

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Sustainable Finance Framework

Fonterra Co-operative Group Limited

6 October 2022

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	Sustainable finance instruments, including Use of Proceeds' Loans and Bonds, (Green/Social/Sustainability Loans and Bonds) Social Bond Principles, updated June 2021 (with June 2022 Appendix 1), as administered by ICMA Green Bond Principles, updated June 2021 (with June 2022 Appendix 1), as administered by ICMA Sustainability Bond Guidelines, as administered by ICMA (June 2021)
Relevant standard(s)	Social Loan Principles, as administered by LMA and APLMA (April 2021) Green Loan Principles, as administered by LMA and APLMA (February 2021)
Scope of verification	Fonterra's Sustainable Finance Framework (as of October 3, 2022) Fonterra's Eligibility Criteria (as of October 3, 2022)
Lifecycle	Pre-issuance verification
Validity	As long as Fonterra's Sustainable Finance Framework remain unchanged.

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SCOPE OF WORK

Fonterra Co-operative Group Limited (“the Issuer”, “the company”, or “Fonterra”) commissioned ISS Corporate Solutions (ICS) to assist with the verification of its Sustainable Finance instruments by assessing three core elements to determine the sustainability quality of the instrument:

1. Fonterra’s Use of Proceeds Instruments¹ and structural components of the transaction – benchmarked against the International Capital Market Association’s (ICMA) Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG), as well as the Loan Market Association and Asian Pacific Loan Market Association’s Green Loan Principles (GLP) and Social Loan Principles (SLP).
2. Fonterra’s Use of Proceeds Instruments – whether the categories contribute positively to the UN SDGs and how they perform against proprietary issuance-specific key performance indicators (KPIs) (See Annex 1).
3. Sustainable Finance instruments link to Fonterra’s sustainability strategy – drawing on Fonterra’s overall sustainability profile and issuance-specific Use of Proceeds categories.

FONTERRA BUSINESS OVERVIEW

Fonterra is a global dairy nutrition company which is engaged in the collection, manufacture and sale of milk and milk-derived products through its ingredients, consumer, and foodservice channels. It operates through the following segments: Global Markets and Greater China. The Global Markets segment represents the ingredients, foodservice and FMCG businesses in New Zealand, Australia, Pacific Islands, South East Asia, South Asia, Africa, Middle East, Europe, North Asia, and Americas. The Greater China segment represents the ingredients, foodservice and FMCG businesses in Greater China. The company was founded on October 16, 2001, and is headquartered in Auckland, New Zealand. According to ISS ESG industry and sector classification, Fonterra has been classified under the food products industry based on its business activity and nature.

¹ As defined in Fonterra’s Sustainable Finance Framework, reference to Use of Proceeds Instruments include the issuance of Green, Social or Sustainability Bonds/Loans where an amount equal to the proceeds will be notionally allocated exclusively to finance or refinance eligible assets.

ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ²
Part 1: Alignment with the GBP, SBP, SBG, GLP and SLP	Fonterra has defined a formal concept for its Use of Proceeds Instruments regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the GBP, SBP, SBG, GLP and SLP.	Aligned
Part 2: Sustainability quality of the Eligibility Criteria	<p>The Use of Proceeds Instruments will (re-)finance eligible asset categories, which include: Renewable Energy, Sustainable Water and Wastewater Management, Environmentally Sustainable Management Of Living Natural Resources and Land Use, Energy Efficiency, Pollution Prevention And Control, Clean Transportation, Employment Generation, Food Security And Sustainable Food Systems, and Socioeconomic Advancement and Empowerment.</p> <p>The Social use of proceeds categories have a significant contribution to SDG 2 'Zero Hunger', SDG 4 'Quality Education', SDG 8 'Decent work and Economic Growth' and limited contribution to SDG 10 'Reduced Inequalities'.</p> <p>The remaining use of proceed categories improve Fonterra's operational impacts and mitigate potential negative externalities applicable to Fonterra's sector for SDG 2 'Zero Hunger', SDG 3 'Good Health and Well-Being', SDG 6 'Clean Water and Sanitation', SDG 7 'Affordable and clean energy', SDG 10 'Reduced Inequalities', SDG 12 'Responsible consumption and production', SDG 13 'Climate action' and SDG 15 'Life on Land'.</p> <p>The environmental and social risks associated with the use of proceeds categories are well managed.</p>	Positive
Part 3:	CONSISTENT WITH THE ISSUER'S SUSTAINABILITY STRATEGY	
Sustainable finance instruments link to issuer's sustainability strategy	The environmental and/or social projects financed through the Use of Proceeds Instruments are consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing Use of Proceeds Instruments is clearly described by Fonterra.	

² ISS ESG's evaluation is based on the Fonterra's Sustainable Finance Framework (October 3, 2022), on the eligibility criteria as received on the October 3, 2022, and on the ISS ESG Corporate Rating updated on the 30.09.2022 and applicable at the SPO delivery date.

SPO ASSESSMENT

PART I: ALIGNMENT WITH THE GBP, SBP, SBG, GLP AND SLP

This section evaluates the alignment of Fonterra's Sustainable Finance Framework (dated October 3, 2022) with the GBP, SBP, SBG, GLP and SLP.

GBP, SBP, SBG, GLP AND SLP	ALIGNMENT	OPINION
1. Use of Proceeds	✓	<p>The Use of Proceeds description provided by Fonterra's Sustainable Finance Framework is aligned with the GBP, SBP, SBG, GLP and SLP.</p> <p>Fonterra's green and social categories align with the project categories as proposed by the GBP, SBP, SBG, GLP and SLP. Eligibility criteria is defined in a clear and transparent manner. Environmental and social benefits are described and quantified.</p> <p>Fonterra defines a look-back period of no greater than 3 prior financial years when refinancing existing eligible assets (excluding operating expenditure where no look-back period applies), as well exclusionary criteria for harmful project categories (e.g., new coal-fired or expansion of existing coal fired facilities), in line with best market practice.</p>
2. Process for Project Evaluation and Selection	✓	<p>The Process for Project Evaluation and Selection description provided by Fonterra's Sustainable Finance Framework as aligned with the GBP, SBP, SBG, GLP and SLP.</p> <p>The project selection process is defined and structured in a congruous manner. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with Fonterra's sustainability strategy.</p> <p>Fonterra explains that it's Treasury Team is responsible in the process for project evaluation and selection. Responsibilities for the team are laid out.</p>
3. Management of Proceeds	✓	<p>The Management of Proceeds proposed by Fonterra's Sustainable Finance Framework is aligned with the GBP, SBP, SBG, GLP and SLP.</p>

		<p>A register of eligible assets will be maintained that includes an aggregate project cost that is larger than the sum of net proceeds from the Use of Proceeds Instruments. The net proceeds are tracked in an appropriate manner and will be allocated within 24 months of issuance. Moreover, Fonterra discloses the temporary investment instruments for any unallocated proceeds (e.g., unallocated proceeds may be held in cash or cash equivalent instruments, investment instruments that don't include greenhouse gas intensive projects, or applied to reduce short term or revolving indebtedness).</p> <p>Fonterra discloses ESG criteria and the nature of temporary investments, in line with best market practice.</p>
4. Reporting	✓	<p>The allocation, eligibility, and impact reporting proposed by Fonterra's Sustainable Finance Framework is aligned with the GBP, SBP, SBG, GLP and SLP.</p> <p>Fonterra commits to disclose the allocation of net proceeds transparently and to report annually (on an ongoing basis). Fonterra explains the level of expected reporting and the type of information that will be reported. The reporting for bonds will be publicly available on the Fonterra's website, whereas reporting for loans will be made directly available to lenders.</p> <p>Fonterra is transparent on the level of impact reporting with defined scope, duration, and reporting frequency of the impact reporting, in line with best market practice.</p>

PART II: SUSTAINABILITY QUALITY OF THE ISSUANCE

A. CONTRIBUTION OF THE USE OF PROCEEDS INSTRUMENTS TO THE UN SDGs

Companies can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible corporate actors, working to minimise negative externalities in their operations along the entire value chain. The aim of this section is to assess the SDG impact of the use of proceeds categories (**UoP categories**) that may be allocated by Fonterra's Use of Proceeds Instruments in two different ways, depending on whether the proceeds are used to (re)finance:

- specific products/services,
- improvements of operational performance.

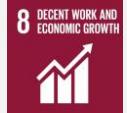
1. Products and services

The assessment of UoP categories for (re)financing products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an issuer's products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the ICMA Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of UoP categories for (re)financing specific products and services is displayed on a 5-point scale (see Annex 1 for methodology):

Significant Obstruction	Limited Obstruction	No Net Impact	Limited Contribution	Significant Contribution
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Each of the UoP categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
Employment Generation <i>Investments in programmes and activities that support employment generation, training, and reskilling (beyond essential compliance training) to support New Zealanders with capabilities required for work and help reduce the risks of skilled labour shortages and/or unemployment, especially in rural areas (e.g., Fonterra's local community hiring initiatives including apprenticeships³.)</i>	Significant contribution ⁴	
Food Security and Sustainable Food Systems <i>Investments in assets, activities, technology, and R&D to support social and economic access to safe, nutritious, and</i>	Significant contribution	

³Fonterra Apprenticeship Careers <https://www.fonterra.com/nz/en/careers/apprenticeship-careers.html>

⁴This project category is assessed as having a significant contribution to SDG 8, beyond the SDGA proprietary methodology.

sustainable food, including in resilient agricultural practices that reduce food loss and waste and/or improving access to affordable nutrition.

Socioeconomic Advancement and Empowerment

Investments in programmes and activities to support equitable access to high-quality and nutritious dairy products (e.g., Programmes to provide free or subsidised breakfasts to vulnerable children⁵).

Investments in programmes and activities to support other opportunities, services, and resources. This also includes activities aimed at supporting people from marginalised/underrepresented groups to advance their socio-economic position.

Limited Contribution

Limited contribution

Limited contribution

10 REDUCED INEQUALITIES
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2 ZERO HUNGER
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10 REDUCED INEQUALITIES
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10 REDUCED INEQUALITIES
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Improvements of operational performance (processes)

The below assessment aims at qualifying the direction of change (or “operational impact improvement”) resulting from the operational performance projects (re)financed by the UoP categories, as well as related UN SDGs impacted. The assessment displays how the UoP categories are mitigating the exposure to the negative externalities relevant to Fonterra’s business model and its sector.

According to ISS ESG’s SDG Impact Rating methodology, potential impacts on the SDGs related to negative operational externalities⁶ in the Food Products industry (to which Fonterra belongs) are the following:

Low exposure to negative externalities

Medium exposure to negative externalities

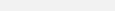
High exposure to negative externalities



⁵ KickStart Breakfast, <https://www.kickstartbreakfast.co.nz/our-opportunities>

⁶ Please, note that the impact of the Issuer’s products and services resulting from operations and processes is displayed in section 1 of the SPO.

The table below aims at displaying the direction of change resulting from the operational performance improvement projects. The outcome displayed does not correspond to an absolute or net assessment of the operational performance.

USE OF PROCEEDS (Processes)	OPERATIONAL IMPACT IMPROVEMENT ⁷	SUSTAINABLE DEVELOPMENT GOALS
Renewable Energy <i>Issuer's own renewable energy boilers: Installation, conversion and maintenance of boilers that use renewable energy fuel sources rather than fossil fuels (e.g., operate using sustainable materials such as FSC certified/sourced wood pellets rather than coal, or biomethane rather than natural gas).</i>	✓	 
 <i>Investment in issuer's own renewable energy generation: Installation of renewable energy (e.g., solar) at manufacturing sites and investment or purchasing power agreements (with a minimum five-year commitment for new renewable energy facilities) to stimulate the development of renewable energy generation.</i>	✓	 
 <i>Innovative processes and technologies: R&D and projects to support issuer's greater use of renewable energy, such as research conducted to evaluate the potential of locally produced biomethane as a substitute for natural gas.</i>	✓	 
 <i>Biogas facilities: Installation and maintenance of biogas units at issuer's manufacturing sites.</i>	✓	 
Sustainable Water and Wastewater Management <i>Investments in assets, activities, technology, and R&D that reduces water use, increases the amount of water recycled, improves wastewater treatment or other water stewardship improvements. Examples include, but are not limited to:</i>	✓	 

⁷ Limited information is available on the scale of the improvement as no threshold is provided. ISS ESG only displays the direction of change.

*Investments to upgrade wastewater treatment facilities:
Installation and upgrades to wastewater treatment facilities that reduce the impact on water catchments.*

*Investments in resource-efficient wastewater equipment:
Including installation of biological digestors to process wastewater with greater nutrient recovery, as well as dissolved air floatation system to treat wastewater before being discharged into the ocean.*

*Programmes to improve soil health and water quality:
Including R&D and trials to reduce the risk of nitrate leaching and improve freshwater quality.*

Environmentally Sustainable Management of Living Natural Resources and Land Use

*Investments in assets, technology, and R&D that support the adoption of sustainable and regenerative management of living natural resources and land use.
Examples include, but are not limited to:*

Investments in tools and systems to support improved farming practices in company's supply chain: Including the development and deployment of tools to support farm-specific Farm Environmental Plans (FEPs) that are guided by industry-defined Good Farming Practices and integrate a broad range of topics and improvement actions for each farm, including water, soil health, biodiversity, greenhouse gas emissions, mahinga kai (value of natural resources).



For farms with irrigation systems, the FEPs also build on regulatory requirements for metering and support water efficiency improvements.



Energy Efficiency

Investments in assets, activities, technology, and R&D to reduce the energy used to manufacture products or the energy consumption of the underlying asset. Examples include, but are not limited to:



Energy efficient equipment and appliances: Including energy efficient equipment utilised in manufacturing processes and onsite such as heat pumps in refrigeration systems or condensing economisers to recover and reuse heat from boiler flues.



Combined heat and power: Facilities that support more efficient heat and power usage in the production process⁸



Energy Efficiency

Energy storage: Including batteries⁹



Pollution Prevention and Control

Investments in assets, activities, technology, and R&D that reduce the level of waste, pollution and/or emissions arising from Fonterra's direct day-to-day operations and indirect on-farm footprint. Examples include, but are not limited to:

Waste management and recyclable packaging programmes and technology: Programmes to reduce solid waste to landfill, including investigating new technologies and solutions to divert waste streams from landfill and reduce the risk of plastic contamination of the environment (e.g. elimination of packaging, changing packaging materials, facilitation of efficient plastic recovery from farm).



Investments and infrastructure to reduce on-farm emissions in company's supply chain: R&D into new technologies to reduce methane emissions generated on-farm, such as methane vaccines, synthesised methane inhibitors, Kowbucha™ natural cultures and fermentations, natural methane inhibitors from red seaweed and other novel technologies



Expenditure to increase awareness, reporting, insights, and support to farmers in the issuer's supply chain to minimise emissions, including the development of farm-specific insights reports which detail the breakdown of GHG emissions for the farm, its performance relative to



⁸ Facilities that support more efficient heat and power usage in the production process not majority powered by the fossil fuels, otherwise it will be assessed as No Net Impact

⁹ Energy storage assessed with connected renewable energy, otherwise it will be assessed as No Net Impact

other farms and key changes which could lead to reduction.

Clean Transportation

Investments in assets, activities, technology and R&D that reduce the greenhouse gas emissions arising from the issuer's transportation fleet. Examples include, but are not limited to:

Light vehicle fleet: Investments and infrastructure to transition light vehicle fleet to electric vehicles.

Heavy fleet: Investments and infrastructure to transition heavy vehicle fleet to low carbon fuel sources.

Efficiency: Investments that improve the efficiency of transportation such as software systems that improve the efficiency of scheduling and dispatch of tankers to collect milk (i.e., less kms travelled); help drivers operate vehicles more efficiently (e.g., less energy per km travelled); or optimise the loading of vehicles (e.g., less journeys required).



B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE ELIGIBILITY CRITERIA

Key performance indicators (KPIs) covering both green and social activities

The table below evaluates the Eligibility Criteria against issuance-specific KPIs. All of the assets are/or will be located in New Zealand, Australia and South East Asia.

ASSESSMENT AGAINST KPIs
Community Dialogue
In New Zealand, most investments require engagement with community stakeholders as part of the planning process in respecting local regulations. Besides that, ISO 14001 environmental management system certification is a prerequisite requirement for Fonterra to manufacturing sites investment, which requires the certification to identify and engage with stakeholders (including the local community) on an annual basis.
Site selection
✓ All manufacturing sites being considered for investment have an environmental management system that has been independently certified to ISO14001:2015, which requires carrying out the environmental impact assessments at the planning stage.
Labour, health, and safety
✓ Fonterra's Code of Business Conduct and a Sustainability Code of Practice (SCOP), in line with the International Union of Food (IUF), advocated safety hazard identification and control approach to protecting workers (in line with the international standards provided in ILO convention 155) ¹⁰ for high labour and health and safety standards for own employees and volunteers.
✓ For onsite safety, Fonterra has a Health Safety and Wellbeing Policy ¹¹ and working safety procedures in place, which apply to all Fonterra staff (including capital projects and contractors involved).

¹⁰ International Union of Food (IUF) - Health and Safety, <https://www.iuf.org/what-we-do/health-and-safety/>

¹¹ Fonterra, December 2017, Group Health Safety and Wellbeing Policy, , <https://www.fonterra.com/content/dam/fonterra-public-website/fonterra-new-zealand/documents/pdf/policies-and-statements/Fonterra%20Group%20Health%20Safety%20and%20Wellbeing%20Policy .pdf>

Key performance indicators (KPIs) specific to green activities

The table below evaluates the Eligibility Criteria against issuance-specific KPIs. All of the assets are/or will be located in New Zealand, Australia and South East Asia.

ASSESSMENT AGAINST KPIs

Environmental aspects of energy efficiency equipment, solar energy, and waste management

- ✓ Fonterra is committed to being 100% reusable, recyclable, or compostable packaging by 2025 and zero waste to landfill by 2025.
- ✓ Fonterra has a Sustainability Code of Practice (SCOP) in place with a risk-based approach to vetting vendors and ensuring they meet Fonterra's environmental standards expectations.

Environmental aspects of Bioenergy/Biomass

- ✓ Fonterra has assessed combined heat and power solutions as uneconomic (in terms of capital and operational costs and efficiency losses). Therefore, at this stage, Fonterra prefers dedicated steam raising assets or conversion of existing assets in conjunction with renewable electricity from the grid and power purchase agreements.
- ✓ All manufacturing sites being considered for investment have an environmental management system that has been independently certified to ISO14001:2015 to ensure they are meeting high environmental standards and requirements during the construction phase (e.g., noise mitigation and minimisation of environmental impact during construction).
- ✓ All manufacturing sites being considered for investment have an environmental management system that has been independently certified to ISO14001:2015 to ensure they have high standards regarding the environmentally safe operation of plants (e.g., air emissions, and disposal of residues).
- ✓ Fonterra has a Health and Safety Policy and procedures in place which cover all Fonterra staff (including capital projects and contractors involved) and all sites in order to ensure high safety standards (e.g., regarding fire and explosions).

Environmental aspects of wastewater management

- All manufacturing sites being considered for investment have an environmental management system that has been independently certified to ISO14001:2015 to prevent leakage of sewerage systems (e.g., monitoring systems, adequate maintenance, and repair).
- ✓ Besides that, Fonterra has a central Asset Leadership team who provides direction and guidance and support to its business for the maintenance of its assets to manage and prevent leaks from its wastewater systems. Fonterra has an asset care programme called ACAP (Asset Condition Assessment and Planning Process), which is used to understand the condition of its assets.

- For the quality of treated water discharges, Fonterra has an environmental policy in place and an environmental data monitoring system (EDMS) to help manage and report on the effects of authorised discharges into the environment that comply with regulatory requirements. Fonterra has set specific conditions and parameters limits for the wastewater that ensure that the discharge is treated to a sufficiently high standard to minimise the impacts on land and water.

Environmental aspects of electric and alternative drive vehicles

- Fonterra has committed that all vehicles financed under its Sustainable Finance Framework will require the full life cycle assessment. The vehicles will be sold if the vehicles reach 300,000 km distance or the ownership up to 7 years.
- Fonterra is committed that all vehicles financed under its Sustainable Finance Framework shall comply with the safety rating threshold of 4 stars or higher at the time of purchase.

Environmental aspects of Sustainable Agriculture

- Fonterra has a Farmers Terms of Supply in place, which require farmers to meet all relevant regulatory standards. In addition, Fonterra has established a Global Animal Wellbeing Standard to ensure animal wellbeing with animal health records; besides that, key practices are audited by a third-party annually.
- According to Fonterra's Farmers Terms of Supply, all farmers are required to meet all relevant regulatory obligations, including the Climate Change Response (Zero Carbon) Act¹². Individual on-farm emissions are accounted for and reported on an annual basis (this includes non-biological emissions, e.g., fertilizer feed and energy). Farm-level inputs are audited on an annual basis.
- Fonterra has a procurement process that requires suppliers to be committed to no deforestation, peatland development or exploitation. Also, Farmers are subject to national and regional regulatory frameworks to protect soil, water, and biodiversity, e.g., National Policy Statement for Indigenous biodiversity. Furthermore, the use of pesticides and herbicides are subject to Agricultural Compounds and Veterinary medicines Act; Farmers are required to meet these regulatory requirements according to the According to Fonterra's Farmers Terms of Supply.
- Currently, no genetically modified products manufactured in New Zealand are commercially available. All use of GM techniques must have approval under the Hazardous Substances and New Organisms Act.¹³ Fonterra states its commitment to Striving to protect the value of New Zealand's global reputation for its position on genetic modification¹⁴.

¹² New Zealand Government, November 2019, Climate Change Response (Zero Carbon) Amendment Act 2019 Climate Change Response (Zero Carbon) Act - <https://www.legislation.govt.nz/act/public/2019/0061/latest/LMS183736.html>

¹³ BIOTECHNZ, April 2022, NZ needs genetic modification in the world of climate change <https://biotechnz.org.nz/2022/04/26/nz-needs-genetic-modification-in-the-world-of-climate-change/>

¹⁴ Fonterra, July 2021, Food Safety and Quality System, <https://www.fonterra.com/content/dam/fonterra-public-website/fonterra-new-zealand/documents/pdf/food-quality-and-safety/fonterra-food-safety-and-quality-system.pdf>

- ✓ In New Zealand, all agricultural developments (new dairy farms) are subject to both national and regional planning processes that require an environmental impact assessment (including water) which ensures the assets do not locate in regions with high levels of water stressors.
- ✓ In New Zealand, all agricultural developments (new dairy farms) are subject to both national and regional planning processes that require an environmental impact assessment (including water). Terms of Supply also require farmers to meet these regulatory obligations (Resource Management Act), and an assessment is undertaken before the supply of milk to the Co-operative. Farmers also take measures to reduce water use. For example, for farmers with irrigation systems in NZ it is Good Farming Practice to design, calibrate and operate irrigation systems to minimize the amount of water needed to meet production objectives.

Key performance indicators (KPIs) specific to social activities

The table below evaluates the Eligibility Criteria against issuance-specific KPIs. All of the assets are/or will be located in New Zealand, Australia, South East Asia.

ASSESSMENT AGAINST KPIs

Inclusion

- ✓ Fonterra has a non-discrimination policy with a whistleblowing hotline and an investigation process. It is reflected in the Sustainability Code of Practice (SCOP) for vendors to prohibit discrimination in the workplace (e.g., recruitment, job assignment, remuneration, training, and benefits). Fonterra provides for employees returning from parental leave and introduces a diversity and inclusion aspect to its short-term incentive scheme to improve gender and ethnicity representation in global leadership.

Quality Management

- ✓ All manufacturing sites which will host assets financed by this Framework are independently certified with Food Safety and Quality Management System FSSC22000 (currently 100% of Fonterra's manufacturing sites are independently certified to a leading food safety management system (e.g., FSSC22000, BRC), and their standard operating procedures are also independently audited by MPI (Ministry of Primary Industries) to ensure the quality).

Fonterra has full traceability in place, which, back to milk collected from farms, food-contact packaging, and other ingredients. It also allows Fonterra to demonstrate the provenance of the product from a social perspective. Currently, 93% of its global manufacturing plants are electronically connected to its integrated Global Traceability System.

Policy of facility for socioeconomic projects

- ✓ Fonterra has a code of business conduct (or named as "The way we work") in place. Fonterra does not allow discrimination against any employee or by any employee. Fonterra treat people of all ages, races, ethnicities, religious affiliations, genders, sexual orientations or nationalities equally, whether they are employees, farmers, shareholders, suppliers, or customers.

PART III: SUSTAINABLE FINANCE INSTRUMENTS LINK TO FONTERA'S SUSTAINABILITY STRATEGY

A. FONTERA'S BUSINESS EXPOSURE TO ESG RISKS

This section aims to provide an overall level of information on the ESG risks to which the issuer is exposed through its business activities, providing additional context to the issuance assessed in the present report.

ESG risks associated with the Issuer's industry

The issuer is classified in the food products industry, as per ISS ESG's sector classification. Key challenges faced by companies in terms of sustainability management in this industry are displayed in the table below. Please note, that this is not a company-specific assessment but areas that are of particular relevance for companies within that industry.

ESG KEY ISSUES IN THE INDUSTRY
Labour standards and working conditions
Customer health and safety
Impacts on soil and biodiversity along the value chain
Mitigation of direct and indirect climate impacts
Conservation of aquatic ecosystems and water along the value chain

ESG performance of the Issuer

Leveraging ISS ESG's Corporate Rating research, further information about the issuer's ESG performance can be found on ISS ESG Gateway at: <https://www.issgovernance.com/esg/iss-esg-gateway/>.

Please note that the consistency between the issuance subject to this report and the issuer's sustainability strategy is further detailed in Part III.B of the report.

Sustainability impact of products and services portfolio

Leveraging ISS ESG's Sustainability Solutions Assessment methodology, ISS ESG assessed the contribution of the issuer's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along the issuer's production process.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE ¹⁵	DIRECTION OF IMPACT	UN SDGS
Dairy-based products (with limited processing)	15%	CONTRIBUTION	
Food products (highly processed and/or critical nutrient level)	2.5%	OBSTRUCTION	

Breaches of international norms and ESG controversies

At issuer level

At the date of publication and leveraging ISS ESG Research, no severe controversy in which the issuer would be involved has been identified.

At industry level

Based on a review of controversies over a 2-year period, the top three issues that have been reported against companies within the Food Products industry are as follows: Failure to prevent deforestation/illegal logging, Failure to respect the right and healthy working conditions, and Failure to mitigate climate changes impacts.

Please note, that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

¹⁵ Percentages presented in this table are not cumulative.

B. CONSISTENCY OF SUSTAINABLE FINANCE INSTRUMENTS WITH FONTERRA'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the issuer

Fonterra's key sustainability objectives are to enhance people's lives through convenience, health and wellbeing. To achieve this, the company has identified three priorities – to focus on New Zealand milk, be a leader in sustainability and be a leader in dairy innovation and science.

Fonterra states that focusing on New Zealand milk is about leveraging its low-carbon footprint, pasture-based model and animal welfare standards which make its milk unique. The company is also being more selective about what it does with its New Zealand milk, differentiate it further in the global market and, in doing so, earn a premium. The company also aspires to be net zero carbon by 2050 and intends to invest around NZ\$1 billion in sustainability initiatives by 2030.

Aiming to be a leader in dairy innovation and science, the company is looking to build on its long and proud heritage of dairy innovation which has seen it pioneer many world firsts and, increasingly, new solutions which aim to solve problems its customers face in their operations and help people live healthier and longer lives. The company is also aiming to prioritize the Farmgate Milk Price (the average price paid by Fonterra for each kilogram of milk solids supplied by farmer shareholders), grow its Foodservice channel, strengthen its Consumer channel and move towards higher value products in Ingredients.

Nature

Fonterra commits to net zero greenhouse gas emissions for dairy nutrition, adopting and investing in leading practices to improve land use and water quality, reducing waste, and ensuring the wellbeing of animals in its supply chain.

Fonterra aspires to be net zero carbon by 2050 and the company is targeting a science-based reduction in Scope 1 and 2 greenhouse gas emissions of 30% by 2030. Fonterra expects to do this through a combination of energy efficiency initiatives and switching fuels at its nine manufacturing sites that still use coal and aim to ultimately stop using coal by 2037. It is also developing plans to transition its manufacturing sites which use natural gas to other more sustainable energy sources such as biomass, biogas and electricity from renewable sources. It is assessing low emission energy options for its milk collection fleet – including electric and hydrogen powered tankers – and continuing to improve efficiency.

It also hopes to solve the methane challenge and will be increasing its innovation efforts to look for solutions to reduce its Scope 3 greenhouse gas emissions. It is investing in a wide range of potential breakthrough technologies to support this transition, including research and development of methane vaccines, Kowbucha™, novel technologies and both natural and synthesized methane inhibitors. Fonterra regularly commissions carbon lifecycle assessments and, in New Zealand, it provides farm-specific greenhouse gas emissions reports so farmers can understand their current performance and can prioritize improvements.

To improve the health and biodiversity of land and waters, Fonterra is working at its manufacturing sites, with its farmers and in partnership with others. At its manufacturing sites it is reducing its water use and improving its water treatment to improve water availability and quality around its sites. The company is also working with farmers to help them understand their current areas of strength and opportunities for improvement. In New Zealand, its team of Sustainable Dairying Advisors are establishing Farm

Environment Plans (FEPs). Each FEP is unique to the specific farm and build on regulatory requirements and is guided by industry-defined Good Farming Practices. Topics covered include water, soil health, biodiversity and greenhouse gas emissions.

People and Culture

As a food company, Fonterra recognizes the valuable role nutrient-rich dairy products can play in addressing food security and improving health and wellbeing for people around the world.

Fonterra is continuing to improve the composition of its consumer products, taking into consideration the levels of dairy protein and calcium, while also minimizing the addition of free sugars, refined carbohydrates, non-nutritive sweeteners, sodium and saturated fat. Its nutrition guidelines also reflect its support for the global public health objective to reduce the intake of industrially-produced trans fats from partially hydrogenated oils. Its target is for 100% of its everyday and advanced nutrition consumer products, such as yoghurt and fortified milk powders, to meet its independently endorsed nutrition guidelines by 2025.

Fonterra is also focused on building an inclusive workforce. In 2019, Fonterra signed the Aotearoa New Zealand Skills Pledge, and by 2025, it is committed to doubling on-the-job training and reskilling hours in New Zealand from a 2020 baseline. The Skills Pledge aligns with its focus on building the right capabilities, preparing employees for their roles today and for their future careers in New Zealand and globally. In FY22, its New Zealand employees spent more than 501,879 hours upskilling, an increase of 85.6% on FY20, and an average of 45 hours per learner.

Its Māori Development Team members have engaged widely with Māori farmers, iwi (tribe) partners and stakeholders, customers and employees. They're working to understand how Fonterra can best recognize and acknowledge the importance of having a connection with tangata whenua (people of the land) for the benefit of everyone in Aotearoa New Zealand and for the world. Fonterra has also published its Māori Strategy.

Rationale for issuance

Through Use of Proceeds Instruments, the raised capital supports Fonterra's commitment to invest in sustainable assets and outcomes in the future, as well as helping Fonterra and New Zealand achieve their net-zero emissions goals and address social challenges.

Contribution of Use of Proceeds categories to sustainability objectives and key ESG industry challenges

The Use of Proceeds categories financed under the Use of Proceeds Instruments with the sustainability objectives defined by the issuer and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Food Products industry. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g., climate change and energy efficiency in the buildings industry. From this mapping, a level of contribution to the strategy of each Use of Proceeds category.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
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Renewable Energy	✓	✓	Contribution to a material objective
Clean Transportation	✓	✓	Contribution to a material objective
Sustainable Water and Wastewater Management	✓	✓	Contribution to a material objective
Environmentally Sustainable Management of Living Natural Resources and Land Use	✓	✓	Contribution to a material objective
Energy Efficiency	✓	✓	Contribution to a material objective
Pollution Prevention and Control	✓	✓	Contribution to a material objective
Employment Generation	✓	—	Contribution to a non-material objective
Food Security and Sustainable Food Systems	✓	✓	Contribution to a material objective
Socioeconomic Advancement and Empowerment	✓	—	Contribution to a non-material objective

Opinion: The Use of Proceeds categories financed through the Use of Proceeds Instruments are broadly consistent with the Fonterra's sustainability strategy and are material ESG topics for the Fonterra's industry. The rationale for issuing Use of Proceeds Instruments is clearly described by Fonterra.

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ANNEX 1: Methodology

ISS ESG Green and Social KPIs

The Green and Social Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of Fonterra's Sustainable Finance Framework.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting. If a majority of assets fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

Environmental and social risks assessment methodology

The Environmental and social risks assessment evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Green and Social Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available or that the information provided did not fulfil the requirements of the Green and Social Bond KPIs.

The evaluation was carried out using information and documents provided on a confidential basis by Fonterra (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

Assessment of the contribution and association to the SDGs

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, the extent to which Fonterra's Sustainable Finance Instruments contributes to related SDGs has been identified.

ANNEX 2: ISS ESG Corporate Rating Methodology

ISS ESG Corporate Rating provides relevant and forward-looking environmental, social, and governance (ESG) data and performance assessments.

For more information, please visit:

<https://www.issgovernance.com/file/publications/methodology/Corporate-Rating-Methodology.pdf>

ANNEX 3: Quality management processes

SCOPE

Fonterra commissioned ISS ESG to compile a Use of Proceeds SPO. The Second Party Opinion process includes verifying whether the Sustainable Finance Framework aligns with the GBP, SBP, SBG, GLP and SLP and to assess the sustainability credentials of its Use of Proceeds Instruments, as well as the issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- GBP, SBP, SBG, GLP and SLP
- ISS ESG Key Performance Indicators relevant for Use of Proceeds categories selected by the Issuer

ISSUER'S RESPONSIBILITY

Fonterra's responsibility was to provide information and documentation on:

- Sustainable Finance Framework
- Eligibility criteria
- Documentation of ESG risks management at the asset level

ISS ESG's VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Use of Proceeds Instruments to be issued by Fonterra based on ISS ESG methodology and in line with the ICMA GBP, SBP, SBG, GLP, SLP.

The engagement with Fonterra took place from June to October 2022.

ISS ESG's BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For more information on SPO services, please contact: SPOSales@isscorporatesolutions.com

For more information on this specific Sustainable Finance instruments SPO, please contact:
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