



Dairy for life

FONTERRA CO-OPERATIVE
GROUP LIMITED
OCTOBER 2022

Sustainable Finance Framework



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1. Introduction

About Fonterra

Fonterra Co-operative Group Limited (**Fonterra** or **Co-operative**) is a New Zealand dairy co-operative owned by New Zealand farmer shareholders and collects milk from around 8,700 farms in New Zealand. Through the spirit of co-operation and a can-do attitude,

Fonterra's farmer owners, along with approximately 20,000 employees around the world, share the goodness of New Zealand milk.

We have a network of manufacturing sites throughout New Zealand supported by others around the world, which allow us to produce innovative consumer, foodservice and ingredient products that are delivered to over

130 countries around the world.

While this gives us scale in New Zealand and sees us responsible for approximately 30% of the world's dairy exports, we remain small on the world stage with approximately 2% of the total global milk supply. Our Co-operative is a real case of New Zealand farmers taking on the world.

We believe we have something special - people want sustainably produced, high-quality, nutritious milk and that's what our Co-operative is all about. Due to our pasture-based, grass-fed farming model, the good management practices adopted by our farmers and well-cared for animals, our milk has a carbon footprint that is among the lowest in the world.

This, along with our heritage of dairy innovation, means we can bring the goodness of New Zealand milk to the world and in doing so seek to increase the value we generate for New Zealand and our farmer owners.

STRATEGY

Our strategy aims to enhance people's lives through convenience, health and wellbeing by unlocking the goodness of New Zealand milk.

To achieve this, we have made three strategic choices – to focus on Aotearoa New Zealand milk, be a leader in sustainability and be a leader in dairy innovation and science.

Focus on our Aotearoa New Zealand milk is about leveraging our low-carbon footprint, pasture-based model and animal welfare standards that make our milk unique. We have an opportunity to be more selective about what we do with our Co-operative's New Zealand milk, differentiate it further in the global market and, in doing so, earn a premium.

As part of being a leader in sustainability, we aspire to be net zero carbon by 2050 and intend to invest around NZ\$1 billion in sustainability initiatives by 2030. This is about caring for and doing what's right for the environment, but it also allows us to invest in our brands to showcase our New Zealand sustainable nutrition story and help customers meet their own sustainability goals.

Being a leader in dairy innovation and science, we will build on our long and proud heritage of dairy innovation, which has seen us pioneer many world firsts and, increasingly, new solutions that aim to solve problems our customers face in their operations and help people live healthier and longer lives.

Through these choices we're aiming to prioritise the Farmgate Milk Price (the average price paid by Fonterra for each kilogram of milk solids supplied by farmer suppliers in New Zealand), grow our Foodservice channel, strengthen our Consumer channel and move towards higher value products in Ingredients.

In doing so, we're aiming to deliver on our purpose and it's this that motivates our people.



OUR PURPOSE:

Our Co-operative,
Empowering people

To create goodness
for generations.

You, me, us together
Tātou, tātou

OUR VALUES:

Co-operative spirit

Do what's right

Make it happen

Challenge boundaries

OUR PRINCIPLES:

Our principles are aligned with the Māori world view.

Manaakitanga is the care we show for others - it strengthens our relationships and communities.

Kaitiakitanga is how we care for our environment today, tomorrow, and for future generations.

Whanaungatanga is our Co-operative spirit - it sits at the heart of our values.

WE'VE MADE KEY STRATEGIC CHOICES:



Focus on Aotearoa
New Zealand Milk



Be a leader in
Dairy Innovation
& Science



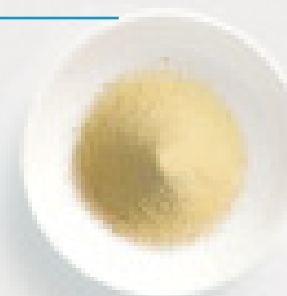
Be a leader in
Sustainability

KEY ASPIRATIONS FOR 2030:

Group ROC
~9-10%

Operating Profit
40-50%
increase from FY21

Strong progress towards
2050 aspiration to be
**Net Zero
Carbon**





Fonterra’s approach to sustainability

New Zealand dairy farmers feed around 40 million people globally today. But as the world grows, food producers around the world will need to find new ways to feed around 10 billion people by 2050. We need to meet these demands while protecting and restoring the environment by considering the material environmental challenges in relation to dairy production such as climate (methane emissions), clean air and water (nitrogen leakage) and land use (biodiversity).

As a co-operative, we’re deeply invested in New Zealand’s success and take a long-term view. We’re a business built from farms passed down from one generation to the next, and that means aiming for the land and natural bounty of our country to be preserved for generations to come. Agriculture depends upon a stable global climate and is particularly impacted by environmental effects. Our farmers are close to the land and the impacts of climate change.

Our approach (**Sustainability Strategy**) considers our environmental, social and economic performance in an integrated way, expressed using the different forms of capital that we rely on to create value and that we must nurture.



A sustainable future for our Co-operative is core to our strategy - it’s how we create long-term value for future generations.

 People & culture	 Nature	 Relationships	 Intellectual Capital	 Assets & infrastructure	 Financial
Able to retain, develop and attract the best talent	Demonstrating that dairy can be net-positive contributor to nature	Trusted relationships through high-quality, innovation products and services and playing our part for positive social, environmental and economic outcomes	Leveraging intellectual property to deliver additional value	Operational assets are resilient and efficiently delivering our most valuable products	Consistently attractive performance for providers of funding, including our farmer shareholders
PRIORITY ACTIVITIES • Providing a safe, healthy and inclusive place to work • Continuously developing people's skills for meaningful careers within the ever-changing nature of work	PRIORITY ACTIVITIES • Leading the transition to net-zero GHG emissions for dairy nutrition • Farmers are adopting and investing in leading on-farm practices • Using science and innovation skills to solve environmental challenges on and off farm	PRIORITY ACTIVITIES • Understanding the needs of our customers and being responsive to these • Partnering with others to help unlock the full potential of dairy and deliver improved sustainability outcomes • Being clear on what we stand for and demonstrating the value we bring to specific relationships and more broadly	PRIORITY ACTIVITIES • Converting our specialised dairy know-how into value through the products, solutions and partnerships we develop	PRIORITY ACTIVITIES • A mindset of continuous improvement to protect and enhance our scale/ cost advantage and stay competitive on a world stage • Applying innovation to our assets so they are able to respond to future needs	PRIORITY ACTIVITIES • Using science and innovation to improve efficiency and grow value • Sustainability credentials are valued, building preference and premium for our dairy • Target to return ~\$1 billion to shareholders through planned divestments

Fonterra has established targets that underpin the pillars of Fonterra’s Sustainability Strategy and we publicly report on our annual progress. These are outlined further in Section 5 (Sustainability-Linked Instruments).

Fonterra supports the United Nations Sustainable Development Goals (**SDGs**)¹, and we are committed

to playing our part by working collaboratively to deliver change at scale. We have analysed our business activities, material topics and value chain in the context of our strategy and have identified the 10 goals where we can make the most material contribution. For further information please refer to our [Sustainability Report 2022 \(page 59\)](#) on our website.

¹The SDGs were established in September 2015 to form an agenda to achieve sustainable development by the year 2030. The SDGs consist of 17 goals and 169 targets, that were established to address the world's most pressing environmental and social challenges including climate action, zero hunger and clean water and sanitation.



Nature

Nature plays a vital role in supporting the production of the valuable nutrition we deliver. Communities value their surroundings as a place to enjoy, and consumers are increasingly interested in where their food comes from and how it is produced.



We want to play our part in protecting and restoring nature so that we can continue producing nutrition inter-generationally. To achieve this, we are using our science and innovation skills to solve environmental challenges both on and off-farm.

We are committed to leading the transition to net zero greenhouse gas emissions for dairy nutrition, adopting and investing in leading practices to improve land and water, reducing waste, and protecting the wellbeing of animals in our supply chain. In this way, we aim to demonstrate that dairy can be a net-positive contributor to nature.

We intend to invest around NZ\$1 billion in environmental sustainability initiatives by 2030. We aspire to be net zero carbon by 2050 and we're targeting a science-based reduction in scope 1 and 2 greenhouse gas emissions of 30% by 2030. We expect to do this through a combination of energy efficiency initiatives and switching fuels at our nine manufacturing sites that still use coal, and aim to ultimately stop using coal by 2037. We are also going further and developing plans to transition our manufacturing sites that use natural gas to other more sustainable energy sources such as biomass, biogas and electricity from renewable sources.

We are assessing low emission energy options for our milk collection fleet – including

electric and hydrogen powered tankers – and continuing to improve efficiency.

We also know that to maintain our relative carbon footprint advantage against the northern hemisphere farming system, we must solve the methane challenge and will be increasing our innovation efforts to look for solutions to reduce our scope 3 greenhouse gas emissions. We are 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 synthesised methane inhibitors. Fonterra regularly commissions carbon lifecycle assessments and, in New Zealand, we provide farm-specific greenhouse gas emissions reports so farmers can understand their current performance and can prioritise improvements.

To improve the health and biodiversity of land and water, we are working at our manufacturing sites, with our farmers and in partnership with others. At our manufacturing sites we are reducing our water use and improving our water treatment, which will help improve water availability and quality around our sites. We are also working with farmers to help them understand their current areas of strength and opportunities for improvement. In New Zealand, our team of Sustainable Dairying Advisors are establishing Farm Environment Plans (**FEPs**). Each FEP is unique to the specific farm and builds on regulatory requirements, and is guided by industry-defined Good Farming Practices. Topics covered include water, soil health, biodiversity, and greenhouse gas emissions.

Our investment in sustainability helps us to become an integral part of our customers' supply chains and intrinsically linked to the success of their public sustainability targets. It sets us up to push further with our development of sustainability brand claims and positioning, so we can offer a greater selection of sustainability attributes to our customers.

People and Culture

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

To achieve this, we use our dairy innovation and science expertise to support our customers and improve our products while maintaining the highest standards of food safety and quality.

Delivering this value to customers and society requires a global team, performing at its best. That means we are committed to providing a safe, healthy and inclusive place to work and continuously developing people's skills for meaningful careers. In this way, we aim to retain, develop and attract the best people.

The Fonterra Research and Development Centre is one of the largest of its kind in the world, with around 280 science and technical experts, including over 130 with PhDs. We invest significantly in innovation to deliver benefits from dairy that are supported by science and help meet the nutritional needs and expectations of society.

We are continuing to improve the composition of our consumer products, taking into consideration the levels of dairy protein and calcium, while also minimising the addition of free sugars, refined carbohydrates, non-nutritive sweeteners, sodium and saturated fat. Our nutrition guidelines also reflect our support for the global public health objective to reduce the intake of industrially-produced trans fats from partially hydrogenated oils.

Our target is for 100% of our everyday and advanced nutrition consumer products, such as yoghurt and fortified milk powders, to meet our independently endorsed nutrition guidelines by 2025. For the financial year ended 31 July 2022 (**FY22**), on a volume sold basis, we improved from 86.5% in FY21 to 87.7%.

We are focused on building an inclusive workforce where diversity flourishes and teams can achieve their highest performance. This involves the ongoing development of our employees to help them respond to the ever-changing nature of work.

In 2019, we signed the Aotearoa New Zealand Skills Pledge, and by 2025 we are committed to doubling on-the-job training and reskilling hours

in New Zealand from a 2020 baseline. The Skills Pledge aligns with our focus on building the right capabilities, preparing employees for their roles today and for their future careers in New Zealand and globally.

In FY22, our 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. The main areas of growth in FY22 have come in the areas of leadership development (up 81,600 hours from FY20), technical programmes such as DAIRYCRAFT (up 38,700 hours from FY20) and apprenticeship training (up 40,000 hours from FY20).

Our Māori Development Team members have engaged widely with Māori farmers, iwi (tribe) partners and stakeholders, customers and employees. They're working to understand how we can best recognise and acknowledge the importance of having a connection with our tangata whenua (people of the land) for the benefit of everyone in Aotearoa New Zealand and for the world. We published our Māori Strategy, called Haea te ata (to draw a new day), which is based on three pillars designed to introduce and weave Te Ao Māori (the Māori world view) through the Co-operative in a genuine and authentic way:

- **Tāngata (people and relationships)** – recognising the unique contribution of Te Ao Māori in how we interact with people;
- **Taiao (natural environment)** – recognising the unique contribution of Te Ao Māori in how we interact with our natural environment; and
- **Tuakiri (pride and identity)** – how we tell our unique Aotearoa New Zealand provenance story.



2. About this Framework

To recognise Fonterra’s focus on sustainability and to support Fonterra’s commitment to invest in sustainable assets and outcomes in the future, Fonterra has developed this Sustainable Finance Framework (**Framework**). Through this Framework, Fonterra will aim to achieve its net zero carbon emissions goal and address social challenges for Fonterra and New Zealand, while providing a mechanism for investors to contribute capital to help achieve their own sustainability goals.

This Framework outlines the process by which Fonterra intends to issue and manage bonds and loans that will fund sustainable assets and outcomes to which Fonterra is committed (**Sustainable Debt**), in alignment with the relevant market standards (**Market Standards**)².

Fonterra may issue or manage the following Sustainable Debt instruments (such as bonds and loans) in accordance with the applicable Market Standards:

- **Use of Proceeds Instruments** (see section 4), where an amount equal to the net proceeds of the Green, Social or Sustainability Bonds and/or Loans are intended to be notionally allocated exclusively to finance or refinance Eligible Assets (see below); and/or
- **Sustainability-Linked Instruments** (see section 5), where the economic terms of the applicable financing instruments are linked to Fonterra’s achievement of material sustainability performance targets.

This Framework sets out the processes for these Sustainable Debt instruments.

3. Governance

The Fonterra Board of Directors (**the Board**) has ultimate oversight of strategy including sustainability, which is developed and led by the Fonterra Management Team. The Sustainability Advisory Panel is currently made up of six external experts who provide independent guidance on Fonterra’s strategy from a sustainability perspective. The Audit, Finance and Risk Committee (**AFRC**) is a Board sub-committee and assists the Board in fulfilling its corporate governance responsibilities, which includes Fonterra’s funding activities and is responsible for approving this Framework and other key funding documents.

In relation to this Framework, Fonterra’s Treasury Team will be responsible for monitoring compliance with the reporting and external review requirements of this Framework and the applicable Market Standards.

- For Use of Proceeds Instruments, Fonterra’s Treasury Team has oversight of Fonterra’s reporting obligations and the notional allocation of the net proceeds to Eligible Assets under this Framework.
- For Sustainability-Linked Instruments, Fonterra’s Treasury Team has oversight of Fonterra’s performance against the sustainability performance targets.

² The market standards are the voluntary sustainable finance principles and guidelines issued by the International Capital Market Association (**ICMA**), the Asia-Pacific Loan Market Association (**APLMA**), the Loan Market Association (**LMA**) and the Loan Syndications and Trading Association (**LSTA**) as they may evolve over time (together, the **Market Standards**).

4. Use of Proceeds Instruments

Use of Proceeds

Use of Proceeds Instruments raise funds for new and existing projects with environmental and/or social benefits.

Fonterra intends to notionally allocate the net proceeds from its Use of Proceeds Instruments to finance or refinance projects, assets and/or activities that are Green Assets or Social Assets (together, **Eligible Assets**), each as defined below. Use of Proceeds Instruments can include but are not limited to bonds and loans.

With respect to bonds, Use of Proceeds Instruments will be aligned as appropriate for the type of bond issued, with the: ICMA 2021 Green Bond Principles (**GBP**)³, 2021 Social Bond Principles (**SBP**)⁴, 2021 Sustainability Bond Guidelines (**SBG**)⁵, and where applicable, the Climate Bond Standard (**CBS**)⁶ or as they may be subsequently amended.

For loans, the Use of Proceeds Instruments will be aligned with the APLMA and LMA 2021 Green Loan Principles (**GLP**)⁷ and 2021 Social Loan Principles (**SLP**)⁸ or as they may be subsequently amended.

Eligible Assets may include projects delivered, or in the process of being delivered, or assets owned by Fonterra’s subsidiaries or another contracted party and include the funding of capital expenditure, operating expenditure and other related expenditure for the projects, assets and/or activities. Fonterra will endeavour to prioritise the financing of new Eligible Assets when allocating net proceeds from Use of Proceeds Instruments and will apply a look-back period of no longer than three prior financial years when refinancing existing Eligible Assets (excluding operating expenditure, where no look-back period applies). This Framework may be subsequently updated to reflect further investments in Eligible Assets beyond what is already included in this Framework.

Green Assets

Green Assets are outlined below and will comply with one or more of the GBP, GLP, or where applicable, the CBS.

Eligible Categories (GBP/GLPs)	Eligibility Criteria
Renewable Energy Environmental impact: Climate change mitigation, natural resource conservation and pollution prevention and control.	Investments in assets, activities, technology and research and development (R&D) to enable or increase the use of renewable energy sources and production. Examples include, but are not limited to: • 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 wood pellets rather than coal, or biomethane rather than natural gas). • Investment in 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. • Innovative processes and technologies: R&D and projects to support greater use of renewable energy, such as research conducted to evaluate the potential of locally produced biomethane as a substitute for natural gas. • Biogas facilities: Installation and maintenance of biogas units at manufacturing sites.

³ICMA Green Bond Principles 2021 ([GBP](#)).
⁴ICMA Social Bond Principles 2021 ([SBP](#)).
⁵ICMA Sustainability Bond Guidelines 2021 ([SBG](#)).
⁶Climate Bond Standard and Certification Scheme has established sector criteria (including for Agriculture).
⁷APLMA Green Loan Principles 2021 ([GLP](#)).
⁸APLMA Social Loan Principles 2021 ([SLP](#)).

Eligible Categories (GBP/GLPs)	Eligibility Criteria
Sustainable Water and Wastewater Management Environmental impact: Climate change adaption, natural resource conservation, biodiversity, and pollution prevention and control.	Investments in assets, activities, technology, and R&D that reduce water use, increase the amount of water recycled, improve wastewater treatment or other water stewardship improvements. Examples include, but are not limited to: • Investments to upgrade wastewater treatment facilities: Installation and upgrades to wastewater treatment facilities that reduce our 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 systems 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 Environmental impact: Climate change mitigation, climate change adaption, biodiversity, natural resource conservation and pollution prevention and control.	Investments in assets, activities, 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: Including the development and deployment of tools to support farm-specific 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 and 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 Environmental impact: Climate change mitigation.	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 on site 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 process. • Energy storage: Including batteries.
Pollution Prevention and Control Environmental impact: Climate change mitigation, 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: 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 to minimise emissions, including the development of farm-specific insight reports, which detail the breakdown of greenhouse gas emissions for the farm, its performance relative to other farms and key changes that could lead to reductions.
Clean Transportation Environmental impact: Climate change mitigation, pollution prevention and control.	Investments in assets, activities, technology and R&D that reduce the greenhouse gas emissions arising from transportation. 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 (e.g. 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).

Social Assets

Fonterra’s Social Assets aim to address a specific social issue and seek to achieve positive social outcomes primarily for defined target populations.

Social Assets and target populations are outlined below and will comply with the SBP and/or the SLP.

Eligible Categories (SBP/SLPs)	Eligibility Criteria	Target Populations ⁹
Employment Generation Social Impact: Increase decent work and economic growth, reduce inequalities.	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. An example (without limitation) would be Fonterra's local community hiring initiatives including apprenticeships.	Aging populations and/or vulnerable youth Excluded and/or marginalised populations and/or communities Undereducated
Food Security and Sustainable Food Systems Social Impact: Reduce hunger, responsible consumption and production.	Investments in assets, activities, technology and R&D to support social and economic access to safe, nutritious and sustainable food, including in resilient agricultural practices that reduce food loss and waste and/ or improving access to affordable nutrition.	Aging populations and/or vulnerable youth Living below the poverty line
Socioeconomic Advancement and Empowerment Social Impact: Reduce poverty, reduce hunger, increase decent work and economic growth, reduce inequalities.	Investments in programmes and activities to support equitable access to high quality and nutritious dairy products, as well as other opportunities, services and resources. This also includes activities aimed at supporting people from marginalised/underrepresented groups to advance their socio-economic position. An example (without limitation) would be programmes to provide free or subsidised breakfasts to vulnerable children.	Excluded and/or marginalised populations and/or communities Living below the poverty line Underserved populations Vulnerable youth



⁹**Aging populations** – include, but are not limited to, people aged 65 years and over. In considering this target population, we referenced Statistics NZ who give information about the population by age group and refers to older people as those aged 65 and over.

Vulnerable youth – include, but are not limited to, the target population of 15 – 24 years identified as having one or more risk factor(s). In considering this target population, we referenced the New Zealand Governments “*Youth At Risk*” assessment.

Excluded and/or marginalised populations and/or communities – include, but are not limited to, people excluded from mainstream social, economic, educational, and/or cultural life due to race, gender identity, sexual orientation, physical ability, language, and/or immigration status, for example, Māori or Pacific youth.

Undereducated – include, but are not limited to, those with limited if any school qualifications and no tertiary qualifications, for example undereducated youth in the New Zealand Governments “*Youth At Risk*” assessment, or factory employees.

Living below the poverty line – include, but are not limited to, low-income households or those living under the poverty line measure as a proportion of the median income.

Underserved populations – include, but are not limited to, populations that face health, financial, educational or other service disparities due to their ethnicity or geographical isolation, for example, Māori or Pacific people or remote rural communities.

Excluded Categories

Fonterra is committed to not knowingly using the net proceeds of its Use of Proceeds Instruments to finance or refinance projects, assets and/or activities included in the following exclusionary criteria:

- 1.New coal-fired or expansion of existing coal-fired facilities;
- 2.Purchase of fossil fuel powered vehicles;
3. Purchase of carbon offsets; and
- 4.Product packaging equipment that does not deliver recycle-ready packaging.

Project Evaluation and Selection

Fonterra’s Treasury Team will consider the Eligible Asset selection process on each proposed asset or project against the following factors:

- Alignment to Fonterra’s Sustainability Strategy as outlined above;
- Conformance with the Market Standards (as applicable);
- Conformance with the Green Asset and/or Social Asset Eligibility Criteria as described in this section;
- Alignment to the SDGs, as well as contribution to potential social or environmental outcomes arising from the Eligible Assets;
- Fonterra’s own professional judgement, discretion and sustainability knowledge;
- Assessment of any potential social and/or environmental impacts from the Eligible Assets, management of those impacts, and confirmation that the Eligible Assets will not significantly harm any of Fonterra’s social or environmental objectives; and
- Conformance with any other applicable selected principles, standards, or tools (such as the CBS) that are or become both commonplace and respected in the market.

Fonterra’s Treasury Team will be responsible for periodically updating the pool of Eligible Assets. Eligible Assets may be replenished if underlying Eligible Assets are sold or disposed of, non-eligible assets are removed, or additional Eligible Assets are identified and funded. Eligible Assets that meet both the Green Asset and Social Asset Eligibility Criteria will not be double counted.

Management of Proceeds

Fonterra will maintain a register of Eligible Assets that outlines (among other things) the project cost of the Eligible Assets, the notional allocation of net proceeds from the Use of Proceeds Instruments against each Eligible Asset, and disclosure of any unallocated proceeds from the Use of Proceeds Instruments (**Register**).

The Register will demonstrate that the Eligible Assets have an aggregate project cost that is larger than the sum of the net proceeds from the Use of Proceeds Instruments. The Register will be included in annual monitoring reports provided by Fonterra’s Treasury Team.

On the issuance of a new Use of Proceeds Instrument, Fonterra intends to notionally allocate net proceeds to Eligible Assets within 24 months of issuance. In the unlikely event that the net proceeds from Use of Proceeds Instruments are unallocated to Eligible Assets within this timeframe, Fonterra intends that any unallocated proceeds shall be temporarily:

- Held in cash or cash equivalent instruments with a Treasury function;
- Held in investment instruments that do not include greenhouse gas intensive projects which are inconsistent with the delivery of a low carbon and climate resilient economy; or
- Applied to reduce indebtedness of a short term or revolving nature before being redrawn for notional allocation to Eligible Assets.

Fonterra will service its debt obligations under Use of Proceeds Instruments out of its general cashflows and not specifically from revenues generated by Eligible Assets alone.

Disclosure and Reporting

Fonterra recognises the importance investors place on transparency and disclosure relating to Use of Proceeds Instruments. Reporting will be made available directly to lenders (at a minimum) for loans, and publicly available on our [website](#) for bonds.

Item		Frequency
Framework	Published at (or prior to) the first issuance of a Use of Proceeds Instrument (and when this Framework is materially amended).	
Pre-Issuance External Review	Sought prior to the first issuance of a Use of Proceeds Instrument under this Framework (and when this Framework is materially amended or if an issuance requires it).	
Annual Update Report	Published annually for all outstanding Use of Proceeds Instruments.	
Post-Issuance External Review	Sought annually following issuance of a Use of Proceeds Instrument (or at a frequency deemed necessary by Fonterra).	

Following issuance, Fonterra intends to disclose Annual Update Reports in line with the Market Standards that include the following information:

- **Allocation Reporting:** A list and description of the Eligible Assets financed or refinanced by the Use of Proceeds Instruments, the amount of net proceeds notionally allocated towards such Eligible Assets and the amount of unallocated net proceeds.
- **Eligibility Reporting:** Confirmation that the Eligible Assets meet the relevant eligibility requirements included in this Framework and the Market Standards and include information on the characteristics and sustainability performance of the Eligible Assets.
- **Impact Reporting:** Where applicable Fonterra will seek to provide qualitative and/or quantitative reporting on one or more of the environmental and/or social impacts of the Eligible Assets resulting from the Use of Proceeds Instruments, generally aligned with recommended impact reporting guidelines¹⁰.

External Review

Prior to issuance of a Use of Proceeds Instrument, Fonterra will obtain an external review report from an appropriately qualified verifier demonstrating that this Framework aligns to the relevant Market Standards. If this Framework is materially amended, or if Fonterra issues or manages a Use of Proceeds Instrument more than two years after the date of this Framework, Fonterra will obtain an external review report that this Framework aligns to the Market Standards.

Post issuance of a Use of Proceeds Instrument, Fonterra will obtain an external review report on the Annual Update Report and the management of proceeds from the Use of Proceeds Instruments aligning to this Framework and the Market Standards.

¹⁰ ICMA Harmonised Framework for Impact [Reporting](#) (December 2020).

5. Sustainability-Linked Instruments

Sustainability-Linked Instruments link the issuer’s cost of borrowing to its performance against material sustainability Key Performance Indicators (**KPIs**) and pre-defined targets.

With respect to loans, Sustainability-Linked Loans will be structured in accordance with the 2022 Sustainability-Linked Loan Principles (**SLLP**)¹¹, or as they may be subsequently amended, while bonds will be aligned to the 2020 Sustainability-Linked Bond Principles (**SLBP**)¹², or as they may be subsequently amended.

When issuing and during the term of any Sustainability-Linked Instruments, Fonterra will communicate how the instrument, the KPIs and the targets are material to

- Fonterra and aligned with its Sustainability Strategy.
- In accordance with the most recent publications of the SLLP (2022) and SLBP (2020), Fonterra’s Sustainability-Linked Instruments will be in alignment with the following core components:
- Selection of Key Performance Indicators;
 - Calibration of Sustainability Performance Targets;
 - Loan and/or Bond Characteristics;
 - Reporting and Disclosure; and
 - Review and Verification.

Key Performance Indicators

Fonterra will select measurable and quantifiable sustainability KPIs, that are relevant, core and material¹³ to the business and of high strategic significance to Fonterra’s current and future operations.

When issuing or managing any Sustainability-Linked Instruments, Fonterra is likely to select one or more of the following KPIs to apply to that Sustainability-Linked Instrument:

Environmental	
Material Issue(s) ¹⁴	Sustainability KPI
Adapting to the effects of climate change, while mitigating our impacts.	Reduction in greenhouse gas emissions (tCO ₂ -e)
Adapting to the effects of climate change, while mitigating our impacts. Using water responsibly, including water quality, availability and disposal. Protecting soil health, including nutrient management.	Improve sustainable farming (percentage of supplier farms with FEPs)
Using water responsibly, including water quality, availability, and disposal.	Reduce water use (m³)
Social	
Material Issue(s)	Sustainability KPI
Supporting the livelihood of thousands of people through meaningful employment and sustainable income creation. Protecting the employment rights and working conditions of our people, including learning and development.	Increase on-the-job training and reskilling hours to prepare employees for changing nature of work (Hrs)

Sustainability Performance Targets

- To incentivise performance against the KPIs, Fonterra will select one or more timebound sustainability performance targets (**Targets**) that are:
- consistent with Fonterra’s Sustainability Strategy;
 - represent a material improvement in the KPI over the life of the Sustainability-Linked Instrument;
 - are beyond a “business as usual” trajectory; and
 - are set in accordance with the Market Standards.

Targets will be set at the inception of each new issuance of a Sustainability-Linked Instrument, and with reference to Fonterra’s historical performance, peer performance and scientific data, for example science-based scenarios, regional, national or international targets, or other best-available technologies or methodologies.

In the case of Sustainability-Linked Loans, the Targets will be set prior to the Sustainability-Linked Loans becoming effective and will be clearly communicated to lenders as part of the transaction and embedded within the loan documentation.

In the case of Sustainability-Linked Bonds, the Targets will be set prior to the issuance of a new instrument and will be clearly communicated to investors. Targets which may be utilised by Fonterra for a Sustainability-Linked Bond will be further detailed in the relevant bond documentation. This may include the Target Observation Date for which compliance against the Target will be assessed and the Target Observation Period which is expected to align with the fiscal annual reporting period (i.e. 1 August to 31 July).

Recalculation of Targets

Future events, not directly related to Fonterra’s sustainability performance, may result in the recalculation of the Target, including with respect to the baseline. Future events may include, but are not limited to, mergers and acquisitions, divestitures and disposal of assets. The future calculation methodology for Targets may also be revised, resulting in a revised baseline year. Any recalculations, revision to the baseline year and/or changes in KPI/Target will be stated in Fonterra’s annual Sustainability Report and will be externally verified.

Loan and/or Bond Characteristics

The proceeds of Fonterra’s Sustainability-Linked Instruments will be used for general corporate purposes.

Any Sustainability-Linked Instruments Fonterra may issue will have a financial or economic characteristic linked to Fonterra’s performance against one or more Targets.

This may include financial premium and/or discount incentives (depending on the transaction), that are commensurate and meaningful relative to Fonterra’s original bond or loan structure and will reflect market practice. The magnitude of the pricing adjustment, as well as the effective trigger event date(s), will be clearly detailed in the relevant documentation for each transaction.

For any Sustainability-Linked Bond issued by Fonterra, the financial or economic characteristic applicable if Fonterra does not achieve the Target(s) by the required date will be a coupon adjustment either during the lifetime of the instrument or at its maturity, the details for which will be specified in the relevant documentation of each Sustainability-Linked Bond issuance.

¹¹[APLMA Sustainability-Linked Loan Principles 2022 \(SLLP\)](#).
¹²[CMA Sustainability-Linked Bond Principles 2020 \(SLBP\)](#).
¹³Material issues have been identified by Fonterra through its [2021 stakeholder engagement](#) created in line with GRI principles.
¹⁴Material issues cover the impact of our direct operations and our supplier farms.

Disclosure and Reporting

Fonterra is committed to transparency and will disclose and report on its Sustainability-Linked Instruments as follows.

Sustainability-Linked Loans

For Sustainability-Linked Loans, Fonterra and the relevant lenders will agree on the appropriate reporting parameters and the schedule for disclosing information. This will most likely be provided directly to lenders on an annual basis and align with Fonterra's annual reporting on sustainability performance.

Sustainability-Linked Bonds

Post issuance of any Sustainability-Linked Bond until maturity, Fonterra will keep up-to-date and make available to investors and the general public at least annually (and at a date relevant for assessing the Target(s) performance leading to a potential adjustment of the financial and/or structural characteristics), the following information:

- Fonterra's performance against the relevant Target(s) for the duration of the Sustainability-Linked Bond;
- Verification of the performance against the Target(s) (as outlined below);
- Any other information Fonterra deems material to enable investors to monitor the level of ambition of the Target(s); and
- Any other requirements set out in the Market Standards.

Review and Verification

To provide stakeholders with certainty that Fonterra's Sustainability-Linked Instrument is structured and reported in alignment to the SLLP or SLBP (as applicable), Fonterra will seek external review of the following:

- **Prior to issuance:** Limited assurance or a Second Party Opinion that the Sustainability-Linked Instrument aligns to the SLLP or SLBP (as applicable), with such assessment covering the relevance and materiality of the selected KPIs, nature and ambition of the Target(s), credibility of Fonterra's stated plans to achieve the Target(s) and verification of baseline performance (as applicable).
- **Post issuance:** Ongoing limited assurance or verification (at least annually, and at a date relevant for assessing the Target(s) performance) on Fonterra's performance against the Target(s) for each KPI. This may cover any material change to the methodology used to monitor each KPI or for the Target(s) calibration.

These reviews will be made available to lenders at a minimum for Sustainability-Linked Loans and will be made publicly available for Sustainability-Linked Bonds.

6. Continuous Improvement

Fonterra will monitor how the Market Standards and global sustainable finance markets continue to develop and adapt their approach to sustainable finance as relevant. As a consequence, Fonterra may update this Framework from time to time in its discretion, including its intention to remain in line with market practice and the Market Standards.

In parallel, and as part of our ongoing stakeholder engagement, we welcome feedback and input from stakeholders on this Framework to support our commitment to continuously adapt our approach to sustainable finance as the markets and our own Sustainability Strategy evolves. Contact information is outlined below.

7. Important Notice

This Framework does not form part of the contractual terms of any Sustainable Debt. If Fonterra fails to comply with this Framework (including its Sustainability Strategy), or satisfy the applicable Market Standards, then:

- (1) this does not constitute an event of default, event of review, or any other breach in relation to any Sustainable Debt; and
- (2) there is no requirement for Fonterra to repay any Sustainable Debt early as a result of this non-compliance.

This means there is no legal obligation on Fonterra to comply with this Framework or the Market Standards on an ongoing basis. However, in the event Fonterra fails to comply with this Framework or satisfy the Market Standards, any Sustainable Debt may cease to be labelled as 'Green', 'Social', 'Sustainability' or

'Sustainability-linked' and Fonterra will disclose this information within the reporting parameters set out in this Framework.

This Framework contains some forward-looking statements, targets and projections relating to Fonterra that are based on the beliefs of Fonterra's management as well as assumptions made by and information currently available to Fonterra's management. There can be no certainty of outcome in relation to the matters to which the forward-looking statements, targets and projections relate. This Framework does not constitute investment advice, or an inducement, recommendation, or offer to buy or sell any securities in Fonterra or the Fonterra Shareholders' Fund.

Information and statistics throughout this Framework are reported as at the date of this Framework unless otherwise stated.

8. Further Information



More information on Fonterra’s approach to sustainability can be found on/in our

Website:

<https://www.fonterra.com/>

Annual Results:

<https://view.publitas.com/fonterra/2022-annual-review/page/1>

Sustainability Report:

<https://www.fonterra.com/content/dam/fonterra-public-website/fonterra-new-zealand/documents/pdf/sustainability/2022/fonterra-sustainability-report-2022.pdf>

Our Path to 2030 strategy:

<https://www.fonterra.com/nz/en/our-co-operative/our-path-to-2030.html>

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