualifications and eligibility to be a Director.

The Selection Process

At the completion of the assessment process the Panel will determine which of the candidates demonstrate the required attributes and are the best placed to provide the skills and knowledge that the Board is seeking. The Panel will recommend to Shareholders a number of candidates up to the number of vacancies to be filled, plus two. The Panel must include any incumbent Director seeking re-election as an Independently Assessed Candidate who has confirmed their candidacy to the Panel following receipt of their confidential assessment results.

The Panel's recommendation will provide rationale for each candidate's inclusion in the ballot and an overview of the Panel's assessment findings.

Feedback

Independently Assessed Candidates will be provided with feedback from the Panel. All feedback will be delivered verbally by a Panel member or a person appointed by them. Feedback will clearly define each candidate's strengths and in the case of those candidates that have not been included in the Panel's recommendation, which attributes or skills a candidate may not have adequately demonstrated and any other reasons for their non-inclusion.

Candidates successfully nominated by the Independent Assessment Process will be asked to confirm that they wish to proceed with their candidacy prior to the announcement of their names.

After the Independent Assessment Process

Once the candidates identified through the Independent Assessment Process have been announced, nominations will be called for Non-Assessed Candidates.

Once all nominations have been received the voting pack will be sent to Shareholders and the election process will begin. The voting pack will include the Candidate Profile Statements submitted by each candidate. In the case of Independently Assessed Candidates, the Panel's assessment observations and reasons for the candidate's nomination will also be included. Individual matrices detailing the Panel's ratings of each candidate's skills will not be provided but the Panel's comments will include details of the nominated candidate's skill strengths.

If an Independently Assessed Candidate is an incumbent Director, this will also be noted in the voting pack along with the Panel's assessment observations.

The voting pack will also include a report explaining the selection and assessment process followed by the Panel and the attributes and skills criteria that each candidate has been assessed against.

All candidates (Independently Assessed Candidates and Non-Assessed Candidates) will be expected to attend the 2020 Fonterra Candidate meetings chaired by the Shareholders' Council, one or more of which will be filmed and posted online for Shareholders to view.

Confidentiality

The names of all unsuccessful candidates or candidates that decide not to proceed with their candidacy will remain confidential. The number of candidates involved in the Independent Assessment Process will not be provided to candidates or be made public.