

Risk Management Policy

3 October 2022

Introduction and Purpose

This is the Risk Management Policy referred to in clause 16.10 of Fonterra's Constitution as amended with effect on and from 3 October 2022 (as it may be subsequently amended from time to time) (**Constitution**).

The purpose of this Policy is to help manage the alignment between milk supply and ownership of the Co-operative, and the distribution of ownership of the Co-operative by monitoring thresholds relating to:

- the number of Co-operative Shares on issue as set out in clause 3.2(a) of the Constitution;
- the proportion of Co-operative Shares that are not held by Shareholders that supply Milk to the Company as set out in clause 3.10(m), other than Co-operative Shares held for the Fund; and
- the Overall Limit on Co-operative Shares held for the Fund.

This Policy includes the "Fund Size Policy" as defined in the Authorised Fund Contract dated 25 October 2012, and amended on 20 October 2016. This supercedes and replaces the Fund Size Risk Management Policy dated 25 October 2012, which was to protect farmer ownership and control under the prior TAF structure by providing for certain actions to be taken when the Fund Size reached certain levels. Now that shares cannot be exchanged into units on a day to day basis, that risk no longer exists.

The Fonterra Board may change this Policy from time to time, including to reflect new or changing circumstances and general reviews. Fonterra will consult with the Co-operative Council prior to approving any changes to this Policy.

Unless the context otherwise requires, capitalised terms in this Policy have the meanings given to them in the Constitution, the Rules for Shareholding and/or the Authorised Fund Contract as applicable.

Thresholds

Co-operative Shares on Issue

Under clause 3.2(a) of the Constitution, if the number of Co-operative Shares on issue is greater or less than the aggregate Share Standard for all Shareholders by a factor of more than 15%, then the Board is to take such steps and do such things, within such timeframes as the Board considers appropriate, to increase or reduce the total number of Co-operative Shares on issue by the Company (excluding treasury stock) to a number which is within the +/- 15% range.

Proportion of Co-operative Shares not held by Shareholders that supply Milk to the Co-operative, other than Co-operative Shares held for the Fund

Under clause 3.10(m) of the Constitution, if the number of Co-operative Shares held by Shareholders who have ceased supplying the Co-op or who are Permitted Transferees is greater than 25% of the number of Co-operative Shares on issue then the Board is to take such steps and do such things, within such timeframes as the Board considers appropriate with a view to returning to within that 25% threshold.

Overall Limit on Co-operative Shares held for the Fund

Under clauses 7.5 and 7.6 of the Constitution, if the aggregate number of Co-operative Shares which are the subject of Fund Arrangements exceeds 10% of the total number of Co-operative Shares on issue (the "Overall Limit"), then the Board is to take such steps and do such things, within such timeframes as the Board considers appropriate, to cause, or to require the Fund to cause, the number of Co-operative Shares which are the subject of Fund Arrangements to be reduced below the Overall Limit. This is the Fund Size Policy for the purposes of the Authorised Fund Contract.

Monitoring and Reporting

Fonterra management will monitor:

- Fonterra's actual measurements against the above Thresholds and trends in relation to the proportion of shares not held by shareholders that supply milk to the Co-operative;
- the proportion of Co-operative Shares that are held by Associated Shareholders (ie sharemilkers, contract milkers and farm lessors) and Secondary Shareholders;
- trends in relation to the distribution of ownership of Co-operative Shares by reference to the Minimum Holding, the Share Standard and the Maximum Holding;
- the Fund size;
- trading activity in the Fonterra Shareholders' Market and the Fonterra Shareholders' Fund.

Fonterra management will report to the Board via the Co-operative Relations Council initially, and then to the Co-operative Council on the above measurements:

- as soon as possible after the start of each Season once the new measurements for the Season have been determined (the "Measurement Date"); and
- as soon as possible after the end of each quarter during a Season.

Fonterra management will develop and evolve (in discussion with the Board and the Co-operative Council) the form of reporting provided to them from time to time. However, at a minimum, the reporting will include data showing, where applicable, the number of Supply Numbers, the number of Party Numbers, total kgMS represented, and a breakdown of that data by Ward.

Subject to all legal and financial markets rules and requirements, Fonterra will also report to shareholders as soon as possible after the Measurement Date and separately in the Annual Report on:

- the total shares on issue, and the number held by Supplying Shareholders, Secondary Shareholders, Associated Shareholders, Ceased Shareholders, Permitted Transferees and the Custodian
- the percentage difference between the total shares on issue and the aggregate Share Standard

- the aggregate Minimum Holding and the number of shares required to be bought and sold to meet share compliance obligations by the Compliance Date in the current season and future Compliance Dates

Subject to all legal and financial markets rules and requirements, Fonterra will also report to shareholders from time to time on:

- any decisions the Board has made to take steps, actions and applicable timeframes (or any decision not to take any steps or actions) to keep the number of shares on issue within +/-15% of the aggregate Share Standard
- any other matters determined by Fonterra in consultation with the Council to provide transparency to shareholders in relation to the alignment between milk supply and ownership of the Co-operative, and the distribution of ownership of the Co-operative

Tools to Manage Thresholds

The tools that may be utilised by the Board, to remain within, or return to within, the Thresholds include the following (without limiting other tools that may be utilised by the Board):

- Share or unit buy backs, share consolidations, share splits or share / unit issues including bonus issues to change the number of Co-operative Shares on issue
- Reducing the 4x Maximum Holding in the Constitution
- Adjusting the exit and entry timeframes in the Constitution, and/or the sale and purchase requirements within those exit and entry timeframes, for example to allow (and require) shareholders who only hold the minimum 33% at the time of a share consolidation to share back up to 33% over a longer time frame than by the next Compliance Date
- Limiting the ability to transfer Co-operative Shares to, or holding of Co-operative Shares by, Permitted Transferees, for example by reducing the period of time that shares may be held for
- Other risk management actions as provided for in Fonterra's Rules for Shareholding
- Proposing changes to the Constitution for consideration by Shareholders, for example to increase the +/- 15% range or adjust the Minimum Holding

Any decision in relation to the above tools, or any other tools, will be at the Board's discretion within such timeframes as it considers reasonable and having regard to the relevant circumstances at the time.